



2015-2016

MID-YEAR
BUDGET
REVIEW



SECTION
II

**SELECTED SPECIAL/
CAPITAL FUNDS
STATUS REPORT**



<p style="text-align: center;">2015-2016 MID-YEAR BUDGET REVIEW</p>

II. SELECTED SPECIAL/CAPITAL FUNDS STATUS REPORT

At mid-year, the City Manager's Budget Office conducts a comprehensive review of expenditure and revenue performance of all operating and capital funds and capital programs through the first six months of the fiscal year. Revenues and expenditures are generally tracking within estimated levels. This section of the report is intended to summarize the results of that review and only discusses selected funds with issues of interest or variances.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT OPERATING FUNDS – AIRPORT MAINTENANCE AND OPERATION FUND & AIRPORT REVENUE FUND

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Revenues – Airport Revenue Fund</i>	134,943,164	65,937,532	48.9%
<i>Expenditures – Airport Maintenance and Operation Fund</i>	81,615,613	36,271,890	44.4%

This section discusses the status of the Airport Revenue Fund and the Airport Maintenance and Operation Fund. The Airport Revenue Fund accounts for all general Airport revenues. The Airport Maintenance and Operation Fund, funded by a transfer from the Airport Revenue Fund, accounts for expenditures incurred for the maintenance and operation of the Norman Y. Mineta San José International Airport.

FUND STATUS

Revenues – General Airport operating revenue categories include Landing Fees, Terminal Rentals, Airfield, Terminal Concessions, Parking and Roadway, and General and Non-Aviation.

Through December, revenue performance at the Airport totaled \$65.9 million or 48.9% of the estimated budget and is slightly above the December benchmark. All revenue categories are tracking at or above estimated levels, with the exception of landing fees which are tracking slightly lower due to air service support credits. Through December 2015, passenger levels are 5.0% greater than the same period last fiscal year and compared to a 2.0% estimate for passenger growth. The parking and roadway revenue category is directly impacted by the passenger levels, and reflects increased activity in daily and hourly parking lots and ground transportation trips resulting in revenue 7.0% above anticipated levels. Airfield revenues are also exceeding budgeted levels due to higher than anticipated in-flight kitchen revenues. Total general and non-aviation revenues, consisting of fees associated with hangars, land and building rentals, petroleum program, general aviation, interest earnings and other non-aviation (miscellaneous) revenues, are tracking above budgeted levels, due primarily to higher than anticipated interest earnings. Overall, Airport revenues are tracking to meet or exceed budget estimates by year-end.

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**AIRPORT OPERATING FUNDS – AIRPORT MAINTENANCE AND OPERATION FUND &
AIRPORT REVENUE FUND**

FUND STATUS

Expenditures – Operating expenditures, appropriated in the Airport Maintenance and Operation Fund, include Personal Services, Non-Personal/Equipment, Police and Fire, direct support, and overhead reimbursements. Overall expenditures tracking below budget estimates at 44.4% spent. Through December 2015, Airport Department Personal Services and Non-Personal/Equipment expenditures are tracking at 38.3% of budgeted levels.

Airport Personal Services expenditures are tracking at 44.4% of budget compared to the benchmark of 48.1%. Savings are due to vacancies in most divisions of the department. At the close of December, the Department had 25 vacancies or 13.4% of budgeted positions. Recruitment for several Airport positions is currently underway. Overtime expenditures of \$156,000, or 46.0%, are tracking within budget, but are anticipated to track higher primarily due to minimum staffing requirements for Airport Operations and staffing hours needed for Super Bowl 50. These expenditures will be closely monitored for the remainder of the fiscal year.

Non-Personal/Equipment expenditures are 33.9% expended and, including encumbrances, are 66.7% committed through December. The Department's efforts to efficiently operate and maintain the facilities while continuing to be fiscally responsible have resulted in effective cost controls. It is anticipated that through conservative spending and close monitoring, the Non-Personal/Equipment appropriation will end the year at or below budgeted levels.

Interdepartmental expenditures (charges for staff and services located in other City departments including the Police and Fire Departments) total \$8.9 million through December 2015, which is in line with the budget. Increased funding added in October 2015 for additional Aircraft Rescue and Fire Fighting (ARFF) firefighters and associated training were a direct result of the Airport's index change, due to larger aircraft now landing at the Airport.

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STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

**AIRPORT OPERATING FUNDS – AIRPORT MAINTENANCE AND OPERATION FUND &
AIRPORT REVENUE FUND**

FUND STATUS

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Unrestricted Ending Fund Balance – Airport Revenue Fund</i>	70,163,892	N/A	N/A
<i>Unrestricted Ending Fund Balance – Airport Maintenance and Operation Fund</i>	32,660,365	N/A	N/A

Ending Fund Balance – This report includes technical adjustments to the Ending Fund Balances in the Airline Agreement Reserve and in the Workers’ Compensation Claims Reserve due to fund balance reconciliation adjustments. After accounting for these actions and an increase to the Retiree Healthcare Contributions Reserve, the revised Ending Fund Balance for the Airport Revenue Fund is \$69.7 million, and the revised ending fund balance for the Airport Maintenance and Operation Fund is \$33.3 million.

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STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Revenues</i>	29,282,000	8,825,625	30.1%
<i>Expenditures</i>	49,715,626	5,161,236	10.4%

FUND STATUS

Revenues – Tax revenue in the Building and Structure Construction Tax Fund, which is a major funding source for the Traffic Capital Program, is tracking above anticipated levels. Through December, Building and Structure Construction Tax receipts totaled \$7.7 million, which is 54.6% of the budgeted estimate of \$14.0 million and reflects higher than anticipated development activity in commercial and industrial areas offset by lower residential permit activity. If collections continue at the current pace, it is anticipated that tax receipts will exceed the budgeted estimate by at least \$1.0 million. Federal and State grants are the other major revenue sources in the Building and Structure Construction Tax Fund and are tracking below estimated levels. Variances in collections are due to timing differences for grant-supported projects.

Included in this report is a recommendation to increase the Earned Revenue estimate for the Traffic Signal Controller Fee Collection by \$18,000 to recognize fee collections from developers received during the year. However, there are a number of issues that will affect project schedules this year that will delay the receipt of grant reimbursements such as staffing challenges, project scope changes, delays in receiving Caltrans authorization, delays in awarding contracts, delays in the construction phase, and additional staff time required for the design phase. As a result, several projects will be delayed from 2015-2016 to summer 2016, later next fiscal year, or will be reprogrammed as part of the 2017-2021 Proposed Capital Improvement Program, with the receipt of grant revenues realigned accordingly. Therefore, this report includes recommendations to decrease the estimates for revenues that will not be received, but were anticipated when developing the 2015-2016 Adopted Capital Budget, for the following grants:

- The Alameda “Beautiful Way” Phase 2 (\$3.5 million);
- Park Avenue Multimodal Improvements (\$985,000);
- Ocala Avenue Pedestrian Improvements (\$780,000);
- St. John Street Multimodal Improvements Phase I (\$750,000);
- Park Avenue Bicycle Lane Improvements (\$655,000);
- St. John Bike/Pedestrian Improvements (\$600,000);
- Transportation Incident Management Center (\$525,000); and
- Downing Avenue Pedestrian and Bicycle Improvements (\$275,000).

