

2013-2014

**ANNUAL
REPORT**

**III. SELECTED SPECIAL/
CAPITAL FUNDS
BUDGET
PERFORMANCE**

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III. SELECTED SPECIAL/CAPITAL FUNDS BUDGET PERFORMANCE

This section provides financial information on the 2013-2014 year-end performance for selected special and capital funds that represent major City operations. Specifically, it includes discussions regarding the funds' revenue, expenditure, and ending fund balance performance. The funds are discussed in alphabetical order.

The Revenue and Expenditure Performance chart displays 2013-2014 Modified Budget and Actual revenues and expenditures, with the dollar and percent variance for each. The revenue figures exclude the Beginning Fund Balance and Reserves while the expenditure figures include encumbrances, but exclude the Ending Fund Balance and other reserves. The Ending Fund Balance Performance chart displays the 2013-2014 Modified Budget, which includes fund balance and reserves. The 2013-2014 Estimated Ending Fund Balance and Actual Ending Fund Balance also includes reserves, with the exception of the reserve for encumbrances. The dollar variance compares the Estimated Ending Fund Balance used to develop the 2014-2015 Adopted Budget with the Actual Ending Fund Balance. The Recommended Rebudget Adjustments Impact shows the value of additional rebudgets recommended in this report and calculates the revised variance should recommended rebudgets be approved.

Revenue Performance: This discussion identifies the amount of revenue and major revenue sources; provides context regarding the variance of year-end revenue performance from the modified budget; and compares revenues to the prior year performance.

Expenditure Performance: This discussion identifies the amount of expenditures and major expenditure categories; provides context regarding the variance of year-end expenditure performance from the modified budget; discusses significant capital improvement project variances relative to the size of the capital fund; lists related 2014-2015 budget actions (such as rebudgets); calculates the revised expenditure variance due to rebudgets approved as part of the 2014-2015 Adopted Budget or as recommended in this report; and compares expenditures to the prior year performance.

Ending Fund Balance Performance: This discussion provides the actual Ending Fund Balance and the estimated Ending Fund Balance used in the development of the 2014-2015 Adopted Budget; discusses variances between these two amounts; and identifies any impact on the 2014-2015 budget related to recommended actions included in this report.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$28,802	\$27,747	(\$1,054)	(3.7%)
Expenditures	\$78,617	\$61,361	(\$17,256)	(21.9%)

Revenue Performance

In 2013-2014, capital revenues totaled \$27.7 million, which were \$1.1 million (3.7%) below the budgeted estimate. Actual revenues received in 2013-2014 consisted of the following: Passenger Facility Charges (PFCs) (\$18.2 million), grant income (\$4.9 million), transfers from other Airport funds (\$4.4 million), and interest earnings (\$289,000). PFCs ended the year slightly above the Modified Budget estimate by \$961,000 (5.6%) due to higher than anticipated passenger levels. Grant revenue, however, ended the year below the Modified Budget estimate by \$2.0 million (28.7%) due to lower than anticipated costs associated with the completion of the Taxiway W Improvements project, as well as the deferral to 2014-2015 of grant-contingent projects such as Airfield Sign Program and Taxiway A/B Part 139 Separation.

The 2013-2014 revenue level was \$624,000 (2.2%) lower than the 2012-2013 level of \$28.4 million, which is primarily attributed to lower than anticipated grant funding for the Airport Property and Exhibit A Maps project. This project was later determined to be ineligible to receive grant funding.

Expenditure Performance

In 2013-2014, expenditures totaled \$61.4 million and were \$17.3 million (21.9%) below budgeted levels. The majority of expenditures were primarily attributed to transfers to other funds for debt service and close-out of commercial paper debt funds (\$39.6 million); Terminal Area Improvement Program (\$7.4 million); Taxiway W Improvements (\$6.0 million); Pavement Maintenance (\$1.2 million); and Federal Inspection Facility Sterile Corridor Extension (\$1.0 million). The year-end variance of \$17.3 million primarily reflects the anticipated close-out of the Terminal Area Improvement Program projects, as well as savings in the Taxiway W Improvements appropriation and the Clean-Up of Existing Fuel Farm appropriation. Expenditure savings were also generated from the deferral of grant-contingent projects as discussed above and annual capital programs, such as Terminal Building Modifications, Airport Technology Services, Operations System Replacement, and Airfield Improvements. A total of \$13.0 million in Airport capital project funding was approved for rebudget as part of the 2014-2015 Adopted Capital Budget, and a net rebudget of \$734,000 is recommended as part of this report. After the rebudget adjustments that were included in the 2014-2015 Adopted Capital Budget and the rebudget adjustments recommended in this report are considered, the expenditure variance totals \$3.5 million, or 5.4%.

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AIRPORT CAPITAL FUNDS

Expenditure Performance

The following is a list of the major unexpended projects in 2013-2014 totaling \$13.6 million:

- The Terminal Area Improvement, Phase I project variance (\$7.3 million) results primarily from the pending close-out of the owner-controlled insurance program (OCIP) and continued work on the ongoing design-build project components. Funding of \$6.9 million was rebudgeted as part of the 2014-2015 Adopted Capital Budget to complete ongoing improvements in the northeast area (formerly the rental car fueling and wash site) and in the Terminals, as well as for the Airport's OCIP. The northeast area will provide for a fuel truck maintenance facility, shuttle bus staging and storage, and adjacent employee parking. Projects in the terminals include the construction of Terminal A baggage system protection, the relocation of the Transportation Security Administration Information Technology Department Room on the second floor, and the relocation of electrical equipment in the Northeast area.
- The Taxiway W Improvements project variance (\$2.8 million) reflects savings from the completion of the project. Funding of \$1.0 million was rebudgeted as part of the 2014-2015 Adopted Capital Budget for project close-out costs.
- The Federal Inspection Facility Sterile Corridor Extension project variance (\$1.9 million) reflects lower than anticipated project costs in 2013-2014. Funding of \$1.5 million was rebudgeted as part of the 2014-2015 Adopted Budget to reflect the revised completion date of the project. An additional \$408,000 is recommended for rebudget as part of this report.
- The Clean-Up of Existing Fuel Farm project variance (\$842,000) results from lower than anticipated project costs in 2013-2014. Funding of \$842,000 was rebudgeted as part of the 2014-2015 Adopted Capital Budget to complete contamination clean-up of soil, pipelines, and equipment that remain on the City-owned portion of the old aviation fuel facility.
- The Taxiway A/B Part 139 Separation project variance (\$553,000) results from the timing of when the planning phase for this project started. The completion of this project is contingent upon the timing and availability of Federal Administration Aviation grant funding. An additional \$12,000 is recommended for rebudget as part of this report to ensure sufficient funding is available in 2014-2015 to complete design and construction of a "No Taxi" Island between Taxiways A and B between Runways 30L and 30R.
- The Airfield Sign Program project variance (\$227,000) reflects lower than anticipated project costs in 2013-2014. The completion of this project is contingent upon the timing and availability of FAA grant funding. Funding of \$224,000 was rebudgeted as part of the 2014-2015 Adopted Budget. An additional \$3,000 is recommended for rebudget as part of this report to complete the corrective actions identified during an FAA audit that was conducted in January 2010.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

Expenditure Performance

The 2013-2014 expenditures of \$61.4 million were \$12.9 million (26.7%) above the 2012-2013 expenditures of \$48.4 million, which is primarily due to increased transfers to other funds for debt service and close-out of commercial paper debt funds.

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$173,196	\$106,777	\$113,595	\$6,817	(\$734)	\$6,083	3.5%

The 2013-2014 combined Ending Fund Balance of \$113.6 million was \$6.8 million above the estimate used to develop the 2014-2015 Adopted Capital Budget. This positive variance is a result of lower than budgeted expenditures offset slightly by lower than anticipated revenues. A net rebudget of \$734,000 is recommended in this report to complete various projects which are currently in progress, bringing the revised Ending Fund Balance variance to \$6.1 million. The remaining fund balance of \$6.1 million is recommended to be allocated to the 2014-2015 Ending Fund Balance for future use.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

**AIRPORT OPERATING FUNDS - AIRPORT REVENUE FUND AND AIRPORT
MAINTENANCE AND OPERATION FUND**

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$120,356	\$124,924	4,568	3.8%
Expenditures	\$72,088	\$65,482	(\$6,606)	(9.2%)

Revenue Performance

In 2013-2014, operating revenues in the Airport Revenue Fund totaled \$124.9 million, or 3.8% above the budgeted estimate. The major operating revenue categories include Parking and Roadways (\$44.5 million), Airline Terminal Rental (\$38.1 million), Terminal Building (\$15.4 million), Landing Fees (\$12.0 million), Miscellaneous Revenue (\$11.1 million), and Airfield Area (\$3.6 million). Additionally, funding of \$264,000 was transferred from the Airport Fiscal Agent Fund.

The positive revenue variance of \$4.6 million resulted from higher than budgeted revenue for the following categories: Parking and Roadways (\$3.3 million) due to increased parking revenue and rental car concession fees associated with increased passenger activity; Miscellaneous Revenue (\$668,000) due to increased sale of compressed natural gas and jet flowage fees; and Airfield Area (\$485,000) due to increased revenue from in-flight kitchen tenants.

The 2013-2014 revenue level was \$5.0 million (4.2%) higher than the 2012-2013 level of \$119.9 million, which is primarily attributed to the increased passenger activity.

Expenditure Performance

The Airport Maintenance and Operation Fund provides for all general Airport operating expenses including Police, Fire, and interdepartmental services. For 2013-2014, expenditures of \$65.5 million were \$6.6 million (9.2%) below budgeted levels, primarily due to expenditure savings in personal services (\$2.5 million) and in non-personal/equipment (\$2.2 million). Personal services expenditure savings were due to position vacancies. Non-personal/equipment expenditure savings resulted from lower parking program expenses due to the transition to cashierless operations; lower shuttle bus program expenses due to the reduced costs associated with the new shuttle bus operator agreement; and lower than budgeted expenditures in Letter of Credit fees for the Commercial Paper Program. The 2013-2014 expenditures of \$65.5 million were within 0.5% of the 2012-2013 expenditures.

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**AIRPORT OPERATING FUNDS - AIRPORT REVENUE FUND AND AIRPORT
MAINTENANCE AND OPERATION FUND**

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$283,086	\$90,665	\$92,497	\$1,832	\$0	\$1,832	0.6%

The 2013-2014 combined Ending Fund Balance of \$92.5 million was \$1.8 million above the budgeted estimate used to develop the 2014-2015 Adopted Operating Budget. The positive variance of \$1.9 million in the Airport Revenue Fund resulted from expenditure savings in the Airport Maintenance and Operation Fund. The negative variance of \$44,000 in the Airport Maintenance and Operation Fund resulted from an increase in the Airport’s share of the other post-employment benefits (OPEB) liability expense for 2013-2014.

In 2013-2014, passenger activity increased by 6.8% from the 2012-2013 level of 8.49 million passengers to 9.06 million passengers. Moreover, the percentage growth in annual enplanements at the Airport in 2013-2014 was 6.7%, which exceeded the Federal Aviation Administration’s (FAA) projection of 0.8% for national enplanement growth for 2013-2014. This increase in passenger enplanements triggered the activation of the Municipally-Funded Air Service Incentive Program, a provision in the Airline-Airport Lease and Operating Agreements that was approved by the City Council in March 2007. Under this provision, if the percentage growth in annual enplanements at the Airport exceeds the growth in annual enplanements nationwide, the City shall reduce the amount of its indirect overhead expenses in the following fiscal year by a corresponding percentage. Budget actions are recommended in this report to reduce the 2014-2015 overhead expenses to the Airport Maintenance and Operation Fund by \$942,000 to reflect a reduction of the overhead rate of 5.9 percentage points (from the Adopted Budget overhead rate of 23.8% to 17.9%) and return those funds to the airlines. Year-to-date through August 2014, Airport’s passenger traffic is up by 7.2% as compared to the same period in 2013-2014. Passenger growth in 2014-2015 is anticipated to increase by 2.0% over the 2013-2014 estimate of 8.91 million passengers.

In addition, this report includes budget actions to increase the Airport’s non-personal/equipment appropriation. A recommendation to fund the cost of providing complimentary self-service luggage carts to deplaning international passengers (\$45,000) is included. Funding is also recommended for a consultant agreement to develop and update the Disadvantaged Business Enterprise Program, an FAA mandate, aimed to minimize concerns related to minority discrimination in the award and administration of construction projects at the Airport. It is recommended that a portion of the Operations Contingency, the budgeted allocation used to offset any unforeseen expenditures that arise throughout the year, be allocated to offset these actions.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

**AIRPORT OPERATING FUND - AIRPORT CUSTOMER FACILITY AND
TRANSPORTATION FEE FUND**

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$18,364	\$19,229	\$865	4.7%
Expenditures	\$17,898	\$17,341	(\$557)	(3.1%)

Revenue Performance

Revenue collections in the Airport Customer Facility and Transportation Fee Fund include the Rental Car Customer Facility Charge (CFC) Fees and the Rental Car Contributions. In 2013-2014, revenues totaled \$19.2 million and were \$865,000 (4.7%) above the budgeted estimate. Actual revenues received consist of CFCs (\$15.5 million), contributions from rental car agencies (\$2.8 million), and interest earning (\$19,000). CFCs ended the year above the Modified Budget estimate (5.8%) due to increased car rental activities associated with higher than anticipated passenger levels.