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BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

FUND STATUS

As stated previously, it is anticipated that the grant funding for these projects will be reallocated to 2016-2017 as part of the 2016-2017 Proposed Capital Budget and 2017-2021 Capital Improvement Program. The corresponding expenditure adjustments for these actions are discussed below, and further detail regarding these recommendations can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

Expenditures – Overall, expenditures through December in the Building and Structure Construction Tax Fund are tracking below expected levels. However, any remaining balance at year-end is anticipated to be reallocated to 2016-2017 as part of the 2016-2017 Proposed Capital Budget. This report includes several expenditure adjustments summarized below. Further detail regarding these recommendations can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

Included in this report are recommendations to increase the Downing Avenue Pedestrian Bicycle Improvements project by \$300,000, due to increased construction costs, and increase the Safety – Traffic Signal Modifications/Construction project by \$18,000, as result of an unanticipated increase in Traffic Signal Controller Fee Collections from a developer.

To align with revised project schedules discussed in the revenue section above, corresponding decreases to the following projects are also recommended in this report:

- The Alameda “Beautiful Way” Phase 2 (\$2.5 million);
- St. John Street Multimodal Improvements Phase 1 (\$1.4 million);
- Park Avenue Multimodal Improvements (\$1.2 million);
- St. John Bike/Pedestrian Improvements (\$900,000); and
- Park Avenue Bicycle Lane Improvements (\$700,000).

As noted earlier, these projects will be delayed from 2015-2016 to summer 2016, later next fiscal year, or will be reprogrammed as part of the 2017-2021 Proposed Capital Improvement Program.

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BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

FUND STATUS

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Unrestricted Ending Fund Balance</i>	2,432,971	N/A	N/A

Ending Fund Balance – A recommendation to decrease the Ending Fund Balance by \$1.7 million is included in this report as a net result of the actions described above. In addition, a technical adjustment is recommended to decrease the Ending Fund Balance by \$140,000 as a result of a reconciliation of the fund to the final audited 2014-2015 Comprehensive Annual Financial Report. After accounting for all these actions, the revised Ending Fund Balance will be \$632,000. It is important to note that while there is a net reduction in the fund balance due primarily to the timing of grant reimbursements associated with several projects in 2015-2016, there should be an increase to the fund balance in 2016-2017 when the grant funds are received. Further details on the adjustments can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

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STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Revenues</i>	65,650,103	18,067,318	27.5%
<i>Expenditures</i>	107,546,633	16,346,250	15.2%

FUND STATUS

Revenues – A total of 17 Construction and Conveyance (C&C) Tax Funds are budgeted throughout the Capital Budget. A majority of these funds (13) support the Parks and Community Facilities Development Capital Program, with the remaining four funds supporting the Public Safety Capital Program, Library Capital Program, Service Yards Capital Program, and Communications Capital Program. Revenues in the C&C Tax Funds are comprised of C&C Tax receipts, sale of surplus property, transfer revenue, grant funding, and other miscellaneous revenue. Through December 2015, revenue in the C&C Tax Funds totaled \$18.1 million, which is 27.5% of the 2015-2016 Modified Budget of \$65.7 million. Year-to-date revenues are tracking below budgeted levels primarily due to the Modified Budget including revenue for the sale of the Central Service Yard (\$17.5 million) and transfers between funds (\$10.7 million) that have not yet occurred, but are anticipated to occur by year-end. However, C&C Tax collections, which is the biggest source of revenue for these funds, are tracking higher than budgeted through the first half of the fiscal year. In addition, due to interest earnings received through December 2015 in the C&C Tax Funds being higher than anticipated, an increase to the Earned Revenue estimate of \$165,000 (across six C&C Tax Funds) is recommended. A corresponding action to transfer this revenue to the General Fund is also recommended in this report.

Through December, C&C Tax revenues totaled \$17.6 million, or 50.4% of the budgeted estimate of \$35.0 million. The 2015-2016 Adopted Capital Budget was developed with the assumption that C&C Tax receipts would total \$35.0 million in 2014-2015 and stay steady in 2015-2016. In the last quarter of 2014-2015, however, tax receipts had an extremely strong performance, which resulted in the 2014-2015 receipts totaling \$41.2 million. Due to the unanticipated high collections in 2014-2015, the 2015-2016 C&C Tax estimate of \$35.0 million, allows for a 17.7% decline in tax revenue from the 2014-2015 actual tax collection. Receipts through December 2015 of \$17.6 million, however, are up 12.6% from the prior year and Conveyance receipts received in January 2016, show additional growth (42.8%) when compared to January 2015 receipts. Therefore, a revised 2015-2016 C&C Tax estimate of \$38.0 million is now anticipated. Though budget adjustments are not recommended as part of this report, the \$38.0 million estimate for 2015-2016 will be used in the development of the 2016-2017 Proposed Capital Budget and 2017-2021 Capital Improvement Program. This revenue will continue to be monitored to determine if additional changes to the estimate may be necessary at a later date.

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CONSTRUCTION AND CONVEYANCE TAX FUNDS

FUND STATUS

Over 96% of the total C&C Taxes are comprised of conveyance receipts, a tax based on the value of property transfers (sales). Continuing the recent trend, the local real estate market continues to see rising sale prices coupled with a high number of property transfers. The median single-family home price totaled \$825,000 in December 2015, which is an increase of 10.0% from the \$750,000 median single-family home price in December 2014. In addition, the December 2015 number of property transfers totaled 681, an increase of 11.1% when compared to the 613 sales that occurred in December 2014. The number of listings of new single-family and multi-family dwellings has also increased (7.3%), from 300 listings in December 2014 to 322 listings in December 2015. In addition, the amount of time to sell these homes for July through December 2015 (27 days) is slightly below the average days for July through December 2014 (28 days).