The 2013-2014 revenue level was \$2.5 million (15.0%) higher than the 2012-2013 level of \$16.7 million, which is primarily attributed to increased CFCs collection associated with increased passenger activity.

Expenditure Performance

In 2013-2014, expenditures of \$17.3 million were \$557,000 (3.1%) below budgeted levels. Expenditures were primarily attributed to transfers to other Airport funds for debt service payments (\$15.2 million), non-personal/equipment (\$2.1 million), and audit costs (\$15,000). Non-personal/equipment expenditure savings were due to lower than anticipated utility and operating costs of the compressed natural gas station, as well as reduced shuttle bus operating costs associated with lower costs for shuttle bus drivers and shuttle bus maintenance.

The 2013-2014 expenditures of \$17.3 million were \$1.3 million (8.3%) above the 2012-2013 expenditures of \$16.0 million, which is primarily due to increased transfers to other Airport funds for debt service payments.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

**AIRPORT OPERATING FUND - AIRPORT CUSTOMER FACILITY AND
TRANSPORTATION FEE FUND**

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$25,068	\$7,385	\$8,592	\$1,207	\$0	\$1,207	4.8%

The 2013-2014 Ending Fund Balance of \$8.6 million was \$1.2 million above the budgeted estimate used to develop the 2014-2015 Adopted Budget. This positive variance is a result of higher than anticipated revenues and slightly lower expenditures.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$28,818	\$26,494	(\$2,324)	(8.1%)
Expenditures	\$42,842	\$19,322	(\$23,520)	(54.9%)

Revenue Performance

In 2013-2014, revenues in the Building and Structure Construction Tax Fund totaled \$26.5 million, which were primarily generated from Building and Structure Construction Tax (\$22.5 million) and grant funding (\$3.8 million). In 2013-2014, federal grant funding of \$3.5 million was received for The Alameda – A Plan for the Beautiful Way project, pedestrian corridor improvements, implementation of the Transportation Incident Management Center (TiMC), and the East Santa Clara Street Bridge at Coyote Creek project. A State grant was also received for traffic signal communications and synchronization (\$302,000). The 2013-2014 revenues were lower than the budget by approximately \$2.3 million, which was primarily due to lower than budgeted receipts of federal grants (\$5.7 million), partially offset by higher than budgeted Building and Structure Construction Tax receipts (\$3.5 million). Grant-related revenues of \$4.4 million, which were not received in 2013-2014 due to project delays, were anticipated and rebudgeted in the development of the 2014-2015 Adopted Budget, and an additional \$2.1 million is recommended to be rebudgeted as part of this report. In addition, \$789,000 in grant revenue anticipated to be received in 2014-2015 was instead received in 2013-2014.

The 2013-2014 revenue level of \$26.5 million was \$9.5 million higher (55.9%) than the 2012-2013 level of \$17.0 million, primarily as a result of increased Building and Structure Construction Tax receipts (\$8.7 million) and federal grant receipts (\$1.9 million), partially offset by decreased State grant receipts (\$898,000).

At \$22.5 million, Building and Structure Construction Tax receipts in 2013-2014 were 63.1% higher than 2012-2013 collections (\$13.8 million). The 2013-2014 record-setting collections exceeded the 2001-2002 peak level of \$17.5 million. The improved collections in Building and Structure Construction Tax revenue is primarily attributable to increased issuances of residential permits, primarily for multi-family residences, as well as increased commercial and industrial alteration activity. The 2014-2015 Adopted Budget estimate of \$17.0 million allows for a decrease of 24.4% from the 2013-2014 collection level. The sustainability of the 2013-2014 collection level will be monitored as the year progresses, and an upward adjustment to the 2014-2015 budgeted revenue estimate may be brought forward for City Council consideration at a later date, if 2014-2015 collections continue at the current pace.

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BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

Expenditure Performance

In 2013-2014, expenditures totaled \$19.3 million in the Building and Structure Construction Tax Fund. This expenditure level was \$23.5 million (54.9%) below the Modified Budget. A significant portion of the expenditure savings (\$18.5 million) was anticipated and rebudgeted or redistributed as part of the 2014-2015 budget process. An additional \$4.9 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2014-2015.

The \$23.5 million variance between budgeted and actual expenditures was caused primarily by the following projects: Autumn Street Extension (\$8.0 million), San Carlos Street Multimodal Streetscape Improvements – Phase II (\$2.6 million), ITS: Traffic Incident Management Center (\$2.2 million), St. John Street Multimodal Improvements Phase I (\$2.0 million), Route 101/Mabury Road Project Development (\$1.4 million), Safety – Traffic Signal Modifications/Construction (\$1.1 million), North First Street Bicycle Lane Improvements (\$986,000), Park Avenue Bike Lane Improvements (\$774,000), LED Streetlight Conversion (\$700,000), and several other projects with variances less than \$500,000. The expenditure variances in these projects were primarily attributable to various delays in project delivery, such as minor scope changes, competing workload demands, and unexpected complications in the design and construction process.

The 2013-2014 expenditures of \$19.3 million were \$400,000 (2.1%) above the 2012-2013 expenditures of \$18.9 million. This increase is primarily due to higher costs for ITS: Transportation Incident Management Center (\$2.0 million), which is scheduled to be completed in 2014-2015, partially offset by lower expenditures in 2013-2014 compared to 2012-2013 for the San Carlos Multimodal Streetscape Improvements – Phase I and Traffic Signal Communications and Synchronization projects.

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact*	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$52,526	\$25,528	\$30,917	\$5,389	(\$3,257)	\$2,132	4.1%

* Although not included as a recommendation in this report, the amount listed also includes early rebudgets that were approved by the City Council on August 26, 2014.

The 2013-2014 Ending Fund Balance of \$30.9 million was \$5.4 million above the estimate used to develop the 2014-2015 Adopted Capital Budget. This variance was due to higher than estimated revenues (\$209,000) and lower than estimated expenditures (\$5.2 million).

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BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

A significant portion of expenditure savings (\$4.9 million) are recommended for rebudget as part of this report. This report also includes the rebudget of earned revenue related to several grants (\$2.1 million) that will be received in 2014-2015 for the Intelligent Transportation System (ITS): Transportation Incident Management Center (\$1.7 million), Metropolitan Transportation Commission (MTC) San Carlos Street Multimodal Streetscape Improvements (\$226,000), Transportation, Community and System Preservation Grant - Branham Lane/Monterey Highway Rail (\$88,000), and various other grants totaling \$100,000.

The rebudget of expenditure savings (\$4.9 million) and earned revenue (\$2.1 million), in conjunction with the \$429,000 rebudgeted as part of the City Council memorandum approved on August 26, 2014, reduce the Ending Fund Balance by \$3.3 million, resulting in a revised Ending Fund Balance variance of \$2.1 million. As a 2013-2014 reconciling item, this report also includes a downward revenue adjustment to account for revenue that was received in 2013-2014 and no longer expected to be received in 2014-2015 for MTC: The Alameda – A Plan for the Beautiful Way (\$789,000).

This report includes recommended adjustments totaling \$1.2 million to allocate new funding to various projects, including McLaughlin Avenue Pedestrian/Bike Safety Enhancements (\$534,000), Traffic Signal Installation – Douglas and Meridian (\$450,000), and increasing the Route 280/880/Stevens Creek Upgrade project (\$200,000). After accounting for all recommended rebudgets and adjustments, approximately \$160,000 will be added to the Ending Fund Balance for future use. Information on all recommended adjustments to the Building and Structure Construction Tax Fund can be found in *Section IV of this report, Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$48,805	\$52,133	\$3,328	6.8%
Expenditures	\$84,647	\$55,690	(\$28,957)	(34.2%)

Revenue Performance

Revenues generated in the Construction and Conveyance (C&C) Tax Funds in 2013-2014 totaled \$52.1 million and were comprised of Construction and Conveyance tax receipts (\$35.5 million), transfers between funds (\$12.9 million), developer contributions and miscellaneous revenues (\$2.9 million), State and federal grants (\$452,000), and interest earnings (\$353,000). This revenue level is \$3.3 million higher than the budgeted estimate of \$48.8 million. This positive revenue variance is primarily due to higher than budgeted transfers between funds (\$3.0 million), C&C Tax revenue (\$2.0 million), and developer contributions and miscellaneous revenue (\$590,000), partially offset by lower than budgeted grant revenue (\$2.2 million).

Construction and Conveyance Tax revenue collections in 2013-2014, which were almost entirely generated from property transfers, totaled \$35.5 million, an increase of \$1.1 million from the 2012-2013 collection level of \$34.4 million. The 2013-2014 tax receipts represent the highest collection level since the peak years of 2003-2004 to 2006-2007 (when collections exceeded \$38.0 million annually, peaking at \$49.0 million in 2005-2006). Changes in home prices and the number of sales are major drivers of C&C Tax receipts. The median home price for single family homes within the City increased from \$732,500 in June 2013 to \$795,400 in June 2014, an increase of 8.6%. The June 2014 median home price for single family homes represents a record-setting high. In addition, the amount of time it takes to sell a home (single-family and multi-family dwelling units) has slightly dropped in the past year from 22 days in June 2013 to 20 days in June 2014. The June 2014 figure represents the shortest duration of time homes have stayed on the market since August 2005, when it took only 19 days to sell a home. The number of home sales (single-family and multi-family dwelling units), however, has decreased slightly over the past year (3.3%) from 8,091 sales in 2012-2013 to 7,824 sales in 2013-2014. The number of home sales have consistently decreased compared to prior year activity since 2011-2012 (which had slight growth over 2010-2011).

When the 2013-2014 revenue estimate was initially developed, it was anticipated that C&C receipts would drop to \$30.0 million, which was a 12.8% decrease from the 2012-2013 collection level of \$34.4 million. The budgeted estimate was increased to \$33.5 million through a City Council memorandum approved on September 9, 2014. The 2014-2015 Adopted Capital Budget, however, included a \$37.0 million estimate for the 2013-2014 C&C Tax revenue. Therefore, while revenues received were higher

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CONSTRUCTION AND CONVEYANCE TAX FUNDS

Revenue Performance

than the revised budgeted estimate, they fell slightly short (\$1.5 million) of the estimate used to develop the 2014-2015 Adopted Capital Budget. This lower collection level was factored into the Ending Fund Balance calculations for each of the C&C Tax Funds.

Grant revenue fell below budgeted levels by \$2.2 million as many of the grants are paid on a reimbursement basis and the work on the eligible projects has not yet been completed. A portion of this grant revenue was rebudgeted to 2015-2016 as part of the 2014-2015 budget process (\$300,000), with an additional \$382,000 recommended to be rebudgeted to 2014-2015 as part of this report. In addition, grant revenue totaling \$1.0 million was budgeted in 2013-2014 for the Three Creeks Trail (Proposition 40 - \$350,000 and Proposition 84 - \$697,000). However, as this funding will be received on a reimbursement basis, and the project is currently on hold pending the outcome of an Environmental Impact Report (EIR), there is no current estimate for when the grant funding will be received. Once the EIR is complete and an updated project scope and construction schedule are determined, the budgeted grant revenue will be revised accordingly. Finally, grant revenue totaling \$700,000 was budgeted to be received in 2013-2014 from the Habitat Conservation Fund for the Coyote Creek Trail. The grant revenue is now anticipated to only total \$200,000; however, as this project is currently on hold pending design approval from the Santa Clara Valley Water District, it is not known when the grant revenue will be received. Once the design process is complete and an updated project scope and construction schedule is determined, the budgeted grant revenue will be revised accordingly.

Developer contributions and miscellaneous revenue totaled \$2.9 million in 2013-2014. The most significant contribution to this revenue source was the Silicon Valley Community Foundation, which totaled \$1.8 million for the Allen at Steinbeck School Soccer Field project (Council District 10 Construction and Conveyance Tax Fund). Developer contributions and miscellaneous revenue exceeded budgeted levels by \$590,000. The higher than anticipated revenue is primarily due to \$295,000 being received for the sale of former fire stations (Fire Construction and Conveyance Tax Fund) and \$200,000 received for the fire insurance reimbursement of partial costs related to the Family Camp Rim Fire project (Parks City-Wide Construction and Conveyance Tax Fund).

The 2013-2014 revenues of \$52.1 million were \$3.3 million above the 2012-2013 level of \$48.8 million primarily due to higher developer contributions and miscellaneous revenue (\$2.6 million), stronger Construction and Conveyance Tax receipts (\$1.1 million), and higher grant revenue (\$451,000), partially offset by lower transfers (\$978,000).

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Expenditure Performance

In 2013-2014, capital project expenditures and transfers to other funds totaled \$55.7 million across the 17 Construction and Conveyance Tax funds (Council Districts 1-10, Parks City-Wide, Parks Central, Park Yards, Fire, Library, Service Yards, and Communications). This expenditure level is \$29.0 million (34.2%) below the budgeted expenditure level of \$84.6 million, and is primarily the result of unexpended capital project funds. A portion of these expenditure savings were anticipated and the funds were rebudgeted or redistributed during the 2014-2015 budget process (\$23.3 million) or are recommended to be rebudgeted as part of this report to complete the projects (\$2.2 million). After these adjustments are considered, the expenditure variance is \$3.4 million or 4.0%.

The following is a list of projects in which unexpended balances in 2013-2014 exceeded \$500,000:

		<u>(\$000s)</u>
Council District 4:	Agnews Property Acquisition	\$ 1,291
	TRAIL: Bay Trail Reach 9B Design	550
Council District 5:	TRAIL: Lower Silver Creek Reach 4/5A (Alum Rock Avenue to Highway 680)	792
	Hillview Park Renovation	681
Council District 7:	TRAIL: Three Creeks (Bellevue Park Expansion) Land Acquisition	600
Council District 9:	Camden Pool Renovations	574
City-Wide:	Coleman Soccer Fields	2,339
Fire:	Fire Facilities Remediation	1,031
	Fire Apparatus Replacement	564
Library:	Materials Handling Technology	2,600
	Acquisition of Materials	815
	Branch Libraries FF&E	807
Total		\$12,644

Explanations for projects with significant variances are summarized below and organized by each Construction and Conveyance Tax Fund.

- The Agnews Property Acquisition project had an expenditure variance of \$1.3 million due to site demolition not yet occurring. The property has been secured and demolition work is anticipated to begin in 2014-2015. A recommendation is included in this report to rebudget the unexpended funds to 2014-2015.

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- The TRAIL: Bay Trail Reach 9B Design project had an expenditure variance of \$550,000. Due to insufficient funding being available for the design and construction of the trail segment, this project is no longer proceeding. This expenditure variance was anticipated and redistributed as part of the 2014-2015 budget process.
- The TRAIL: Lower Silver Creek Reach 4/5A (Alum Rock Avenue to Highway 680) project had an expenditure variance of \$792,000 due to delays with the Santa Clara Valley Water District approving the design of the trail segment. The design issues are currently being addressed and it is anticipated the project will resume in 2014-2015. This expenditure variance was anticipated and \$790,000 was rebudgeted as part of the 2014-2015 budget process.
- The Hillview Park Renovation project had an expenditure variance of \$681,000 due to delays in completing the design work for the renovated park. It is anticipated that construction of the park will begin in February 2015 and the project will be complete in June 2015. An expenditure variance of \$689,000 was anticipated and rebudgeted as part of the 2014-2015 budget process. An additional budget adjustment is recommended as part of this report to reduce the project (\$8,000) as part of the rebudget true-up adjustments.
- The TRAIL: Three Creeks (Bellevue Park Expansion) Land Acquisition allocation had an expenditure variance of \$600,000 due to property acquisition taking longer than estimated. This expenditure variance was anticipated and rebudgeted as part of the 2014-2015 budget process.
- The Camden Pools Renovation project had an expenditure variance of \$574,000 due to the design process taking longer than initially estimated. This expenditure variance was anticipated and rebudgeted as part of the 2014-2015 budget process.
- The Coleman Soccer Fields project had an expenditure variance of \$2.3 million due to delays occurring during the construction of the soccer fields. This expenditure variance was anticipated and rebudgeted as part of the 2014-2015 budget process.
- The Fire Facilities Remediation allocation had an expenditure variance of \$1.0 million due to unexpected delays in the remediation of Fire Station 16. Recently, construction plans were completed for Fire Station 16 and pending final approval, construction is expected to begin fall 2014. An expenditure variance of \$931,000 was anticipated and rebudgeted as part of the 2014-2015 budget process. The remaining unexpended funds (\$100,000) are recommended to be rebudgeted to 2014-2015 as part of this report.

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Expenditure Performance

- The Fire Apparatus Replacement allocation had an expenditure variance of \$564,000. Tools and equipment required to equip five new apparatus were ordered in 2013-2014, however, the costs to equip them will not occur until the apparatus are delivered (winter 2014 and spring 2015). This expenditure variance was anticipated and rebudgeted as part of the 2014-2015 budget process.
- The Materials Handling Technology project had an expenditure variance of \$2.6 million. In 2013-2014, the Library Department experienced a number of staff vacancies, which resulted in several projects being delayed. The Department has since filled those vacancies and efforts to research and implement a Radio Frequency Identification system for library materials will resume in 2014-2015. The \$2.6 million expenditure variance was partially anticipated and rebudgeted to 2014-2015 (\$1.0 million) and remaining funds were redistributed to the Ending Fund Balance for future project needs (\$1.6 million) as part of the 2014-2015 budget process.
- The Acquisition of Materials allocation provides funding for new materials at all library facilities to adequately provide new and popular materials to meet the demands and needs of the community. This project had an expenditure variance of \$815,000, of which \$250,000 is recommended to be rebudgeted to 2014-2015 as part of this report.
- The Branch Libraries Fixtures, Furnishings and Equipment (FF&E) allocation provides funding to purchase the necessary fixtures, furnishings, and equipment for new and remodeled General Obligation Bond-funded libraries. This project had an expenditure variance of \$807,000 in 2013-2014, of which \$621,000 was anticipated and rebudgeted as part of the 2014-2015 budget process. The remaining unexpended funds (\$186,000) are recommended to be rebudgeted to 2014-2015 as part of this report for FF&E purchases for the new Southeast Branch Library.

The 2013-2014 expenditure level of \$55.7 million was \$6.4 million above the 2012-2013 expenditure level of \$49.3 million. This variance is the result of several projects making significant progress in 2013-2014. These projects (and their 2013-2014 expenditures) include Allen at Steinbeck School Soccer Field, a new lighted artificial turf soccer field (\$4.0 million), Roberto Antonio Balermينو Park, a new 1.8 acre neighborhood park (Council District 7 C&C Tax Fund - \$2.1 million), and West Evergreen Park, a new 1.0 acre neighborhood park (Council District 7 C&C Tax Fund - \$1.3 million). It is anticipated these projects will complete in early 2014-2015.

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**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$129,629	\$72,073	\$78,192	\$6,119	(\$2,198)	\$3,921	3.0%

The 2013-2014 Ending Fund Balance of \$78.2 million was \$6.1 million above the estimate used to develop the 2014-2015 Adopted Capital Budget. This variance was due primarily to lower than anticipated project expenditures (\$7.3 million) and higher than anticipated developer contributions and miscellaneous revenue (\$540,000), partially offset by lower than anticipated Construction and Conveyance Tax revenue (\$1.5 million) and lower than anticipated transfers between funds (\$233,000). A portion of expenditure savings are recommended for rebudget as part of this report (\$2.2 million), which brings the revised Ending Fund Balance variance to \$3.9 million.

This report also includes recommended adjustments totaling \$2.9 million in several Construction and Conveyance Tax funds to allocate new funding to various projects, including the following: TRAIL: Three Creeks (Lonus Street to Guadalupe River) Design (CD 6 C&C Tax Fund - \$805,000); Vietnamese Cultural Heritage Garden Reserve (Parks City-Wide C&C Tax Fund - \$700,000); TRAIL: Three Creeks Pedestrian Bridge EIR (CD 6 C&C Tax Fund - \$425,000); Happy Hollow Park and Zoo Enhancements (Parks City-Wide C&C Tax Fund - \$380,000); Communications Equipment Replacement and Upgrade (Communications C&C Tax Fund - \$300,000); Bridges Academy Field Enhancements (CD 7 C&C Tax Fund - \$250,000); Environmental Mitigation Maintenance and Monitoring (Parks City-Wide C&C Tax Fund - \$170,000); St. James Park Improvements (CD 3 C&C Tax Fund - \$100,000); and Family Camp Capital Improvements Reserve (Parks City-Wide C&C Tax Fund - \$45,000). In addition, recommendations are included in this report to eliminate the ACE Charter School (Franklin McKinley School District) Reserve (CD 7 C&C Tax Fund – \$250,000) and to transfer \$85,000 from the General Fund to the Council District 10 C&C Tax Fund for the Leland Sports Field repayment. Information on these adjustments can be found in *Section IV of this report, Recommended Budget Adjustments and Clean-up/Rebudget Actions*. The remaining fund balance is recommended to be allocated to the respective funds' 2014-2015 Ending Fund Balance for future use.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$81,454	\$66,617	(\$14,837)	(18.2%)
Expenditures	\$90,998	\$62,235	(\$28,763)	(31.6%)

Revenue Performance

In 2013-2014, revenues in the Construction Excise Tax totaled \$66.6 million and were generated from the Construction Excise Tax (\$29.3 million), State grants (\$14.7 million), Traffic Impact Fees (\$9.0 million), Santa Clara County (\$5.7 million), developer contributions (\$3.4 million), federal grants (\$2.6 million), Valley Transportation Authority (VTA) (\$1.6 million), and interest earnings (\$346,000). The 2013-2014 revenues were lower than the budget by approximately \$14.8 million, which was primarily due to lower than budgeted receipts of federal grants (\$20.0 million), partially offset by higher than budgeted Construction Excise Tax receipts (\$4.3 million) and State grant receipts (\$1.6 million). Grant-related revenues of \$17.5 million, which were not received in 2013-2014 due to project delays were anticipated and rebudgeted in the development of the 2014-2015 Adopted Budget, and an additional \$2.1 million is recommended to be rebudgeted as part of this report. In addition, \$497,000 in grant revenue anticipated to be received in 2014-2015 was instead received in 2013-2014.

The 2013-2014 revenue level of \$66.6 million was \$11.3 million higher (20.4%) than the 2012-2013 level of \$55.3 million. This increase was primarily a result of increased Construction Excise Tax receipts (\$11.5 million) and State grant receipts (\$5.4 million), partially offset by decreased miscellaneous revenue (including Traffic Impact Fees) (\$6.0 million).

At \$29.3 million, Construction Excise Tax receipts in 2013-2014 were 64.6% higher than 2012-2013 collections (\$17.8 million) and exceeded the budgeted level by \$4.3 million due to higher than anticipated issuances of residential multi-unit permits, as well as commercial valuation. The 2014-2015 Adopted Budget estimate of \$21.0 million does not assume a continuation of such high collection levels and allows for a decrease of 28.3% from 2013-2014 actual tax receipts. The sustainability of the 2013-2014 collection level will be monitored as the year progresses, and an upward adjustment to the 2014-2015 budgeted revenue estimate may be brought forward for City Council consideration at a later date, if 2014-2015 collections continue at the current pace.

Expenditure Performance

In 2013-2014, expenditures totaled \$62.2 million in the Construction Excise Tax Fund. This expenditure level was \$28.8 million (31.6%) below the Modified Budget. A significant portion of the expenditure savings was anticipated and rebudgeted or redistributed as part of the 2014-2015 budget

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CONSTRUCTION EXCISE TAX FUND

Expenditure Performance

process (\$19.5 million). An additional \$7.9 million is recommended to be rebudgeted as part of this report to ensure sufficient funding is available for projects in 2014-2015.

The \$28.8 million variance between budgeted and actual expenditures was caused primarily by the following projects: Pavement Maintenance – Federal (\$7.9 million), Autumn Street Extension (\$3.0 million), Pavement Maintenance – Measure B (\$2.6 million), Bicycle and Pedestrian Facilities (\$2.4 million), Pavement Maintenance – State Gas Tax (\$2.4 million), Innovative Bicycle Detection System (\$1.2 million), Safe Pathways to Diridon Station (\$801,000), Prop 1B Street Maintenance (\$693,000), Bikeways Program (\$625,000), Neighborhood Traffic Calming (\$551,000), Coyote Creek Trail (\$500,000), and other projects totaling \$6.1 million all with variances below \$500,000. The expenditure variances in these projects were primarily attributable to various delays in project delivery, such as minor scope changes, competing workload demands, and unexpected complications in the design and construction process.

The 2013-2014 expenditure level of \$62.2 million was \$18.7 million (43.0%) higher than the 2012-2013 level of \$43.5 million. This variance is primarily due to higher costs associated with Pavement Maintenance – State Route Relinquishment (\$12.4 million) and Pavement Maintenance – City (\$7.8 million).

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$150,914	\$59,511	\$73,874	\$14,363	(\$5,843)	\$8,520	5.6%

The 2013-2014 Ending Fund Balance of \$73.9 million was \$14.4 million above the estimate used to develop the 2014-2015 Adopted Capital Budget. This variance was due to higher than estimated revenues (\$6.5 million) and lower than estimated expenditures (\$7.9 million).