Expenditures – Overall, expenditures in the various C&C Tax Funds are tracking within expected levels and are anticipated to end the year within budgeted levels. Through December, expenditures totaled \$16.3 million, 15.2% of the 2015-2016 Modified Budget (\$107.5 million). This report, however, recommends expenditure adjustments to the following projects:

- Transfer to the Branch Libraries Bond Projects Fund (\$1.4 million – Library C&C Tax Fund);
- River Glen Neighborhood Center Replacement (\$250,000 – Council District 6 C&C Tax Fund);
- Capital Project Management (\$200,000 – Public Safety C&C Tax Fund);
- Transfer to the General Fund – Interest Earnings (\$165,000 – Parks Central C&C Tax Fund, Public Safety C&C Tax Fund, Library C&C Tax Fund, Service Yards C&C Tax Fund, Communications C&C Tax Fund, and Park Yards C&C Tax Fund);
- Unanticipated or Critical Repairs (\$50,000 – Parks Central C&C Tax Fund);
- Fire Data System (\$30,000 – Public Safety C&C Tax Fund);
- Mobile Test Equipment (\$8,000 – Public Safety C&C Tax Fund); and
- Super Bowl 50 – Strategic Capital Replacement and Maintenance Needs (-\$85,000 – Parks City-Wide C&C Tax Fund).

Further detail regarding the above recommendations can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

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CONSTRUCTION AND CONVEYANCE TAX FUNDS

FUND STATUS

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Unrestricted Ending Fund Balances</i>	26,879,888	N/A	N/A

Ending Fund Balance – This report includes recommendations to decrease the Ending Fund Balances by \$1.9 million as a net result of the actions previously discussed and detailed in Section III of this report, Recommended Budget Adjustments and Clean-up Actions. In addition, a technical adjustment is recommended in this report to decrease the Ending Fund Balance in the Parks City-Wide C&C Tax Fund by \$329,000 to account for actions that occurred in June 2015, but were not captured in the 2014-2015 Annual Report. After accounting for all of these actions, the revised Ending Fund Balances for the C&C Tax Funds will be \$24.7 million.

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STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Revenues</i>	66,467,000	26,323,773	39.6%
<i>Expenditures</i>	139,937,187	31,381,066	22.4%

FUND STATUS

Revenues – Construction Excise Tax receipts are the single largest source of revenue in the Traffic Capital Program. Through December, Construction Excise Tax receipts totaled \$9.4 million, or 49.3% of the budgeted estimate of \$19.0 million, reflecting higher than anticipated development activity in commercial areas offset by lower residential permit activity. If collections continue at the current pace, it is anticipated that tax receipts will exceed the budgeted estimate by approximately \$1.0 million. Federal and State grants are the other major revenue sources in the Construction Excise Tax Fund and are tracking below estimated levels. Variances in collections are due to timing differences for grant-supported projects.

Included in this report is a recommendation to increase the Earned Revenue estimate for pavement maintenance by \$766,144 to recognize additional Measure B vehicle registration fee revenues received. Also included in this report are recommendations to increase the Earned Revenue estimates for Route 101/Oakland/Mabury Traffic Impact Fees (\$349,130), North San José Traffic Impact Fees (\$252,940), North San José Deficiency Plan Improvements Fees (\$163,000), and Evergreen Traffic Impact Fees (\$71,778) to recognize fee collections from developers received during the year. However, there are a number of issues that will affect project schedules this year that will delay the receipt of grant reimbursements such as staffing challenges, reallocating staffing resources to higher priority projects, correcting the distribution of project funding to reflect anticipated schedules, delays in receiving Caltrans authorization, project scope changes, delays in awarding contracts, delays in the construction phase, and additional staff time required for the design phase. As a result, several projects will be delayed from 2015-2016 to summer 2016, later next fiscal year, or will be reprogrammed as part of the 2017-2021 Proposed Capital Improvement Program, with the receipt of grant revenues realigned accordingly. Therefore, this report includes recommendations to decrease the estimates for revenues that will not be received, but were anticipated when developing the 2015-2016 Adopted Capital Budget, for the following grants:

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CONSTRUCTION EXCISE TAX FUND

FUND STATUS

- East San José Bike/Pedestrian Transit Connection (OBAG) (\$2.0 million);
- Bicycle and Pedestrian Facilities (\$1.2 million);
- Safe Routes to School Program (OBAG) (\$1.0 million);
- Pedestrian Oriented Traffic Signals (OBAG) (\$1.0 million);
- Bikeways Program (OBAG) (\$650,000);
- Walk n' Roll San José Phase 2 (\$400,000);
- Transportation Demand Management (\$200,000); and
- Safe Access San José (\$100,000).

As stated previously, it is anticipated that the grant funding for these projects will be reallocated to 2016-2017 as part of the 2016-2017 Proposed Capital Budget and 2017-2021 Capital Improvement Program. The corresponding expenditure adjustments for these actions are discussed below, and further detail regarding these recommendations can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

Expenditures – Overall, expenditures through December in the Construction Excise Tax Fund are tracking below expected levels. However, any remaining balance at year-end is anticipated to be reallocated to 2016-2017 as part of the 2016-2017 Proposed Capital Budget. This report includes several expenditure adjustments summarized below. Further detail regarding these recommendations can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

Included in this report is a recommendation to increase the Pavement Maintenance Measure – B appropriation by \$766,144 to allocate revenue received over the budgeted estimate. Also included in this report are recommendations to increase the Transportation Demand Management project by \$400,000 to accelerate the award of a consultant agreement, increase the Traffic Forecasting and Analysis project by \$226,000 to ensure sufficient funding for an engineering services consultant, and increase the Walk n' Roll San José Phase 1 project by \$95,000 to fund the revised scope of the project due to a grant reimbursement issue. In addition, recommendations are included to increase the Route 101/Oakland/Mabury Traffic Impact Fees Reserve (\$349,130), the North San José Traffic Impact Fees Reserve (\$252,940), the North San José Deficiency Plan Improvements appropriation (\$163,000), and the Evergreen Traffic Impact Fees Reserve (\$71,778) as a result of unanticipated fees collected from developers.

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CONSTRUCTION EXCISE TAX FUND

FUND STATUS

To align with revised project and grant reimbursement schedules discussed in the revenue section above, corresponding decreases to the following projects are also recommended in this report:

- East San José Bike/Pedestrian Transit Connection (OBAG) (\$2.0 million);
- Bicycle and Pedestrian Facilities (\$1.2 million);
- Bikeways Program (OBAG) (\$1.2 million);
- Safe Routes to School Program (OBAG) (\$800,000);
- Walk n’ Roll San José Phase 2 (\$500,000); and
- Safe Access San José (\$200,000).

As noted earlier, these projects will be delayed from 2015-2016 to summer 2016, later next fiscal year, or will be reprogrammed as part of the 2017-2021 Proposed Capital Improvement Program.

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Unrestricted Ending Fund Balance</i>	6,387,003	N/A	N/A

Ending Fund Balance – A recommendation to decrease the Ending Fund Balance by \$1.4 million is included in this report as a net result of the actions described above. In addition, technical adjustments are recommended to increase the Ending Fund Balance by a net \$410 as a result of a reconciliation of the fund to the final audited 2014-2015 Comprehensive Annual Financial Report. After accounting for all these actions, the revised Ending Fund Balance will be \$5.0 million. It is important to note that while there is a net reduction in the fund balance due primarily to the timing of grant reimbursements associated with several projects in 2015-2016, there should be an increase to the fund balance in 2016-2017 when the grant funds are received. Further details on the adjustments can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

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STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION AND CULTURAL AFFAIRS FUND

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Revenues</i>	13,321,299	6,430,514	48.3%
<i>Expenditures</i>	14,231,993	5,446,516	38.3%

FUND STATUS

In accordance with the agreement with Team San Jose (TSJ) that manages the City’s Convention Center and other cultural facilities, revenues and expenditures generated by facility operations no longer flow through the Convention and Cultural Affairs Fund. Rather, the net operating subsidy to TSJ as well as TSJ incentive and management fees and other non-TSJ related expenses, such as capital investments and insurance costs, are reflected in the Convention and Cultural Affairs Fund.

Revenues – The Convention and Cultural Affairs Fund is funded almost entirely from revenues received through transfers from the Transient Occupancy Tax (TOT) Fund. Through December, \$6.35 (48.3%) of the 2015-2016 adjusted TOT transfer of \$13.1 million was received. The full TOT transfer is expected to be received by year-end. Other revenues collected in this fund account for ticket sale receipts from Broadway San José shows that will be used for the American Musical Theater’s loan repayment to the General Fund and some interest payments. For the first half of the fiscal year, total revenues of \$6.43 million are tracking at 48.3% of the total budgeted revenue estimate of \$13.3 million.

While not reflected in the Convention and Cultural Affairs Fund, TSJ has provided financial reports reviewed by the City showing operations revenues through December of \$17.5 million, compared to the December target of \$12.9 million. The higher than anticipated revenue performance is primarily due to the increase in food and beverage and contract labor revenues driven by a greater than expected number of contracted events in the facilities managed by TSJ. Because performance in these areas is one of the determinants of the operating subsidy to TSJ, the increased activity levels could reduce the amount of Convention Facilities Operations expenditure (the operating subsidy) if current trends continue.

Expenditures – Through December, expenditures of \$5.4 million were tracking at 38.3% of the budget (with encumbrances, expenditure commitments totaled \$6.8 million or almost 48.0% of the budget). The largest expenditure allocations to date were paid or encumbered by TSJ and are related to the Convention Facilities Operations costs (\$3.0 million), to TSJ for the management of the City’s Convention and Cultural Facilities (\$1.0 million), and for a variety of rehabilitation and repair projects (\$680,000) at the facilities managed by TSJ.

Expenditure data reflected in TSJ’s financial reports show total operating expenses through December of \$20.4 million, compared to the December target of \$17.5 million. As mentioned above, the higher than

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CONVENTION AND CULTURAL AFFAIRS FUND

FUND STATUS

anticipated expenditures are primarily the result of the increase in food and beverage and personnel/labor costs associated with an increased number of events. Expenditure activity is also a determinant of the operating subsidy to TSJ and, when combined with the revenue figures, may increase or decrease the amount of Convention Facilities Operations expenditure (the operating subsidy) in any given year. If current trends continue, the Convention Facilities Operations appropriation will end the year with savings of approximately \$1.3 million (30.4%) of the total \$4.3 million budgeted allocation.

This report includes several budget adjustment recommendations to: establish a Center for Performing Arts Elevator Rehabilitation appropriation in the amount of \$250,000; increase the Rehabilitation/Repair – Mechanical appropriation by \$100,000 (from \$390,000 to \$490,000) to fund additional food and beverage equipment; and increase the Rehabilitation/Repair – Miscellaneous appropriation by \$50,500 (from \$100,000 to \$150,500) to fund the purchase of metal detectors requested by concert promoters of large events. Finally, an increase to the Convention Facilities Industry Advisor appropriation in the amount of \$20,000 (from \$100,000 to \$120,000) to conduct additional market research on the feasibility of attracting a headquarters hotel to San José; and a technical adjustment to restore \$1,078 to the Civic Auditorium/Center for the Performing Arts Marketing and Capital Improvement appropriation are also recommended.

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Unrestricted Ending Fund Balance</i>	2,932,455	N/A	N/A

Ending Fund Balance – A recommendation to decrease the Ending Fund Balance by \$422,000, from \$2.9 million to \$2.5 million, is included in this report as a result of anticipated expenses related to the new Center for Performing Arts Elevator Rehabilitation appropriation (\$250,000), Rehabilitation/Repair – Mechanical appropriation (\$100,000), Rehabilitation/Repair – Miscellaneous appropriation (\$50,500), Convention Facilities Industry Advisor appropriation (\$20,000), and a technical adjustment (\$1,078) to the Civic Auditorium/Center for the Performing Arts Marketing and Capital Improvement appropriation as described above.

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INTEGRATED WASTE MANAGEMENT FUND

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Revenues</i>	124,441,907	108,567,710	87.2%
<i>Expenditures</i>	130,602,613	42,801,485	32.8%

FUND STATUS

Revenues – Revenues in the Integrated Waste Management Fund include payments received from residential solid waste generators under the Recycle Plus Integrated Waste Management Program (Recycle Plus Collection Charges) (\$114.7 million); AB 939 fees (\$3.4 million); Recycle Plus Negotiated Savings (\$2.7 million); an Economic Development Administration (EDA) Grant (\$1.5 million); payments received from the Construction and Demolition Diversion Deposit (CDDD) Program (\$740,000) that are identified as ineligible deposits for refund; Las Plumas Tenant Utility Reimbursements (\$510,000); Lien-Related Charges (\$318,000); SB 332 Beverage Container Recycling payments (\$250,000); miscellaneous revenue (\$238,000); NMTC Leverage Loan Interest (\$98,000); interest earnings (\$52,000); and Franchise Applications (\$500).

Through December, revenues totaled \$108.6 million, or 87.2% of budget, and were generated primarily from the following: Recycle Plus Collection Charges (\$100.7 million); Lien-Related Charges (\$4.4 million); AB 939 fees (\$1.4 million); and Recycle Plus Negotiated Savings (\$1.3 million). Revenues through December for Recycle Plus (RP) Collection Charges are due primarily to the placement of \$88.9 million on the Santa Clara County Secured Property Tax Roll for the majority of Single-Family Dwelling (SFD) accounts, as well as the collection of \$11.8 million from Multi-Family Dwelling (MFD) accounts, which continue to be billed through the City.