As discussed above, a significant portion of expenditure savings are recommended for rebudget as part of this report (\$7.9 million). This report also includes the rebudget of earned revenue related to several grants (\$2.1 million) that will be received in 2014-2015 for VTA: Santa Clara – Alum Rock/Bus Rapid Transit (\$560,000), Transportation Development Act Grant/Transportation Fund for Clean Air – Bicycle and Pedestrian Facilities (\$542,000), Metropolitan Transportation Commission – San Fernando Street Enhanced Bikeway and Pedestrian Access (\$206,000), One Bay Area Grant – Pedestrian Oriented

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CONSTRUCTION EXCISE TAX FUND

Signals (\$158,000), VTA: BART Construction Management (\$130,000), and various other grants totaling \$490,000. The rebudget of expenditure savings (\$7.9 million) and earned revenue (\$2.1 million) revises the Ending Fund Balance variance to \$8.5 million. As a 2013-2014 reconciling item, this report also includes downward revenue adjustments for federal grant revenue that was received in 2013-2014 and are no longer expected to be received in 2014-2015 for One Bay Area Grant – Pavement Maintenance – Federal (\$483,000) and Climate Initiative Grant – Walk n’ Roll (\$14,000).

This report also includes recommendations to increase Pavement Maintenance – State Gas Tax by \$3.8 million for the additional State gas tax received in 2013-2014; increase Pavement Maintenance – City by \$3.3 million to allocate the additional Construction Excise Tax revenue received in 2013-2014, consistent with the direction in the Mayor’s June Budget Message for Fiscal Year 2014-2015 as approved by the City Council; and increase the Safety – Traffic Signal Rehabilitation appropriation by \$270,000. Other actions are recommended to: increase Inter-Agency Encroachment Permit Revenue by \$650,000 and appropriate these funds to the Inter-Agency Encroachment Permit project; increase the VTA: Santa Clara – Alum Rock Bus Rapid Transit Revenue by \$340,000 and appropriate these funds to Bus Rapid Transit-Santa Clara/Alum Rock; and increase Miscellaneous Revenue by \$232,000 for the cost sharing portion that will be received from the East Side Union High School District and Santa Clara County as well as appropriate \$350,000 to the LED Streetlight Program.

After accounting for all recommended rebudgets and adjustments, approximately \$554,000 will be added to the Ending Fund Balance for future use. Information on all recommended adjustments to the Construction Excise Tax Fund can be found in *Section IV of this report, Recommended Budget Adjustments and Clean-Up/Rebudget Actions*.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION AND CULTURAL AFFAIRS FUND

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$46,705	\$47,041	\$336	0.7%
Expenditures	\$50,386	\$48,337	(\$2,050)	(4.1%)

Revenue Performance

In 2013-2014, revenues totaling \$47.0 million were generated from operating revenues from the City’s convention facilities (\$28.5 million) as managed by Team San Jose, issuing of commercial paper (\$10.0 million), transfers from the Transient Occupancy Tax (TOT) Fund (\$8.5 million), and miscellaneous revenues and interest earnings (\$87,000). The 2013-2014 revenues slightly exceeded the budget estimate by \$336,000 (0.7%) primarily due to the better than expected performance of Team San Jose operating revenues (\$340,000).

The 2013-2014 revenues ended 50.4% (\$15.8 million) above the 2012-2013 level of \$31.3 million due to the issuance of commercial paper (\$10.0 million) for the Convention Center Expansion/Renovation project, increases in operating revenues from the City’s convention and cultural facilities (\$5.6 million), and an increase in the transfer from the TOT Fund (\$1.3 million), partially offset by lower proceeds from City National Bank for naming rights to the Civic Auditorium and the Center for Performing Arts that had been received in 2012-2013 (\$1.2 million).

TOT receipts recognized in the TOT Fund are allocated according to the Council-approved distribution formula to three program categories (San José Convention and Visitors Bureau, Cultural Development, and Convention Facilities Operation Subsidy through a transfer to the Convention and Cultural Affairs Fund). As actual TOT receipts ended 2013-2014 approximately \$670,000 above estimated levels, a recommendation is included in this document, according to the Council-approved distribution formula, to increase the 2014-2015 transfer from the TOT Fund to the Convention and Cultural Affairs Fund by \$335,000. For more information on the 2013-2014 performance of the TOT Fund, please refer to the TOT Fund in this section of the document.

Expenditure Performance

In 2013-2014, expenditures of \$48.3 million were primarily attributed to costs associated with operations and maintenance of the Convention Center and cultural facilities (\$32.0 million); expenses directed toward the Convention Center Expansion/Renovation project (\$10.7 million); fixtures, furnishings and equipment (FF&E) to complete the expanded and remodeled Convention Center (\$715,000); a Transfer to the General Fund (\$1.2 million) for Team San Jose contract oversight, City overhead, cultural facility cost-sharing, and Mexican Heritage Plaza support; and a variety of various

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Expenditure Performance

capital repairs and replacements (\$579,000). Total expenditures were \$2.1 million (4.1%) below the Modified Budget. Significant savings included Rehabilitation/Repair – Structures (\$519,000), Civic Auditorium/Center for the and Mexican Heritage Plaza support; and a variety of various capital repairs and replacements (\$579,000). Total expenditures were \$2.1 million (4.1%) below the Modified Budget. Significant savings included Rehabilitation/Repair – Structures (\$519,000), Civic Auditorium/Center for the Performing Arts Marketing and Capital Improvement (\$426,000), Convention Center Expansion/Renovation (\$200,000), and Miscellaneous Improvements & Repairs (\$116,000). A portion of the \$2.1 million in expenditure savings was anticipated and rebudgeted as part of the development of the 2014-2015 Adopted Budget (\$893,000); additional rebudgets of \$458,000 are recommended and discussed further below.

Expenditures in this fund were \$14.8 million (43.9%) above the 2012-2013 level of \$33.6 million due primarily to higher Expansion and Renovation costs (\$10.6 million), Cultural Facilities Maintenance (\$3.5 million), and Convention Facilities Operations expenses (\$1.6 million) based on the higher activity level.

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustment Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$53,700	\$4,774	\$5,993	\$1,219	(\$458)	\$760	1.4%

The 2013-2014 Ending Fund Balance of \$6.0 million was \$1.2 million above the estimate used to develop the 2014-2015 Adopted Budget. This variance was due to lower than anticipated expenditures across several capital repair related appropriations and the liquidation of prior year encumbrances.

It is recommended that unexpended funds for Rehabilitation/Repair – Structures (\$220,000), Expansion/Renovation (\$120,000), Civic Auditorium/Center for the Performing Arts Marketing and Capital Improvement (\$75,000), Rehabilitation/Repair – Mechanical (\$40,000), Fixtures, Furnishing and Equipment (\$39,000), and CPA Improvement (\$13,000) be rebudgeted as part of the actions included in this report. After including a recommended negative rebudget of \$9,000 to account for higher than estimated spending on miscellaneous capital repairs, the total amount of unexpended funds recommended for rebudget into 2014-2015 is \$458,000, leaving \$760,000 in additional fund balance.

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CONVENTION AND CULTURAL AFFAIRS FUND

A number of actions are recommended in this report to address capital needs, align the budget to the assumption used to develop the 2014-2015 Adopted Budget, and to reconcile various revenues and expenditures.

- An increase of \$405,000 to the Rehabilitation/Repair – Electrical appropriation is recommended to pay for additional work encountered during the upgrade of the audio system that was required as the result of the expansion and renovation of the Convention Center (\$205,000) and the completion of WiFi installation throughout the cultural facilities (\$200,000).
- An increase to the Capital Reserve of \$300,000 to address future capital needs.
- A reconciling adjustment is recommended to account for ticket proceeds that were deposited into this fund that were to be used for the repayment of the \$1.0 million loan from the General Fund to the American Musical Theater (AMT). These funds are generated through the collection by Team San Jose of \$1 per every Broadway San José ticket sold. Since 2009, a total of \$214,000 has been collected from these ticket sales and a budget action is recommended to transfer those funds to the General Fund. A transfer to the General Fund for an additional \$60,000 is recommended to account for anticipated ticket sales in 2014-2015. Therefore, \$274,000 is recommended to be transferred to the General Fund, partially offset by \$60,000 of additional revenue.
- An increase of \$150,000 to the Team San Jose Incentive Fee is recommended to fund the anticipated adjustment to this fee based on the unaudited results regarding the achievement of 2013-2014 performance measures which would generate the maximum incentive fee of \$350,000.
- As discussed above, an increase to the transfer from the TOT Fund of \$335,000 is recommended to reflect the distribution of the additional TOT receipts.

With the rebudgets and adjustments, the 2014-2015 Ending Fund Balance would increase by \$327,000, of which \$300,000 is recommended to be allocated to the Capital Reserve. The remaining \$27,000 would be allocated to the Unrestricted Ending Fund Balance, bringing this figure to \$1.6 million.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

GENERAL OBLIGATION BOND FUNDS

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$10,569	\$1,346	(\$9,223)	(87.3%)
Expenditures	\$36,805	\$22,660	(\$14,145)	(38.4%)

Revenue Performance

The General Obligation Bond (G.O. Bond) Funds consist of the Branch Libraries Bond Projects Fund, Neighborhood Security Act Bond Fund, and Parks and Recreation Bond Projects Fund. All G.O. Bond proceeds have already been issued for the Parks and Recreation Bond Projects Fund; however, \$5.9 million remain to be issued for the Branch Library Bond Projects Fund and \$3.3 million remain to be issued for the Neighborhood Security Act Bond Fund. It is currently anticipated that the remaining G.O. Bond proceeds will be issued in 2014-2015. In 2013-2014, revenues totaled \$1.3 million and were generated primarily from transfers from the Library Construction and Conveyance Tax Fund (\$587,000), the Fire Construction and Conveyance Tax Fund (\$575,000), and the General Fund (\$40,000), as well as interest earnings (\$134,000). Each of the transfers previously listed have a corresponding transfer out of their respective funds, as part of a technical reconciliation to ensure that expenditures in each fund are eligible for reimbursement by the bond trustee. The negative revenue variance of \$9.2 million (87.3%) primarily represents lower than estimated Library bond proceeds (\$5.9 million) and Public Safety bond proceeds (\$3.3 million).

The 2013-2014 revenue of \$1.3 million is \$2.7 million below the 2012-2013 total of \$4.0 million. This decrease is primarily due to revenues received in 2012-2013 from the sale of the original Bascom Branch land (\$2.5 million).

Expenditure Performance

Expenditures in the G.O. Bond Funds totaled \$22.7 million, which includes the Parks and Recreation Bond Projects Fund (\$12.9 million), Neighborhood Security Act Bond Fund (\$6.9 million), and Public Branch Libraries Bond Projects Fund (\$2.9 million). Expenditures in 2013-2014 were \$14.1 million (38.4%) below the Modified Budget due primarily to unexpended capital project funds. A significant portion of the expenditure savings were anticipated and funds were rebudgeted as part of the 2014-2015 budget process (\$12.9 million) or are recommended to be rebudgeted as part of this report (\$1.1 million).

The expenditure variance of \$14.1 million is related to the Southeast Branch (\$10.2 million - Branch Libraries Bond Projects Fund), Soccer Complex (\$1.7 million - Parks and Recreation Bond Projects Fund), and Branch Efficiency Project (\$1.4 million). The construction contract for the Southeast Branch Library was awarded in summer 2014, however, the contract will not be encumbered until fall 2014.

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GENERAL OBLIGATION BOND FUNDS

Expenditure Performance

The Soccer Complex (Coleman Soccer Fields) experienced unanticipated delays during the construction of the fields.

The Branch Efficiency Projects, which will utilize funds to purchase automatic material handling machines as well as other efficiency projects, was not completed in 2013-2014, however, it is anticipated to be completed in 2014-2015.

The 2013-2014 expenditure level of \$22.7 million is \$3.0 million above the 2012-2013 expenditure level of \$19.7 million. This variance is primarily the result of several projects having significant expenditures in 2013-2014, including the Soccer Complex (Coleman Soccer Fields) (Parks and Recreation Bond Projects Fund - \$11.9 million), Fire Station 21 Relocation (Neighborhood Security Act Bond Fund - \$5.6 million), and Southeast Branch (Branch Library Bond Projects Fund - \$1.4 million).

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$62,192	\$29,515	\$30,624	\$1,109	(\$1,128)	(\$19)	(0.0%)

The 2013-2014 Ending Fund Balance of \$30.6 million was \$1.1 million above the estimate used to develop the 2014-2015 Adopted Capital Budget. This variance was primarily due to lower than anticipated project expenditures (\$1.1 million). A significant portion of the expenditure savings are recommended for rebudget as part of this report (\$1.1 million).