Overall, revenues are expected to end the year approximately \$7.2 million above currently budgeted estimates. A majority of this increase comes from the unanticipated placement of \$3.3 million in outstanding SFD liens and \$900,000 in RP Lien Administration Fees on the County’s Tax Roll as a one-time Special Assessment, which guarantees the revenue for the City. Also contributing to the higher revenue is an additional \$3.4 million in unanticipated receipts for RP/SFD Garbage Collection Fees. However, due to lower than anticipated bids for the installation of a photovoltaic system at the San José Environmental Innovation Center (EIC), anticipated grant reimbursements from the EDA are anticipated to be lower by \$400,000. Corresponding actions are recommended in this report to recognize this net \$7.2 million additional revenue.

Expenditures – Through December, \$42.8 million, or 32.8% of the budget, was expended, and an additional \$76.5 million, or 60.7%, was encumbered. The year-to-date expenditures and encumbrances

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INTEGRATED WASTE MANAGEMENT FUND

FUND STATUS

of \$119.3 million are attributed primarily to the Recycle Plus contracts for Single-Family Dwelling (\$51.6 million), Yard Trimmings/Street Sweeping (\$22.6 million), and Multi-Family Dwelling (\$19.0 million). Additional expenditures include IDC Disposal Agreement (\$7.1 million), Single Family Dwelling Processing (\$4.9 million), Environmental Services Department (ESD) Personal Services (\$3.3 million), ESD Non-Personal/Equipment (\$1.8 million), and General Fund Overhead (\$1.8 million) appropriations.

Overall, savings of approximately \$3.1 million are projected by the end of the year in various appropriations, with the largest estimated savings in ESD Non-Personal/Expenditures (\$1.3 million), Household Hazardous Waste (HHW) Las Plumas Facility (\$800,000), and ESD Personal Services (\$700,000). The anticipated Personal Services savings are due primarily to vacancies in the department. Also, due to lower than anticipated bids for the installation of a photovoltaic system at the EIC, a recommendation is included in this report to lower the project budget by \$800,000 to recognize these savings at the HHW Las Plumas Facility.

In addition to the recommendations referenced above, this report includes recommendations to increase the Information Technology Department Personal Services (PS) appropriation by \$130,000 (from \$1.6 million to \$1.7 million), due to the need to retain staff for several months longer than anticipated for work at the call center; increase the Workers' Compensation Claims appropriation by \$68,000 (from \$40,000 to \$108,000), due to higher than anticipated claims; and increase the Planning, Building and Code Enforcement PS appropriation by \$20,000 (from \$148,000 to \$168,000), due to higher than anticipated costs.

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Unrestricted Ending Fund Balance</i>	234,741	N/A	N/A

Ending Fund Balance – A recommendation to increase the Unrestricted Ending Fund Balance by \$7.9 million (from \$235,000 to \$8.2 million) is included in this report and reflects the net result of the following: increased revenue related to the Lien-Related Charges (\$4.2 million) and Recycle Plus Collection Charges (\$3.4 million); decreased revenue related to the EDA Grant (\$400,000); decreased expenses related to the HHW Las Plumas Facility (\$800,000); increases to a couple of departmental Personal Services (\$150,000) appropriations; and an increase to the Workers' Compensation Claims appropriation (\$68,000), as described above. This additional fund balance will be factored into the development of the 2016-2017 Proposed Budget.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Revenues</i>	81,452,000	33,514,943	41.1%
<i>Expenditures</i>	235,695,472	21,254,083	9.0%

FUND STATUS

Revenues – Budgeted revenue for the San Jose-Santa Clara Treatment Plant Capital Fund consists of transfers from the City of San José Sewer Service and Use Charge (SSUC) Fund (\$31.7 million) and the Sewage Treatment Plant Connection Fee Fund (\$3.1 million); Commercial Paper (CP) Proceeds (\$30.0 million); contributions from the City of Santa Clara and other Tributary Agencies (\$14.7 million); interest earnings (\$1.3 million); Calpine Metcalf Energy Center Facilities Repayments (\$389,000); and a U.S. Bureau of Reclamation (USBR) Grant (\$250,000). Through December, \$33.5 million, or 41.1%, has been received, and based on the current spending plan, it is anticipated that revenues may end the year higher than the budgeted estimate, due primarily to higher than anticipated receipts for the USBR Grant (\$4.8 million), partially offset by a decrease in revenue from Santa Clara and the Tributary Agencies (\$576,000) and the Transfer from the SSUC Fund (\$980,000) for CP debt service repayment.

The 2015-2016 Adopted Capital Budget was developed on the assumption that Santa Clara and the Tributary Agencies would require CP financing in the amount of \$30.0 million for 2015-2016 Capital Improvement Program projects, with their share of CP facility costs being \$576,000 and San José’s share of CP facility costs as \$980,000. The CP Facility will not be established in 2015-2016 until San José, Santa Clara, and the Tributary Agencies mutually agree to terms that would enable the City to provide short-term financing. As a result, it is anticipated that while CP Proceeds will come in below the budgeted estimate by \$30.0 million, contributions from Santa Clara and the Tributary Agencies will instead be received at a level \$30.0 million higher than the budgeted estimate. It is further anticipated that adjustments to the 2015-2016 budgeted estimates will be made at a future date once billing estimates are known with greater certainty.

Expenditures – Expenditures in this fund represent the costs of improvements and rehabilitation of the San José-Santa Clara Water Pollution Control Plant. Through December, \$21.3 million, or 9.0%, of the budget was expended and an additional \$55.5 million, or 23.5%, was encumbered.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

FUND STATUS

A large portion of the budget is currently anticipated to be expended or encumbered on projects and related expenses by the end of the year. However, due to longer than anticipated timelines for procurement and design as well as staff vacancies, it is currently estimated that \$9.4 million will be rebudgeted to 2016-2017 as part of the 2016-2017 Proposed Capital Budget and 2017-2021 Proposed Capital Improvement Program (CIP) process, and an additional \$4.8 million may be rebudgeted as part of the 2015-2016 Year-End Budget Review process, pending additional information that will be known at those times. The largest projects that are currently anticipated to be rebudgeted include the Plant Instrument Air System Upgrade (\$3.4 million), New Headworks (\$1.7 million), and Headworks Improvements (\$1.1 million).

Staff anticipate continuing to make significant progress on large efforts in 2015-2016, such as the Digester and Thickener Facilities Upgrade (\$98.4 million), Energy Generation Improvements (\$32.9 million), and Iron Salt Feed Station (\$7.3 million).