It is important to note that the actual 2013-2014 Ending Fund Balance of \$665,000 in the Public Safety Bond Fund was \$126,000 below the estimate used to develop the 2014-2015 Adopted Capital Budget due primarily to higher than estimated expenditures for Fire Station 21 (\$184,000). An increase to the Fire Station 21 Relocation project occurred at the time of the contract award, approved by City Council on June 10, 2014, after the development of the 2014-2015 Budget. To address this higher expenditure level and to rebudget necessary project funds, a downward adjustment to the Fire Station 37 Reserve in the amount of \$188,000 is also included in this report. With this adjustment, the Fire Station 37 Reserve will total \$2.3 million in 2014-2015.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

GENERAL PURPOSE PARKING FUND

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$12,535	\$14,328	\$1,793	14.3%
Expenditures	\$15,300	\$14,449	(\$851)	(5.6%)

Revenue Performance

In 2013-2014, revenues of \$14.3 million were generated from parking garages and lots (\$10.8 million), parking meters (\$2.7 million), Successor Agency to the Redevelopment Agency (SARA) reimbursement (\$656,000), miscellaneous revenue (\$86,000), and interest earnings (\$59,000). The 2013-2014 revenues exceeded the 2013-2014 budget by approximately \$1.8 million (14.3%), primarily due to higher than budgeted revenues from parking garages and lots (\$1.4 million) and parking meters (\$368,000).

The revenue generated from parking activity in 2013-2014 was \$2.2 million (18.1%) above the 2012-2013 revenues of \$12.1 million primarily due to higher revenue from parking garages and lots (\$1.1 million), SARA reimbursement (\$656,000) and parking meters (\$301,000). The increase in parking garages and lots revenue is partially attributable to additional revenue generated at the Market Street/San Pedro Garage (\$596,000) associated with more events, evening and permit activity due to higher building occupancy, and Superior Court construction activity in the area, and the Convention Center Garage (\$330,000) due to additional major events at the Convention Center. Due to better than anticipated Redevelopment Property Tax Trust Fund revenues, the budget was modified to include reimbursement from SARA for a portion of the \$3.4 million support from the General Purpose Parking Fund in 2012-2013 for 4th and San Fernando garage debt service. As discussed below, \$3.4 million was advanced to SARA to ensure payment of the 4th and San Fernando garage debt service in 2013-2014. It also is anticipated that a portion of this payment will be reimbursed in 2014-2015, and actions will be brought forward as necessary upon completion of 2013-2014 SARA financials. In spring 2014, Smart Meters were installed in the Downtown core, which accepted credit card payments and the associated credit card revenue accounted for \$120,000 of the meter revenue increase.

Expenditure Performance

In 2013-2014, expenditures of \$14.4 million were primarily attributed to Department of Transportation (DOT) non-personal/equipment expenditures (\$5.1 million), debt service payments for the 4th and San Fernando garage (\$3.4 million), DOT personal services (\$1.9 million), transfers to the General Fund (\$687,000), and garage elevator updates (\$562,000). Expenditures were \$851,000 (5.6%) below the Modified Budget, with the variance primarily due to savings in various capital projects (\$646,000), DOT non-personal/equipment (\$95,000), Police Parking Garage Security Services (\$39,000), and debt service payments for the 4th and San Fernando garage (\$36,000). Savings in the Parking Capital Program were primarily due to various timing delays and \$567,000 of these savings were rebudgeted to 2014-2015 as

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GENERAL PURPOSE PARKING FUND

Expenditure Performance

part of the 2014-2015 Adopted Capital Budget. Savings in the DOT Non-Personal/Equipment appropriation were attributable to lower costs for contractual services, supplies and materials, and electricity, and savings in the Police Parking Garage Security Services appropriation that resulted from reduced staffing during non-peak winter months, and, on some occasions, not filling all assigned shifts due to Police Department staffing shortages.

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$26,633	\$13,492	\$14,123	\$631	\$0	\$631	2.4%

The 2013-2014 Ending Fund Balance of \$14.1 million was \$631,000 above the estimate used to develop the 2014-2015 Adopted Budget. This variance was primarily due to higher than anticipated revenues from parking garages and lots, and savings in various capital, personal services, and non-personal/equipment expenditures.

As described in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions* section of this document, this report includes a recommendation to increase the Minor Parking Facility Improvements appropriation by \$500,000 to address significant deferred maintenance at the City’s parking garages including garage painting, energy efficiency lighting upgrades, asphalt surface replacement and repair, and concrete surface repair. After adjusting for this action as well as other clean-up actions, approximately \$132,000 will be added to the 2014-2015 Ending Fund Balance for future use.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$130,896	\$126,833	(\$4,063)	(3.1%)
Expenditures	\$132,806	\$126,589	(\$6,217)	(4.7%)

Revenue Performance

In 2013-2014, revenues totaled \$126.8 million and were generated from the following: Recycle Plus Collection Charges (\$105.4 million), Lien-Related Charges (\$6.6 million), New Market Tax Credit (NMTC) Proceeds/Reimbursements (\$6.2 million), AB939 Fees (\$3.6 million), Hauler Payments (\$2.7 million), and other sources of revenue (\$2.4 million). The 2013-2014 revenues fell short of the budget by \$4.1 million (3.1%) primarily due to a deferral of the Economic Development Administration (EDA) grant revenue (\$2.4 million) to 2014-2015 that will be used for the installation of a photovoltaic system at the Environmental Innovation Center (EIC) in 2014-2015 and lower NMTC Proceeds/Reimbursement (\$2.1 million). The delay of the Environmental Innovation Center (EIC) project located on Las Plumas Avenue has delayed NMTC proceeds.

The EIC project has been completed and opened on May 30, 2014, and it is anticipated that \$2.1 million in NMTC proceeds will be received in 2014-2015. The EIC advances the City's commitment to San José's Green Vision with a 10,000 square foot permanent Household Hazardous Waste drop-off facility for the convenient and safe disposal of common toxic items; flexible laboratory and office space for members of Prospect Silicon Valley to test and demonstrate emerging technologies in energy, building, and transportation; and a Habitat for Humanity ReStore to sell discounted, new, and surplus construction materials that would likely otherwise be landfilled.

This 2013-2014 revenue collection level was \$4.3 million (3.5%) above the 2012-2013 level of \$122.5 million, due primarily to the receipt of an increase in NMTC Proceeds/Reimbursement (\$3.5 million) and the negotiated payment from the hauler associated with contractual savings in prior years that was initiated in 2013-2014 (\$2.7 million), partially offset by lower than anticipated AB939 Fees (\$1.7 million).

Expenditure Performance

In 2013-2014, expenditures of \$126.6 million were attributed primarily to the Single-Family Dwelling Recycle Plus contracts (\$51.1 million), Yard Trimmings/Street Sweeping contract (\$22.5 million), Multi-Family Dwelling Recycle Plus contracts (\$17.8 million), IDC Disposal Agreement (\$8.9 million), Environmental Services Department (ESD) Personal Services (\$6.3 million), Household Hazardous Waste Las Plumas Facility (\$3.2 million), and ESD Non-Personal/Equipment (\$3.0 million) appropriations.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Expenditure Performance

In 2013-2014, expenditures were \$6.2 million (4.7%) below the Modified Budget. The most significant savings were in the Household Hazardous Waste Las Plumas Facility (\$3.2 million), ESD Personal Services (\$863,000), and ESD Non-Personal/Equipment (\$872,000) appropriations. The unexpended funds in the Household Hazardous Waste Las Plumas Facility (\$3.2 million) were due to a delay in completing the EIC, primarily with regard to the installation of a photovoltaic system; this amount has been rebudgeted to 2014-2015 in order to complete this project.

Expenditures in this fund, including transfers, were \$220,000 (0.2%) above the 2012-2013 level of \$126.4 million, due primarily to the EIC (Miscellaneous Funding Sources) (\$2.8 million), Integrated Billing System (IBS) Commercial Paper Repayment (\$1.4 million), and Single Family Dwelling Recycle Plus contracts (\$1.4 million) appropriation expenditures in 2013-2014, partially offset by lower Household Hazardous Waste Last Plumas Facility (\$4.0 million) and ESD Non-Personal/Equipment (\$1.0 million) expenditures than those which occurred in 2012-2013.

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance from Estimate	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$142,999	\$13,742	\$13,267	(\$475)	\$2,033	1,558	1.1%

The 2013-2014 Ending Fund Balance of \$13.3 million was \$475,000 below the estimate used to develop the 2014-2015 Adopted Budget. This is attributed to lower revenues of \$2.2 million and higher expenditures of \$1.5 million, partially offset by a liquidation of encumbrances (\$3.2 million). In 2013-2014, revenues fell short by approximately \$2.2 million compared to estimated levels, due primarily to reimbursements that were not received from the NMTC Proceeds/Reimbursement and Developer Fee (\$2.3 million) and lower AB 939 fees (\$206,000), partially offset by higher lien-related fees (\$305,000). Expenditures in 2013-2014 were higher than the estimate by approximately \$1.5 million, due primarily to increased spending in the Household Hazardous Waste Las Plumas Facility (\$2.1 million) appropriation, partially offset by expenditure savings in the ESD Non-Personal/Equipment (\$343,000) and Personal Services (\$224,000) appropriations. The higher expenditure level was more than offset by the \$3.2 million reduction in encumbrances.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Ending Fund Balance Performance

Budget actions are recommended to rebudget revenue that is now anticipated to be received in 2014-2015 for the NMTC Proceeds/Reimbursements (\$2.1 million) and NMTC Developer Fee (\$250,000) appropriations upon completion of the Household Hazardous Waste Las Plumas Facility project. In addition, it is recommended that funds be rebudgeted in the Household Hazardous Waste Las Plumas Facility (\$279,000) and EIC (Miscellaneous Revenues) (\$25,000) appropriations, due to project delays, in order to complete the project in 2014-2015. A total of \$3.2 million has already been rebudgeted for the Household Hazardous Waste Las Plumas Facility appropriation in the 2014-2015 Adopted Operating Budget, and the additional rebudget recommended in this report for this appropriation is needed to reconcile to actual expenditures. The net revenue and expenditure rebudget adjustments result is an increase to the fund balance of approximately \$2.0 million.

As described in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions* section of this document, this report includes recommended adjustments to more accurately reflect anticipated 2014- 2015 expenditures. As part of the 2014-2015 Adopted Budget, the ESD Non-Personal/Equipment appropriation includes \$626,000 for City Facilities Recycle Plus (Late Fees); however, \$625,000 was also included in a separate City Facilities Recycle Plus (Late Fees) appropriation. In order to correct this double appropriation of funds, a downward adjustment of \$626,000 to the ESD Non-Personal/Equipment appropriation is included, as well as an upward adjustment of \$1,000 to the City Facilities Recycle Plus (Late Fees) appropriation.

Additionally, an upward adjustment of approximately \$4,000 to the Planning, Building and Code Enforcement Non-Personal/Equipment appropriation is included to cover this fund's share of the purchase of user licenses for the city-wide Development Services permitting system (AMANDA).

After accounting for all recommended rebudgets and other adjustments, approximately \$2.2 million will be added to the 2014-2015 Ending Fund Balance. Of this amount, it is recommended that \$2.0 million be set aside in the Operations and Maintenance Reserve that is included in the Ending Fund Balance, in order to bring this reserve closer to the goal of reserving two months of operating expenditures. The Unrestricted Ending Fund Balance will increase by \$160,000.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

LOW AND MODERATE INCOME HOUSING ASSET FUND

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$13,169	\$16,575	\$3,406	25.9%
Expenditures	\$20,039	\$8,552	(\$11,487)	(57.3%)

Revenue Performance

In 2013-2014, revenues totaled \$16.6 million and were generated by: loan repayments (\$16.4 million), interest earnings (\$101,000), miscellaneous revenue (\$52,000), multi-family housing fees and charges (\$31,000), and homebuyer subordination fees (\$26,000) from the \$630 million multi-family project loan portfolio. The 2013-2014 residual receipt loan repayments came in 36.4% above the estimate of \$12.0 million as borrowers sought to refinance at historically low interest rates in anticipation of rising future interest rates, as the Federal Reserve gradually cuts back on its purchases of mortgage bonds. This repayment level is 14.9% below record 2012-2013 residual receipt loan repayments totaling \$19.5 million.

Expenditure Performance

Expenditures of \$8.6 million were \$11.5 million or 57.3% lower than the Modified Budget of \$20.0 million. Savings of \$10.8 million in the Housing Loans and Grants appropriation of \$12.5 million is due to delays in beginning the 2nd Street Apartments, North San Pedro Townhomes, and other housing projects. These savings in the Housing Loans and Grants appropriation are recommended to be set aside in a reserve for these and other pipeline housing projects that are not anticipated to move forward until at least 2015-2016.