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Unrestricted Ending Fund Balance</i>	46,469,803	N/A	N/A

Fund Balance – No adjustment to the Ending Fund Balance in the San Jose-Santa Clara Treatment Plant Capital Fund is recommended at this time.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUND

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Revenues</i>	87,554,705	19,120,234	21.8%
<i>Expenditures</i>	102,340,888	44,811,812	43.8%

FUND STATUS

Revenues – Revenue for the San José-Santa Clara Treatment Plant Operating Fund consists primarily of transfers from the Sewer Service and Use Charge Fund, contributions from participating tributary agencies, recycled water sales, and interest earnings. Through December, revenues totaled \$19.1 million, or 21.8% of the budgeted estimate. The largest source of revenue in this fund, the transfer from the Sewer Service and Use Charge Fund (\$47.5 million), has not yet been received. This transfer occurs in two installments on or around February 1 and June 1. Contributions from Santa Clara and other agencies, however, are estimated to come in lower than budgeted levels by \$2.8 million. These contributions are made in four installments based on the amounts provided in the Proposed Budget. However, after the Comprehensive Annual Financial Report is released and prior year actuals are determined, the amounts owed by the agencies are adjusted accordingly. As a result of the final reconciliation for 2014-2015, lower than expected expenditures last year are causing this year’s agency reimbursement revenue to fall below budgeted levels. Revenues from recycled water are estimated to be approximately \$400,000 lower than budgeted levels of \$8.2 million, due primarily to fewer sales than anticipated. Weather conditions are resulting in a decreased demand for recycled water; however, this revenue stream is currently volatile, and the estimate can easily change depending on the length of the storm season this year. Overall, revenues are tracking to come in lower than the budgeted estimate by approximately \$3.3 million.

Expenditures – Expenditures in this fund represent the costs required for the operation and maintenance of the San José-Santa Clara Water Pollution Control Plant, including the South Bay Water Recycling System and associated regulatory activities. Through December, \$44.8 million, or 43.8% of the budget, has been expended, and an additional \$13.6 million, or 13.3%, has been encumbered. Spending is lower than expected in several appropriations, with the largest savings expected in the Environmental Services Department (ESD) Personal Services, ESD Non-Personal/Equipment, Workers’ Compensation Claims, and Public Works and Finance Departments Personal Services appropriations. It is estimated that the ESD Personal Services appropriation (\$52.2 million) may have approximately \$3.5 million in savings by year-end, due to vacancies; the ESD Non-Personal/Equipment appropriation may have \$3.0 million in savings by year-end, due primarily to less than anticipated maintenance costs and lower energy prices; the Workers’ Compensation appropriation (\$645,000) is estimated to have \$280,000 in savings; and the Public Works (\$209,000) and Finance (\$495,000) Departments Personal Services appropriations are estimated to have \$175,000 and \$160,000 in savings, respectively. The Human Resources Department Personal

**2015-2016
MID-YEAR BUDGET REVIEW**

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUND

FUND STATUS

Services appropriation, however, is tracking to slightly exceed the budget of \$265,000 by \$20,000 due to higher than anticipated staffing costs in 2015-2016. A budget action is recommended to increase this appropriation, offset by personal services savings in ESD.

Included in this report are several recommendations that would provide funding support related to negotiations on amendments to the Water Pollution Control Plant (WPCP) Master Agreement for Wastewater Treatment Between City of San Jose, City of Santa Clara and Tributary Agencies (Master Agreement). The WPCP is jointly owned by the cities of San José and Santa Clara and provides wastewater treatment to the City of Milpitas, West Valley Sanitation District, Cupertino Sanitary District, Burbank Sanitation District, and County Sanitation District 2-3, collectively known as the Tributary Agencies. The Master Agreement was originally executed in March 1983 with a term ending in 2031, and defines each participant's contractual rights. Staff are currently working on amendments to the Master Agreement to incorporate operating reserve contributions and revise the term of the agreement to facilitate short-term and long-term borrowing on behalf of the Tributary Agencies.

In October 2015, staff from the Tributary Agencies provided red-lined Master Agreements to jointly request specific, substantive changes to the existing Master Agreement, beyond those discussed over the past year related to securing financing. These changes will need careful evaluation and consideration by the two owners, as they could materially change the rights and obligations of the owners. At the December 1, 2015 City Council meeting, the City Council directed staff to coordinate with the City of Santa Clara to evaluate the scope of the proposed amendments to the existing Master Agreement with the Tributary Agencies, and return to the City Council with recommendations on whether to proceed with negotiations, and a process and budget to negotiate amendments as part of the 2015-2016 Mid-Year Budget Review.

After careful consideration by staff, it has been determined that negotiating these substantive amendments would require the following resources that are beyond current City levels, and which are included in this report as recommended actions: an external financial consultant to help with performing financial analysis to review possible impacts related to proposed changes to the Master Agreement (\$100,000); external consultant support with experience in wastewater treatment and contract negotiations to successfully move negotiations forward to achieve an amended Master Agreement (\$100,000); in-house legal services from the City Attorney's Office (\$6,700); and the assistance of outside counsel (\$100,000). The projected cost for these additional resources, totaling \$306,700, would be shared between San José and Santa Clara, the co-owners, except the Tributary Agencies would pay for their share of the cost for the financial consultant services to the extent that they benefit from the services. These recommendations will enable staff to have the necessary funds for the additional support, should the agencies agree to negotiate additional changes to the Master Agreements. The reallocation of existing budgeted resources within the San José-Santa Clara Treatment Plant Operating Fund is recommended to offset these additional costs.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUND

FUND STATUS

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Unrestricted Ending Fund Balance</i>	4,467,822	N/A	N/A

Ending Fund Balance – Based on activity through December, the combination of lower expected revenues and lower expenditures is currently projected to generate approximately \$3.5 million in additional Ending Fund Balance by year-end. Actions recommended in this report related to negotiations to amend the Master Agreement and increase the Human Resources Personal Services appropriation will have no net effect on Ending Fund Balance, as departmental savings have been identified to offset these costs.

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STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SEWER SERVICE AND USE CHARGE CAPITAL IMPROVEMENT FUND

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Revenues</i>	33,760,000	10,740,051	31.8%
<i>Expenditures</i>	107,353,582	8,526,861	7.9%

FUND STATUS

Revenues – Budgeted revenue for this fund in the Sanitary Sewer Capital Program consists of transfers from the Sewer Service and Use Charge Fund (\$32.0 million), reimbursements from the West Valley Sanitation District (WVSD) for joint projects (\$1.5 million), and interest earnings (\$260,000). Transfers from the Sewer Service and Use Charge Fund take place in three installments over the year and the remaining two transfers will take place as scheduled in the second half of the fiscal year. Interest earnings have been tracking high through December, and it is anticipated that receipts will end the year approximately \$187,000 above the budgeted estimate. However, due to the anticipated rebudget to 2016-2017 of the 60” Brick Interceptor, Phase VIA and VIB project, as described below, it is also anticipated that reimbursements from WVSD for this joint project will be lower than the budgeted estimate by \$1.4 million.