In 2013-2014 expenditures were 76.0% lower than 2012-2013 expenditures of \$35.6 million. Expenditures in the Housing Loans and Grants appropriation were 89.2% lower than the 2012-2013 amount of \$15.9 million. Also, payments to the Successor Agency to the Redevelopment Agency were 99.7% lower than the 2012-2013 total of \$11.7 million.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

LOW AND MODERATE INCOME HOUSING ASSET FUND

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$34,799	\$16,338	\$29,829	\$13,491	\$0	\$13,491	38.8%

The 2013-2014 Ending Fund Balance of \$29.8 million was \$13.5 million above the estimate used to develop the 2014-2015 Adopted Budget. Of this Ending Fund Balance, \$10.8 million is recommended to be allocated to the Housing Project Reserve for future use. Several clean-up actions are also recommended to establish the Retiree Healthcare Solutions Reserve (\$136,000, of which \$81,000 represents contributions for 2013-2014 from Ending Fund Balance and \$55,000 represents the 2014-2015 contributions from department personal services appropriations), increase the Successor Agency to the Redevelopment Agency YWCA loan repayments (\$50,000), fund Housing Department furniture and equipment replacements (\$50,000), and eliminate the Employee Compensation Planning Reserve (\$21,000). After accounting for all recommended adjustments, the 2014-2015 Ending Fund Balance will increase by \$2.5 million.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

MULTI-SOURCE HOUSING FUND

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$28,880	\$16,159	(\$12,721)	(44.1%)
Expenditures	\$35,427	\$7,084	(\$28,343)	(80.0%)

Revenue Performance

In 2013-2014, revenues totaled \$16.2 million and were generated by in-lieu fee revenue (\$7.8 million), grant revenue (\$4.4 million), loan repayments (\$2.5 million), Recovery Act - Neighborhood Stabilization Program (NSP) 2 (\$751,000), rental rights and referral fees (\$518,000), medical respite facility (\$125,000), and interest (\$89,000). The 2013-2014 collection level was 44.1% below the \$28.9 million Modified Budget. The lower than anticipated revenue was primarily a result of changes (\$5.7 million) to the San José NSP 2 consortium agreement in which program income is to be returned and managed by the Housing Trust of Silicon Valley as the lead agency and lower than anticipated grant revenue (\$5.4 million). In 2013-2014 revenue collections were 48.6% below the 2012-2013 total revenue of \$31.4 million. In 2013-2014, revenue was lower for the NSP 2 program (\$7.6 million) and Development Agreement (\$6.9 million).

Expenditure Performance

Actual 2013-2014 expenditures totaled \$7.1 million, or 80.0% lower than the Modified Budget of \$35.4 million. This variance is primarily due to various project delays in the Housing Loans and Grants appropriation (\$14.6 million), and the Capital Grant Program appropriation (\$4.8 million). A majority of the savings (\$13.0 million) in the Housing Loans and Grants appropriation is recommended to be set aside in a reserve for pipeline housing projects including Leigh Avenue and supportive housing projects for the homeless. The savings in the Capital Grant Program are recommended to be rebudgeted in this report. Expenditures were also lower (\$5.7 million) due to the transfer of the San José NSP 2 program to the Housing Trust of Silicon Valley. In 2013-2014 expenditures were 57.8% lower than 2012-2013 expenditures of \$16.8 million. In 2013-2014, there were lower expenditures for the NSP 2 program (\$7.8 million).

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

MULTI-SOURCE HOUSING FUND

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$47,497	\$9,830	\$27,747	\$17,917	(\$4,775)	\$13,142	27.7%

The 2013-2014 Ending Fund Balance of \$27.7 million was \$17.9 million above the \$9.8 million estimate used to develop the 2014-2015 Adopted Budget. Of this Ending Fund Balance, a rebudget for the Capital Grant Program (\$4.8 million) is recommended. An additional \$13.0 million is recommended to be allocated to the Housing Project Reserve for future use as mentioned above.

After accounting for all recommended rebudgets and adjustments, approximately \$142,000 will be added to the Ending Fund Balance for future use. Information on all recommended adjustments to the Multi-Source Housing Fund can be found in *Section IV - Recommended Budget Adjustments and Clean-Up/Rebudget Actions* of this document.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE/SANTA CLARA TREATMENT PLANT CAPITAL FUND

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$65,650	\$67,175	\$1,525	2.3%
Expenditures	\$145,249	\$89,968	(\$55,281)	(38.1%)

Revenue Performance

In 2013-2014, revenues totaled \$67.2 million and were generated primarily from a transfer from the Sewer Service and Use Charge Fund (\$34.6 million), contributions from the tributary agencies for equipment projects and debt service payments (\$22.5 million), federal grants (4.2 million), a transfer from the Treatment Plant Connection Fee Fund (\$3.1 million), and Santa Clara Valley Water District (SCVWD) contributions (\$689,000). This revenue level was \$1.5 million (2.3%) above the budgeted estimate, mainly due to higher receipts of grants from the U.S. Bureau of Reclamation (\$3.9 million) and SCVWD contributions (\$689,000), partially offset by lower than budgeted contributions from the tributary agencies (\$3.1 million). Contributions from the tributary agencies reflect the true cost of their share of projects and equipment. Fluctuations in this revenue stream can be the result of billing cycles, project timing, and actual versus budgeted project costs.

The 2013-2014 collection level was \$25.3 million (60.6%) above the 2012-2013 level of \$41.8 million, due primarily to higher contributions from the tributary agencies for equipment projects (\$17.7 million) and a higher transfer from the Sewer Service and Use Charge Fund (\$11.3 million) in 2013-2014, partially offset by lower U.S. Bureau of Reclamation Grant funds (\$3.2 million).

Expenditure Performance

In 2013-2014, expenditures of \$90.0 million were primarily attributed to capital improvement projects (\$71.6 million) and debt service payments (\$18.3 million). This expenditure level was \$55.3 million (38.1%) below budget. The largest projects included the Energy Generation Improvements (\$18.4 million), Combined Heat and Power Equipment Repair & Rehab (\$14.9 million), Digester Rehabilitation (\$12.4 million), Program Management (\$8.3 million), Revised South Bay Action Plan – SBWR Extension (\$4.5 million), Plant Infrastructure Improvements (\$2.9 million), Treatment Plant Distributed Control System (\$2.5 million), Treatment Plant Fire Main Replacement (\$1.9 million), SBWR Master Plan (\$1.4 million), and Urgent and Unscheduled Treatment Plant Rehabilitation (\$1.1 million). Projects with the largest amounts of unused funding at the end of 2013-2014 included Energy Generation Improvements (\$14.8 million), Headworks No. 2 Enhancement (\$7.8 million), Revised South Bay Action Plan – SBWR Extension (\$3.7 million), Secondary and Nitrification Clarifier Rehabilitation (\$3.2 million), Advanced Process Control and Automation (\$2.7 million), Plant Electrical

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE/SANTA CLARA TREATMENT PLANT CAPITAL FUND

Expenditure Performance

Reliability (\$2.6 million), SBWR System Reliability and Infrastructure Replacement (\$2.3 million), and Plant Infrastructure Improvements (\$2.1 million). Of the \$55.3 million in savings, approximately \$44.3 million was rebudgeted for use in 2014-2015 as part of the 2014-2015 Adopted Capital Budget. After accounting for these rebudgets, approximately \$11.0 million in savings remained at the end of 2013-2014. Additional net rebudgets of \$2.7 million are recommended in this document, thereby reducing the remaining expenditure variance to \$8.3 million.

Expenditures in this fund were \$47.0 million (109.6%) higher than the 2012-2013 level of \$42.9 million, due primarily to higher expenditures in Energy Generation Improvements (\$17.2 million), Combined Heat & Power Equipment Repair & Rehab (\$14.3 million), Digester & Thickener Facility Upgrade (\$12.3 million), and Program Management (\$7.3 million), partially offset by lower expenditures in Plant Backup Water Supply (\$1.3 million), Treatment Plant Engine Rebuild (\$899,000), and Plant Electrical Reliability (\$859,000).

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustment)
\$210,461	\$105,387	\$122,404	\$17,017	(\$2,670)	\$14,347	6.8%

The 2013-2014 Ending Fund Balance of \$122.4 million was \$17.0 million above the estimate used to develop the 2014-2015 Adopted Budget, due primarily to increased U.S. Bureau of Reclamation grant revenue (\$3.9 million) and lower expenditures in the Headworks No. 2 Enhancement (\$7.8 million), Energy Generation Improvements (\$5.1 million), Plant Infrastructure Improvements (\$1.0 million), Plant-wide Flowmeter Replacement Program (\$1.0 million), Alternative Disinfection (\$980,000), and Program Management (\$945,000) projects. This was partially offset by decreased revenue in contributions from the tributary agencies for projects and equipment (\$3.1 million).

This document recommends rebudgets of \$2.7 million for a number of projects, including Program Management (\$820,000), Plant Infrastructure Improvements (\$619,000), Equipment Replacement (\$550,000), Preliminary Engineering (\$500,000), Digester Rehabilitation (\$115,000), and Plant Backup Water Supply (\$109,000). The remaining variance of \$14.3 million is recommended to be allocated to the 2014-2015 Ending Fund Balance for future use.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE/SANTA CLARA TREATMENT PLANT OPERATING FUNDS

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$202,171	\$212,085	\$9,914	4.9%
Expenditures	\$223,066	\$215,220	(\$7,846)	(3.5%)

Revenue Performance

The San José/Santa Clara Treatment Plant operating funds consist of the Sewer Service and Use Charge Fund, the San José/Santa Clara Treatment Plant Operating Fund, the Sewage Treatment Plant Connection Fee Fund, and the San José/Santa Clara Treatment Plant Income Fund. In 2013-2014, gross revenues in these funds totaled \$212.1 million and were generated primarily from sewer service and use charges for residential (\$104.7 million), commercial (\$22.6 million), and industrial (\$3.9 million) users; a transfer from the Sewer Service and Use Charge (SSUC) Fund (\$41.0 million) to the San José/Santa Clara Treatment Plant Operating Fund; contributions from tributary agencies (\$16.1 million); contributions from the City of Santa Clara (\$10.9 million); recycled water sales and rebates (\$6.3 million); and Connection Fees (\$5.4 million).

Revenue collections ended the year \$9.9 million (4.9%) above budget, due primarily to higher connection fee collections (\$3.7 million), sewer service and use charge collections for commercial users (\$3.5 million), recycled water sales and rebates (\$2.3 million), and contributions from the City of Santa Clara (\$725,000). However, the 2013-2014 combined revenue level was \$2.8 million (1.3%) below the 2012-2013 level of \$214.9 million, due primarily to a lower transfer to the SSUC Fund (\$8.0 million) and a lower Fiber Optics Fund loan repayment (\$2.2 million), partially offset by higher connection fee collections (\$3.1 million), recycled water sales and rebates (\$2.1 million), and contributions from the City of Santa Clara (\$1.0 million).

Expenditure Performance

In 2013-2014, gross expenditures of \$215.2 million were primarily attributed to: Transfers from the Sewer Service and Use Charge Fund to the Treatment Plant Operating Fund (\$41.0 million), Treatment Plant Capital Fund (\$34.6 million), and Sewer Service and Use Charge Capital Fund (\$23.6 million); Environmental Services Department (ESD) personal services (\$42.7 million) and non-personal/equipment (\$32.8 million); overhead reimbursements (\$13.0 million); and Department of Transportation personal services (\$10.6 million) and non-personal/equipment (\$6.3 million).

Expenditures ended the year \$7.8 million (3.5%) below the Modified Budget due primarily to savings in the ESD non-personal/equipment (\$2.8 million), Department of Transportation (DOT) non-personal/equipment (\$2.2 million), ESD personal services (\$733,000), and major litigation costs (\$600,000).

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE/SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Expenditure Performance

In 2013-2014, expenditures were \$7.0 million (3.4%) above the 2012-2013 level of \$208.2 million, due primarily to higher expenditures in ESD Personal Services (\$3.5 million), Overhead (\$2.3 million), and Workers' Compensation Claims (\$1.1 million). Expenditures in the ESD Personal Services have grown due, in large part, to a significant decrease in vacancies at the Regional Wastewater Facility (RWF).

In 2013-2014, working with the Human Resources Department, ESD focused recruitment and outreach efforts to fill vacancies at the RWF. These efforts resulted in a reduction in the vacancy rate for RWF positions from 26.5% in September 2013 to 19.4% in September 2014. More specifically, significant vacancies have been filled among the five critical classifications (plant operators, plant mechanics, industrial electricians, instrument control technicians, and heavy diesel equipment operators/mechanics) at the RWF, resulting in a reduction in the vacancy rate for these classifications from 23.2% to 16.8% over the same time period.

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$297,000	\$90,739	\$96,128	\$5,389	(\$270)	\$5,119	1.7%

The 2013-2014 Ending Fund Balance of \$96.1 million was \$5.4 million above the estimate used to develop the 2014-2015 Adopted Budget, due primarily to liquidated encumbrances (\$4.2 million), lower than estimated expenditures in the ESD Non-Personal/Equipment (\$1.3 million) appropriation in the Treatment Plant Operating Fund, and DOT Personal Services (\$475,000) appropriation in the Sewer Service and Use Charge Fund. These were partially offset by lower than estimated revenues in connection fee collections (\$607,000) in the Treatment Plant Connection Fee Fund.