Expenditures – Expenditures in this fund represent the costs of improvements and rehabilitation of the Sanitary Sewer System. Through December, \$8.5 million, or 7.9% of the budget, was expended and an additional \$18.2 million, or 17.0%, was encumbered. Staff anticipate expending approximately \$74.4 million, or 69.3%, on projects in 2015-2016, focusing on large capacity enhancement efforts such as the Monterey-Riverside Relief Sanitary Sewer Improvements, Cast Iron Pipe – Remove and Replace, Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements, and a number of neighborhood sewer improvement projects that will reduce sanitary sewer overflows and/or repair severely deteriorated sewers.

However, it is expected that approximately \$32.9 million, or 30.7% of the budget, will not be expended by year-end, and the majority of these funds will be recommended for rebudget into 2016-2017 as part of the 2016-2017 Proposed Capital Budget and 2017-2021 Proposed Capital Improvement Program (CIP). Among these projects are Flow Monitoring Program (Master Planning), Master Planning Updates, and Capital Avenue Sanitary Sewer Improvements. The 60” Brick Interceptor, Phase VIA and VIB rehabilitation project comprises the largest portion that is anticipated to be unexpended (\$29.0 million) this year due to the complexity of the design work that will be included in this project. The construction contract award for this project will likely be delayed to 2016-2017, which will provide additional time for

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SEWER SERVICE AND USE CHARGE CAPITAL IMPROVEMENT FUND

FUND STATUS

staff to refine the scope of this project. Also anticipated is the reallocation of \$2.4 million from the Rehabilitation of Sanitary Sewer Pump Stations for the Montague Pump Station to a reserve in 2016-2017. The upgrade of the Montague Pump Station is necessary to accommodate anticipated future development in the area; however, due to real estate-related uncertainties, construction is currently delayed. It is further anticipated that funding for the Story Road Sanitary Sewer Improvements (\$220,000) will be redistributed to the Ending Fund Balance, as this project is not a priority at this time for the program.

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Unrestricted Ending Fund Balance</i>	10,201,400	N/A	N/A

Ending Fund Balance – A decrease of \$170,803 to both the 2015-2016 Beginning Fund Balance and 2015-2016 Unrestricted Ending Fund Balance is recommended in this report to reflect a fund balance adjustment that occurred after the production of the 2014-2015 Annual Report.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER CAPITAL FUND

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Revenues</i>	12,829,000	6,076,673	47.4%
<i>Expenditures</i>	34,018,698	1,891,906	5.6%

FUND STATUS

Revenues – The budgeted revenue estimate for this fund in the Storm Sewer Capital Program consists of a transfer from the Storm Sewer Operating Fund (\$9.0 million), the California Proposition 84 Stormwater Grant (\$3.8 million), and interest earnings (\$54,000). Through December, revenues totaled \$6.1 million, or 47.4% of the budgeted estimate. Due to project delays with the Martha Gardens Green Alley, Ocala Avenue Green Street Project, Park Avenue Green Street Pilot, and Chynoweth Avenue Green Street projects, reimbursements from the California Proposition 84 Stormwater Grant of \$658,000 are now estimated to be received in the second part of 2015-2016, while \$3.1 million is anticipated to be received in 2016-2017 due to anticipated rebudgets.

Expenditures – Expenditures in this fund represent the costs of improvements and rehabilitation of the Storm Sewer System. Through December, \$1.9 million, or 5.6% of the budget, was expended, and an additional \$4.9 million, or 14.5%, was encumbered. It is currently estimated that approximately \$20.5 million, or 60%, will be expended or encumbered on projects and related expenses by the end of the year, including the recently awarded Large Trash Capture Devices project, which accounts for \$6.9 million, or 34% of this year-end estimate.

It is anticipated that approximately \$13.5 million, or 40% of the budget, will not be expended by year-end, and is anticipated to be rebudgeted to 2016-2017 due to various project delays, including those for the Alviso Storm Pump Station (\$8.9 million), Chynoweth Avenue Green Street project (\$1.1 million), Park Avenue Green Street Pilot (\$900,000), Storm Sewer Master Plan – City-wide (\$800,000), and Ocala Avenue Green Street Project (\$500,000). While it was originally assumed that the Alviso Storm Pump Station could begin in 2015-2016, due to permitting requirements from regulatory agencies, construction cannot proceed until permit approval is obtained, which can take approximately nine months from the time the permitting paperwork is submitted to the agencies.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER CAPITAL FUND

FUND STATUS

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Unrestricted Ending Fund Balance</i>	4,505,668	N/A	N/A

Ending Fund Balance – An increase of \$311,429 to both the 2015-2016 Beginning Fund Balance and 2015-2016 Unrestricted Ending Fund Balance is recommended in this report to reflect a fund balance adjustment that occurred after the production of the 2014-2015 Annual Report.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

TRANSIENT OCCUPANCY TAX FUND

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Revenues</i>	22,088,000	9,903,675	44.8%
<i>Expenditures</i>	29,733,461	11,713,612	39.4%

FUND STATUS

Revenues – Through December 2015, revenues recorded in the Transient Occupancy Tax (TOT) Fund of \$9.9 million are tracking above the prior year’s collections of \$8.9 million through December 2014, and are projected to exceed this year’s budgeted estimate. When the 2015-2016 Adopted Budget was developed, TOT growth of 5% over the estimated 2014-2015 receipts was assumed. However, because collections ended 2014-2015 stronger than anticipated, no growth is needed in 2015-2016 to meet the budgeted estimate. Through December, TOT receipts of \$9.9 million are tracking 14.4% above the prior year’s collection (\$8.6 million). The TOT Fund has also received \$39,000 in other revenue, including interest and special event permits. Based on current collection trends and the hotel industry’s continued strong performance, TOT growth of approximately 15% is anticipated this year, and an upward adjustment to the revenue estimate of \$3.4 million (from \$22.1 million to \$25.5 million) is recommended to reflect this growth. This \$3.4 million of additional revenue is further recommended to be placed in a reserve for future distribution in 2016-2017, as described below.

The increase in TOT receipts is due to continued high levels of hotel occupancy, and increased average daily room rates. Through December, the average hotel occupancy rate at the 14 major hotels was 74.3%, a slight decrease from the 75.5% occupancy rate for the same period in 2014-2015; however, room rates rose over the same period, from \$163.72 to \$182.24 (an 11.3% increase). The year-to-date average revenue-per-available room (RevPAR) metric of \$135.84 represents an increase of 9.7% from the prior year level.

It is important to note that due to the large number of visitors staying in San José hotels during Game Week, an additional minimum amount of \$810,000 in TOT revenue (\$1.35 million combined in the General Fund and TOT Fund) resulting from Super Bowl 50 is expected above the \$3.4 million cited above. Elsewhere in this report, the Administration recommends recognizing \$136,000 of the \$540,000 received in the General Fund to offset Police and Fire costs attributable to the increased visitors during game week. TOT receipts will continue to be monitored over the coming months and additional adjustments will be brought forward later in the fiscal year, once the positive revenue benefits from Super Bowl 50 are fully realized. Additional details can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

TRANSIENT OCCUPANCY TAX FUND

FUND STATUS

Expenditures – Expenditures through December are tracking within budgeted levels. By ordinance, the TOT Fund tax revenue is distributed into three categories (San José Convention and Visitors Bureau, Cultural Development, and Convention Facilities Operation Subsidy through a transfer to the Convention and Cultural Affairs Fund). The allocations to the three recipient organizations are based on a fixed percentage of TOT receipts, guided by the formula outlined in the Municipal Code. As is the practice in this fund when there is higher TOT revenue estimated during the year, the additional funding is recommended to be placed into the Reserve for Future Distribution to be allocated in 2016-2017 to the three recipient organizations as follows: \$1,720,000 for the Convention and Cultural Affairs Fund, \$860,000 for the Convention and Visitors Bureau, and \$860,000 for Cultural Development. Placing the additional funding in reserve, rather than increasing the 2015-2016 recipient appropriations, will allow for further monitoring of the tax collections to ensure all funding is received as projected by year-end.

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Unrestricted Ending Fund Balance</i>	1,461,380	N/A	N/A

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

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY FUND

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Revenues</i>	40,299,470	19,272,125	47.8%
<i>Expenditures</i>	44,261,926	18,551,125	41.9%

FUND STATUS

Revenues – Revenue for the Water Utility Fund consists of Potable Water Sales, Recycled Water Sales, miscellaneous revenues, and interest income. Through December, revenues totaled \$19.3 million, or 47.8% of the budgeted estimate. The largest (and most volatile) of these revenues is from the sale of potable water within the Municipal Water System service area. Year-to-date, potable water sales have totaled \$16.5 million, or 46.7% of the budgeted estimate of \$35.3 million. However, revenues are projected to fall short of the budgeted estimate by approximately \$3.1 million at year-end, due primarily to continued conservation and decreased water sales projected during spring 2016 as a result of increased storm activity. Recycled water sales are tracking to end the year approximately at budgeted levels (\$4.6 million); however, this may change as the season progresses, and the extent of the increased storm activity and its effect on water conservation as a whole is known.

Late Fees are also recorded in this fund and transferred to the General Fund as an unrestricted source of funds. A recommendation is included in this document to reduce the Late Fees estimate by \$225,000 (from \$275,000 to \$50,000) and the associated transfer to the General Fund, as late fees have not been received this year and are not expected to start being collected until March 2016 as a result of the implementation of the new billing system and technical problems associated with the new billing software. A transfer from the General Fund to the Water Utility Fund of \$21,604 is also recommended to reimburse the fund for excess late fee revenues transferred to the General Fund in 2014-2015.

Expenditures – Expenditures in this fund represent costs of the operation, improvement, and maintenance of the Municipal Water System, including transfers to the Water Utility Capital Fund, as necessary for ongoing capital improvements. Through December, \$18.6 million, or 41.9% of the budget, has been expended, and an additional \$2.1 million, or 4.7%, has been encumbered. Spending is lower than anticipated in several appropriations, with the largest savings expected in the Environmental Services Department (ESD) Non-Personal/Equipment appropriation. The largest cost in this appropriation is for the purchase of potable water, which accounts for \$22.7 million, or 51.3% of the modified expenditure budget. Because of continued water conservation, purchases of potable water are tracking to end the year approximately \$3.3 million lower than those used in the development of the 2015-2016 Adopted Budget and the adjustments in the 2014-2015 Annual Report.

2015-2016 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY FUND

FUND STATUS

Included in this report are a recommended increase of \$200,000 to the ESD Personal Services appropriation (bringing the total to \$4.9 million) and the establishment of a \$160,000 City Attorney’s Office (CAO) Personal Services appropriation. Additional funding is required for ESD due to the need for additional overtime funding for operations that can no longer be absorbed by vacancy savings and a true-up of the budget as a result of actual retirement costs, while CAO funding will provide for legal services associated with the Municipal Water System.

An action is also recommended in this report to increase the Transfer to the Water Utility Capital Fund by \$1.5 million. In the 2014-2015 Annual Report, the Unrestricted Ending Fund Balance (EFB) increased by approximately \$1.5 million, due in large part to higher potable water revenues and lower potable water sales during 2014-2015. Included in that report was a discussion of options on how best to address this higher than anticipated fund balance, such as lowering the commercial paper loan associated with the replacement of water meters, to mitigate any potable water rate increases that might have occurred at mid-year, or to serve as a cushion against higher water conservation. However, no mid-year rate adjustment occurred, and an analysis of potential potable water consumption has shown that \$1.5 million in Unrestricted EFB can be transferred to the Water Utility Capital Fund without adverse effect on the Water Utility Fund, thereby decreasing the commercial paper loan amount necessary to fund the Meter Replacement project.

	2015-2016 Current Modified	2015-2016 YTD Actual	2015-2016 % of Budget
<i>Unrestricted Ending Fund Balance</i>	2,009,173	N/A	N/A

Ending Fund Balance – A recommendation to decrease the Unrestricted Ending Fund Balance by \$1.8 million is included in this report to offset several actions being recommended, including: an increase in the Transfer to the Water Utility Capital Fund (\$1.5 million); anticipated expenses related to the ESD Personal Services (\$200,000) and CAO Personal Services (\$160,000) appropriations, as described above; slightly offset by a Transfer from the General Fund to reimburse the Water Utility Fund as part of a 2014-2015 Late Fee reconciliation (\$21,604). Further information on these actions can be found in Section III, Special/Capital Funds Recommended Budget Adjustments Summary. Additionally recommended in this report is a decrease to both the 2015-2016 Beginning Fund Balance and 2015-2016 Unrestricted Ending Fund Balance to reflect a minor fund balance adjustment that occurred after the production of the 2014-2015 Annual Report.