It is recommended that \$270,000 be rebudgeted to the ESD Non-Personal/Equipment appropriation to fund a wastewater flow analysis for the San José/Santa Clara Regional Wastewater Facility. This funding was originally identified in the 2013-2014 budget; however, due to staffing transitions, it was not encumbered prior to the end of 2013-2014. This action leaves a revised fund balance of approximately \$5.1 million.

It is also recommended as part of this report, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, that \$200,000 in revenue be recognized in the Sewer Service and Use Charge Fund for Burrowing Owl Habitat Management and appropriated in the ESD Non-Personal/Equipment appropriation. On June 17, 2014, Council approved an agreement with Cisco Systems, Inc. for the donation and transfer of 21.4 acres of

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SAN JOSE/SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Ending Fund Balance Performance

land in the Alviso area to the City of San José. The property, adjacent to the owl habitat identified within the Plant Master Plan, will be added to the Master Plan owl habitat. The property is to remain as open space and wetlands and is to be used for and maintained as habitat for the burrowing owls. Upon completion of the transfer of the property to the City and the close of escrow, the City of San José will receive a one-time payment of \$200,000 from the North First Street Investors and the North First Developers escrow funds to maintain the property.

After accounting for all recommended rebudgets and other adjustments, approximately \$5.1 million will be added to the 2014-2015 Ending Fund Balance. Of this amount, it is recommended that \$638,000 be set aside in the Sewer Service and Use Charge Fund's Operations and Maintenance Reserve and \$175,000 in the Treatment Plant Operating Fund's Operations and Maintenance Reserve that are included in the Ending Fund Balances, in order to bring those reserves up to the goal of reserving two months of operating expenditures. Additionally of this amount, it is recommended that the Treatment Plant Expansion Reserve in the Treatment Plant Connection Fee Fund be decreased by \$909,000 and the Unrestricted Ending Fund Balance be increased by a total of \$5.1 million across the Sewer Service and Use Charge Fund (\$1.2 million) and the Treatment Plant Operating Fund (\$3.9 million).

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL FUNDS

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$25,780	\$26,290	\$510	2.0%
Expenditures	\$119,423	\$54,186	(\$65,237)	(54.6%)

Revenue Performance

The Sanitary Sewer Capital Program includes the Sewer Service and Use Charge Capital Fund and the Sanitary Sewer Connection Fee Fund. In 2013-2014, revenues totaled \$26.3 million and were generated primarily from a Transfer from the Sewer Service and Use Charge Fund (\$23.6 million), Connection Fees (\$1.6 million), Miscellaneous Revenue (\$496,000) – which includes \$477,000 in revenue from Montague Expressway Widening – and interest earnings (\$470,000).

This revenue level was \$510,000 above the budgeted estimate due primarily to higher Connection Fees (\$937,000) and interest earnings (\$289,000), partially offset by lower Joint Participation revenue (\$735,000). Connection fees, which are charged to developers for connecting to the City’s sewer system, came in higher than expected due to increased construction activity. Joint Participation revenue, which reflects the West Valley Sanitation District’s and County Sanitation District’s share of costs for projects in their jurisdictions, came in lower than expected because of delays in completing projects and further required cost sharing evaluations, due to the timing of various annexations of County pockets into City jurisdiction.

The 2013-2014 collection level was \$501,000 below the 2012-2013 level of \$26.8 million, due primarily to a lower transfer from the Sewer Service and Use Charge Fund (\$1.4 million), partially offset by higher Connection Fees (\$798,000).

Expenditure Performance

In 2013-2014, expenditures totaled \$54.2 million. The largest projects in this program, with over \$2.0 million in expenditures, were the Urgent Rehabilitation and Repair Projects (\$9.5 million), Immediate Replacement and Diversion Projects (\$4.7 million), Infrastructure – Sanitary Sewer Condition Assessment (\$4.2 million), Almaden Expressway Sanitary Sewer Improvements (\$4.0 million), Spreckles Sanitary Sewer Force Main Supplement (\$3.6 million), Cast Iron Pipe – Remove and Replace (\$3.5 million), Coleman Road Sanitary Sewer Improvement – Phase 3 (\$3.1 million), Condition Assessment Sewer Repairs (\$2.8 million), Husted-Richland Sanitary Sewer Improvements (\$2.5 million), Capital Program and Public Works Department Support Service Costs (\$2.2 million), and Reinforced Concrete Pipe Rehabilitation Program (\$2.1 million) appropriations.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL FUNDS

Expenditure Performance

The 2013-2014 expenditures ended the year \$65.2 million (54.6%) below the budgeted level of \$119.4 million. This variance was due primarily to project delays as a result of staff vacancies and delays in awarding contracts. Projects with the largest unexpended funds include the 60” Brick Interceptor, Phase VIA & VIB (\$25.8 million), Rehabilitation of Sanitary Sewer Pump Stations (\$4.0 million), Rincon Avenue – Virginia Avenue Sanitary Sewer Improvement (\$3.4 million), Monterey-Riverside Relief Sanitary Sewer (\$3.3 million), Almaden Road Supplement Sewer Rehabilitation (North) (\$2.4 million), Fourth Major Interceptor, Phase IIB (\$2.4 million), Immediate Replacement and Diversion Projects (\$2.3 million), and Trimble Road Sanitary Improvement (\$2.2 million). Of the \$65.2 million expenditure variance, \$55.1 million was rebudgeted and \$1.5 million was reprogrammed for other purposes as part of the 2014-2015 Adopted Capital Budget. An additional \$4.0 million is recommended to be rebudgeted as part of this document, thereby reducing the expenditure variance to \$4.5 million (3.8%).

Expenditures in this fund were \$14.9 million (38.1%) above the 2012-2013 level of \$39.2 million, due primarily to higher Urgent Rehabilitation and Repair Projects (\$7.7 million), Almaden Expressway Sanitary Sewer Improvements (\$4.0 million), Coleman Road Sanitary Sewer Improvement – Phase 3 (\$3.1 million), Husted-Richland Sanitary Sewer Improvements (\$2.4 million), and Immediate Replacement and Diversion Projects (\$2.2 million) expenditures, partially offset by lower Sanitary Sewer Condition Assessments – Phase II (\$3.1 million) and Monterey-Riverside Sanitary Sewer, Phase V (\$2.8 million) expenditures in 2013-2014.

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$133,796	\$72,160	\$80,869	\$8,709	(\$4,028)	\$4,681	3.5%

The 2013-2014 Ending Fund Balance of \$80.9 million was \$8.7 million above the estimate used to develop the 2014-2015 Adopted Budget. This variance was due to lower than expected expenditures as well as higher than expected revenues. This document recommends rebudgets of \$4.0 million for a number of projects, including the Immediate Replacement and Diversion Projects (\$2.3 million), Urgent Rehabilitation and Repair Projects (\$605,000), and Spreckles Sanitary Sewer Force Main Supplement (305,000). The remaining fund balance of \$4.7 million is recommended to be allocated to the 2014-2015 Ending Fund Balance and available for future use.

2013-2014 ANNUAL REPORT

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER CAPITAL FUNDS

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$19,990	\$18,216	(\$1,774)	8.9%
Expenditures	\$21,750	\$9,903	(\$11,847)	(54.5%)

Revenue Performance

The Storm Sewer Capital Funds include the Storm Sewer Capital Fund (Fund 469) and the Storm Drainage Fee Fund (Fund 413). In 2013-2014, revenues totaled approximately \$18.2 million and were generated from a transfer from the Storm Sewer Operating Fund (\$18.0 million), Storm Drainage Fees (\$137,000), interest earnings (\$74,000), and joint participation revenue (\$4,000). The 2013-2014 revenues came in below the budget of \$20.0 million by 8.9%, due primarily to the deferral of the California Proposition 84 Stormwater Grant (\$1.8 million), which is anticipated to be received in 2014-2015; this is partially offset by higher interest earnings (\$42,000).

The 2013-2014 collection level was \$12.3 million (208.7%) above the 2012-2013 level of \$5.9 million, due to a higher transfer from the Storm Sewer Operating Fund (\$12.4 million) and interest income (\$37,000) in 2013-2014, partially offset by a Storm Drainage Fee revenue decrease of \$123,000 (89.4%) to \$137,000.

Expenditure Performance

In 2013-2014, expenditures totaled \$9.9 million. Major projects contributing to this expenditure level were the Storm Sewer Master Plan – City-wide (\$1.6 million), Storm Pump Station Rehabilitation and Replacements (\$1.6 million), Storm Sewer Improvements – Special Corridors (\$1.2 million), and Urgent Flood Prevention and Repair Projects (\$805,000) appropriations.

The expenditure level was \$11.8 million (54.5%) below the Modified Budget, due primarily to unexpended funds associated with Charcot Storm Pump Station at Coyote Creek (\$1.5 million), Martha Gardens Green Alley (\$1.2 million), Park Avenue Green Avenue (\$1.2 million), Minor Neighborhood Storm Sewer Improvements (\$1.1 million), and Alviso Storm Pump Station (\$1.0 million). Expenditures related to these projects were delayed due to staff vacancies, as well as delays in awarding contracts due to delays in real estate acquisition, approval from the State for the City’s labor compliance program, and in obtaining permits to complete work on several projects. Of the \$11.8 million expenditure variance, \$8.1 million was rebudgeted and \$811,000 was reprogrammed for other purposes as part of the 2014-2015 Adopted Capital Budget. An additional \$598,000 is recommended to be rebudgeted as part of this document, thereby reducing the expenditure variance to approximately \$2.4 million (10.9%).

2013-2014 ANNUAL REPORT

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER CAPITAL FUNDS

Expenditure Performance

Expenditures in this program were \$742,000 (8.1%) above the 2012-2013 level of \$9.2 million, due primarily to higher expenditures on the Flow Monitoring Program (\$810,000) and Urgent Flood Prevention and Repair Projects (\$703,000), partially offset by lower expenditures on Alviso Storm Network Infiltration Control (\$629,000) in 2013-2014.

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$33,871	\$19,207	\$22,256	\$3,049	(\$598)	\$2,451	7.2%

The 2013-2014 Ending Fund Balance of \$22.3 million was \$3.0 million above the estimate used to develop the 2014-2015 Adopted Budget. This variance was mainly due to lower than expected expenditures in Alviso Storm Network Infiltration Control (\$651,000), Alviso Storm Pump Station (\$511,000), Outfall Rehabilitation - Capital (\$326,000), and Capital Program and Public Works Department Support Service Costs (\$262,000).

It is recommended that \$598,000 of the Ending Fund Balance be allocated to rebudget funds for the continuation of several projects, including Outfall Rehabilitation - Capital (\$325,000) and Storm Sewer Improvements – Special Corridors (\$172,000). The remaining balance of \$2.5 million is recommended to be allocated to the 2014-2015 Ending Fund Balance and available for future use.

2013-2014 ANNUAL REPORT

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER OPERATING FUND

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$32,109	\$32,405	\$296	0.9%
Expenditures	\$42,553	\$40,456	(\$2,097)	(4.9%)

Revenue Performance

In 2013-2014, revenues totaled \$32.4 million and were generated primarily by storm sewer service fee assessments (\$32.2 million), other non-operating revenues (\$158,000), and interest earnings (\$83,000). The slight positive variance to the budget of \$296,000 (0.9%) was mainly due to higher-than-anticipated miscellaneous revenues (\$158,000) and fee assessments (\$132,000). The miscellaneous revenues received in 2013-2014 were attributed primarily to the return of the unspent portion of funding for the County of Santa Clara’s Household Hazardous Waste Program from 2012-2013.

The 2013-2014 revenue level was \$99,000 (0.3%) below the 2012-2013 level of \$32.5 million, due primarily to lower miscellaneous revenues (\$222,000), partially offset by higher assessments (\$85,000) and interest (\$39,000).

Expenditure Performance

Expenditures in this fund are focused primarily on maintenance and operation of the Storm Sewer System and stormwater pollution reduction. In 2013-2014, expenditures of \$40.5 million consisted primarily of a Transfer to the Storm Sewer Capital Fund (\$18.0 million) to support capital investments into the Storm Sewer System, as well as Department of Transportation (DOT) personal services (\$5.5 million), Environmental Services Department (ESD) personal services (\$5.3 million), DOT non-personal/equipment (\$3.1 million), ESD non-personal/equipment (\$2.4 million), overhead reimbursements (\$2.2 million), and yard trimmings/street sweeping contract (\$2.1 million) costs.

This spending level was \$2.1 million (4.9%) below the Modified Budget. The most significant savings were in: ESD personal services expenditures (\$1.0 million), due primarily to vacancy savings; ESD non-personal/equipment expenditures (\$518,000), due primarily to delays in implementing the long-term trash load reduction plan such as the Clean Streets pilot program, cancellation of the Bay Area Regional Behavior Change Campaign, and enlistment of volunteer support to revitalize the Nature’s Inspiration Gardens; and DOT non-personal/equipment expenditures (\$262,000), due to less of a need for storm system maintenance in 2013-2014, as the storm season was milder than usual.

2013-2014 ANNUAL REPORT

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER OPERATING FUND

Expenditure Performance

Expenditures in this fund were \$11.9 million (41.6%) above the 2012-2013 level of \$28.6 million, due primarily to increases in the Transfer to the Storm Sewer Capital Fund (\$12.4 million), based on projected 2013-2014 capital project needs; DOT non-personal/equipment (\$566,000); and ESD personal services (\$541,000), due to lower vacancy savings. This was partially offset by lower spending in ESD non-personal/equipment (\$1.1 million), overhead reimbursement (\$196,000), and Public Works personal services (\$192,000) in 2013-2014.

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impacts	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$57,420	\$16,246	\$17,596	\$1,350	\$0	\$1,350	2.4%

The 2013-2014 Ending Fund Balance of \$17.6 million was \$1.4 million above the estimate used to develop the 2014-2015 Adopted Budget. This variance was partially due to lower than estimated expenditure levels in ESD non-personal/equipment (\$616,000), DOT non-personal/equipment (\$558,000), and yard trimming/street sweeping contracts (\$145,000). Actual revenues were also approximately \$127,000 higher than the estimate due primarily to assessments (\$56,000) and miscellaneous revenues (\$47,000).

As described in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions* of this document, this report includes recommended adjustments to more accurately reflect anticipated 2014- 2015 expenditures. An upward adjustment of approximately \$2,000 to the Planning, Building and Code Enforcement Non-Personal/Equipment appropriation is included for its share of the purchase of user licenses for the city-wide Development Services permitting system (AMANDA).

After accounting for all other recommended adjustments, approximately \$1.4 million will be added to the 2014-2015 Ending Fund Balance. Of this amount, it is recommended that \$208,000 be set aside in the Operations and Maintenance Reserve that is included in the Ending Fund Balance, in order to bring this reserve up to the goal of reserving two months of operating expenditures. The Unrestricted Ending Fund Balance will increase by \$1.1 million.

2013-2014 ANNUAL REPORT

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

TRANSIENT OCCUPANCY TAX FUND

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$17,806	\$17,910	\$104	0.6%
Expenditures	\$19,224	\$17,212	(\$2,012)	(10.5%)

Revenue Performance

In 2013-2014, revenues generated from Transient Occupancy Tax (TOT) receipts totaled \$17.9 million, an amount that exceeded the 2000-2001 peak of \$16.4 million. Of this amount, approximately \$17.5 million was for 2013-2014 activity (reflecting growth of 15.5% from 2012-2013 actuals), with an additional \$422,000 generated from taxes that should have been paid in prior years (\$339,000) and associated penalties (\$83,000) due to a biennial TOT compliance audit. Total TOT revenues ended the year 18.0% above 2012-2013 revenue collections of \$15.2 million, and 0.6% above the 2013-2014 Modified Budget. The strong revenue performance in 2013-2014 is reflected in the average occupancy rate for the City’s 14 largest hotels climbing from 66.6% to 70.6% and a \$15 increase in the average room rate for the same set of hotels (from \$139 to \$154).

When the 2014-2015 Adopted Budget was developed, growth of 5% over the estimated 2013-2014 receipts was assumed. Because TOT receipts in 2013-2014 were higher than estimated, growth of only 1% (excluding compliance revenue) is needed in 2014-2015 to meet the budget estimate. While an upward adjustment to the 2014-2015 revenue estimate will likely be possible because of the 2013-2014 performance, staff recommends monitoring actual collections in 2014-2015 to determine the level of year-over-year growth that can be achieved from this significantly higher base revenue collection level. Budget actions will be brought forward later in 2014-2015, as appropriate.

Expenditure Performance

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). Expenditures of \$17.2 million ended the year \$2.1 million below the Modified Budget primarily due to savings in the Cultural Development category, which includes the Cultural Grants and Cultural Grants Administration appropriations. The savings of \$2.0 million in the Cultural Grants appropriation and \$75,000 in the Cultural Grants Administration appropriation are recommended to be rebudgeted into the Cultural Grants appropriation as part of this report.

2013-2014 ANNUAL REPORT

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

TRANSIENT OCCUPANCY TAX FUND

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$22,596	\$2,806	\$5,547	\$2,741	(\$2,115)	\$627	2.8%

The 2013-2014 Ending Fund Balance of \$5.5 million was \$2.7 million above the estimate used to develop the 2014-2015 Adopted Budget. This variance was primarily due to lower than anticipated expenditures (\$2.1 million) in the Cultural Development category, which are recommended to be rebudgeted into 2014-2015 elsewhere in this report. Revenues also ended the year above estimate (\$670,000) due to strong hotel activity in the spring, and as a result, this report recommends corresponding increases in 2014-2015 to the following categories according to the City Council approved distribution formula: Cultural Development (\$167,500), Convention and Visitor’s Bureau (\$167,500), and Transfer to the Convention and Cultural Affairs Fund (\$335,000). With the recommended budget actions, the 2014-2015 Ending Fund Balance would remain relatively unchanged at \$1.4 million.

2013-2014 ANNUAL REPORT

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL FUNDS

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$3,189	\$3,703	\$514	16.1%
Expenditures	\$6,507	\$5,404	(\$1,103)	(17.0%)

Revenue Performance

The Water Utility Capital Funds consist of the Water Utility Capital Fund and the Major Facilities Fund. In 2013-2014, revenues totaled \$3.7 million and were generated primarily from a Transfer from the Water Utility Fund (\$3.0 million) and fees paid by developers for direct services (\$652,000). The fees consist of Major Facilities Fees (\$454,000), Service Connection Fees (\$97,000), Meter Installation Fees (\$63,000), and Advanced System Design Fees (\$38,000). The 2013-2014 revenues came in above the budget estimate of \$3.2 million by \$514,000 (16.1%), mainly due to higher collections for Major Facilities Fees (\$454,000) and Service Connection Fees (\$47,000).

Revenues in 2013-2014 ended the year \$549,000 above the 2012-2013 collection level of \$3.2 million primarily due to a higher transfer from the Water Utility Fund in 2013-2014 of \$400,000 and higher developer fee revenues of \$126,000 (24.0%). Major Facilities Fees (\$138,000) and Service Connection Fees (\$49,000) were above the 2012-2013 level, partially offset by lower Advanced System Design Fees (\$48,000).

Expenditure Performance

In 2013-2014, expenditures totaled \$5.4 million. Major projects in this program included Nortech and Trimble Reservoir Rehabilitation (\$1.2 million), System Maintenance/Repairs (\$837,000), Infrastructure Improvements (\$798,000), and Meter Replacements (\$478,000).

Expenditures were \$1.1 million (17.0%) below budget, due primarily to savings or delays in the following projects: Infrastructure Improvements (\$385,000), North Coyote Valley Water System (\$168,000), and Nortech and Trimble Reservoir Rehabilitation (\$98,000). Of the \$1.1 million in savings, \$329,000 was rebudgeted in the 2014-2015 Adopted Budget, and \$98,000 was rebudgeted early, approved by the City Council on August 26, 2014. An additional \$569,000 is recommended to be rebudgeted as part of this document, thereby reducing the expenditure variance to \$107,000 (1.6%).

Expenditures in this fund were \$2.1 million (64.1%) above the 2012-2013 level of \$3.3 million, due primarily to higher Nortech and Trimble Reservoir Rehabilitation (\$1.2 million), Dove Road Main Extension (\$683,000), and Meter Replacements (\$478,000) project expenditures in 2013-2014, partially offset by lower Bon Bon Drive Main Replacement (\$455,000) project expenditures.

2013-2014 ANNUAL REPORT

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL FUNDS

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact*	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
\$13,095	\$7,583	\$8,436	\$853	(\$667)	\$186	1.4%

* Although not included as a recommendation in this report, the amount listed also includes early rebudgets that were approved by the City Council on August 26, 2014.

The 2013-2014 Ending Fund Balance of \$8.4 million was \$853,000 above the estimate used to develop the 2014-2015 Adopted Budget, due primarily to higher than estimated revenues (\$78,000) and lower than estimated expenditures (\$774,000). This document recommends rebudgets of \$569,000 for a number of projects, the largest of which include Infrastructure Improvements (\$375,000), Water Management System Enhancements (\$86,000), and System Maintenance/Repairs (\$75,000). These rebudgets, in conjunction with the \$98,000 rebudgeted as part of the City Council memorandum approved on August 26, 2014, bring the revised Ending Fund Balance variance to \$186,000.

Additionally, as described in further detail in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions* section of this document, this report includes a recommendation to increase the Meter Installations project (\$14,000). Revenues from 2013-2014 exceeded the estimate and will be used to purchase, test and install water meters for customers. This report also includes a recommendation to increase the Infrastructure Improvements appropriation (\$90,000). In April 2014, \$90,000 was encumbered to fund contractual services; however, the procurement process could not be completed by the end of 2013-2014, so the purchase request was cancelled, with the funds falling to the 2013-2014 fund balance.

After accounting for all recommended rebudgets and other adjustments, approximately \$82,000 will be added to the 2014-2015 Ending Fund Balance for future use.

2013-2014 ANNUAL REPORT

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

**Revenue and Expenditure Performance
(\$ in Thousands)**

	2013-2014 Budget	2013-2014 Actuals	Variance	% Variance
Revenues	\$33,726	\$34,819	\$1,093	3.2%
Expenditures	\$34,032	\$33,533	(\$499)	(1.5%)

Revenue Performance

In 2013-2014, revenues totaled \$34.8 million and were generated from potable and recycled water sales (\$34.5 million), late fees (\$259,000), and interest earnings (\$44,000). The favorable variance to the budget of \$1.1 million (3.2%) was mainly due to higher than budgeted revenues from potable and recycled water sales (\$1.1 million) and interest earnings (\$30,000), partially offset by lower than budgeted revenues from late fees (\$16,000). The higher potable water sales were driven mainly by the improved economy, new development, and drier weather through most of the year.

The 2013-2014 revenue level was \$3.0 million (9.3%) above the 2012-2013 level of \$31.9 million, due primarily to higher potable water sales (\$2.8 million) and recycled water sales (\$716,000), partially offset by a Utility Tax (\$265,000) adjustment in 2013-2014 that lowered the revenues. The Utility Tax is assessed on the potable water sales revenue and subsequently transferred to the General Fund. However, this transfer was inadvertently missed in 2012-2013, resulting in a necessary negative adjustment in 2013-2014.

Expenditure Performance

In 2013-2014, expenditures of \$33.5 million were primarily for Environmental Services Department (ESD) Non-Personal/Equipment (\$24.7 million), of which \$20.6 million was attributed to the purchase of wholesale potable and recycled water. Other major expenditures were in ESD Personal Services (\$3.7 million), Transfer to the Water Utility Capital Fund (\$3.0 million), and Overhead Reimbursement (\$753,000) appropriations. Expenditures ended the year \$500,000 (1.5%) below budget, due primarily to savings in the ESD Non-Personal/Equipment (\$268,000), ESD Personal Services (\$48,000), and Finance Department Personal Services (\$77,000) appropriations.

Expenditures in this fund were \$2.9 million (9.5%) above the 2012-2013 level of \$30.6 million, due primarily to higher ESD non-personal/equipment expenditures (\$1.9 million), transfer to the Water Utility Capital Fund (\$400,000), IBS commercial paper repayments (\$371,000), and ESD personal services (\$368,000) expenditures. The higher ESD non-personal/equipment expenditures can be attributed to the increased cost of wholesale water.

2013-2014 ANNUAL REPORT

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

**Ending Fund Balance Performance
(\$ in Thousands)**

2013-2014 Modified Budget	2013-2014 Estimated Ending Fund Balance	2013-2014 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustment)
\$43,219	\$8,963	\$10,981	\$2,018	\$0	\$2,018	4.7%

The 2013-2014 Ending Fund Balance of \$11.0 million was approximately \$2.0 million above the estimate used to develop the 2014-2015 Adopted Budget. This variance was largely due to higher than estimated revenues from potable water sales (\$1.3 million) and interest earnings (\$24,000), as well as lower than estimated ESD non-personal/equipment (\$766,000) expenditures, partially offset by lower than estimated revenue from late fees (\$41,000). No rebudget adjustments are recommended for this fund.

After accounting for all recommended adjustments, approximately \$2.0 million will be added to the 2014-2015 Ending Fund Balance. Of this amount, it is recommended that \$261,000 be set aside in the Operations and Maintenance Reserve that is included in the Ending Fund Balance, in order to bring this reserve up to the goal of reserving two months of operating expenditures. The Unrestricted Ending Fund Balance will increase by \$1.8 million.