2012-2013

ANNUAL

REPORT

III. SELECTED SPECIAL/ CAPITAL FUNDS BUDGET PERFORMANCE

III. SELECTED SPECIAL/CAPITAL FUNDS BUDGET PERFORMANCE

This section provides financial information on the 2012-2013 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 2012-2013 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 2012-2013 Modified Budget, which includes fund balance and reserves. The 2012-2013 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 2013-2014 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 2013-2014 budget actions (such as rebudgets); calculates the revised expenditure variance due to rebudgets approved as part of the 2013-2014 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 2013-2014 Adopted Budget; discusses variances between these two amounts; and identifies any impact on the 2013-2014 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)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$30,086	$28,371	($1,715)	(5.7%)
Expenditures	$74,842	$48,432	($26,410)	(35.3%)

Revenue Performance

In 2012-2013, capital revenues totaled $28.4 million, which were $1.7 million or 5.7% below the budgeted estimate. Actual revenues received in 2012-2013 consisted of the following: Passenger Facility Charges (PFCs) ($17.3 million), Grant income ($7.0 million), Transfers from other Airport funds ($4.1 million), and interest earnings ($142,000). PFCs ended the year slightly above the modified budget estimate (3.6%) due to higher than anticipated passenger levels. Grant revenue, however, ended the year below the modified budget estimate (23.0%) due to lower 2012-2013 project costs that resulted in lower reimbursements for the Taxiway W Improvements project, as well as the deferral to 2013-2014 of grant-contingent projects such as Airfield Sign Program, Airport Property and Exhibit A Maps (previously Title Search and Property Map Development), and Taxiway A/B Part 139 Separation.

Expenditure Performance

In 2012-2013, expenditures totaled $48.4 million and were $26.4 million (35.3%) below budgeted levels. The majority of expenditures were primarily attributed to transfers to other funds for debt service and minor close-out of commercial paper debt funds ($26.7 million); Taxiway W Improvements ($8.8 million); Terminal Area Development, Phase I ($5.3 million); Pavement Maintenance ($1.5 million); and Clean-Up of Existing Fuel Farm ($1.0 million). The year-end variance of $26.4 million primarily reflects the anticipated close-out of many 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 Advanced Planning, Airfield Improvements, and Airport Technology Services. A total of $20.7 million in Airport capital project funding was approved for rebudget as part of the 2013-2014 Adopted Capital Budget, and a net negative rebudget of $476,000 is recommended as part of this document. After the rebudget adjustments that were included in the 2013-2014 Adopted Capital Budget and the rebudget adjustments recommended in this report are considered, the expenditure variance totals $6.2 million, or 8.3%.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

Expenditure Performance

The expenditure variance ($26.4 million) was due to lower than budgeted project expenditures. The following is a list of the major unexpended projects totaling $22.7 million:

- The Terminal Area Improvement, Phase I project variance ($17.7 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 $14.2 million was rebudgeted as part of the 2013-2014 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 bag system ceiling protection, and the relocation of the Transportation Security Administration Information Technology Department Room on the second floor. An additional $283,000 is recommended for rebudget as part of this report to ensure sufficient funding to complete these projects.
- The Taxiway W Improvements project variance ($3.1 million) reflects savings from the completion of portions of Phase III and Phase IV in 2012-2013. Funding of $3.4 million was rebudgeted as part of the 2013-2014 Adopted Capital Budget to complete Phase III and Phase IV. A negative rebudget of $298,000 is recommended as part of this report based on the higher than anticipated expenditures in 2012-2013. In July 2013, the Airport received a grant from the Federal Aviation Administration (FAA) for the construction of Phase V (to extend a portion of Taxiway W from Taxiway D to G) based on bids received in May 2013. As a result, an additional reduction of $1.2 million is recommended to reflect the actual grant award for the final phase of the project.
- The Clean-Up of Existing Fuel Farm project variance ($843,000) results from lower than anticipated project costs in 2012-2013. Funding of $1.9 million was rebudgeted as part of the 2013-2014 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. A negative rebudget of $1.0 million is recommended as part of this report based on higher than anticipated expenditures in 2012-2013.
- The Taxiway A/B Part 139 Separation project variance ($580,000) results from the deferral of this project until 2013-2014. The completion of this project is contingent upon the timing and availability of FAA grant funding.
- The Airport Property and Exhibit A Maps project variance ($500,000) results from the deferral of this project until 2013-2014. The completion of this project is contingent upon the timing and availability of FAA grant funding.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

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

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$189,330	$137,647	$141,456	$3,809	$476	$4,285	2.3%

The 2012-2013 combined Ending Fund Balance of $141.5 million was $3.8 million above the estimate used to develop the 2013-2014 Adopted Capital Budget. This positive variance is a result of lower than budgeted expenditures offset slightly by lower than anticipated revenues. A net negative rebudget of $476,000 is recommended in this report to align the rebudgeted amounts with actual year-end savings, bringing the revised Ending Fund Balance variance to $4.3 million. The remaining fund balance of $4.3 million is recommended to be allocated to the 2013-2014 Ending Fund Balance for future use.

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)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$114,931	$119,882	4,951	4.3%
Expenditures	$74,062	$62,426	($11,636)	(15.7%)

Revenue Performance

In 2012-2013, operating revenues in the Airport Revenue Fund totaled $119.9 million, or 4.3% above the budgeted estimate. The major operating revenue categories include Parking and Roadways ($41.8 million), Airline Terminal Rental ($38.3 million), Terminal Building ($15.1 million), Landing Fees ($12.9 million), Miscellaneous Revenue ($8.5 million), and Airfield Area ($3.0 million). Additionally, funding of $346,000 was transferred from the Airport Fiscal Agent Fund.

The positive revenue variance of $5.0 million resulted from higher than budgeted revenue for the following categories: Parking and Roadways ($2.4 million) due to increased parking revenue and rental car concession fees; Airline Terminal Rental ($1.1 million) due to the addition of All Nippon Airways terminal lease, higher usage of common ticket counters and common gates; and Miscellaneous Revenue ($1.3 million) specifically in petroleum products due to increased sale of compressed natural gas and jet flowage fees.

Expenditure Performance

The Airport Maintenance and Operation Fund provides for all general Airport operating expenses including Police, Fire, and interdepartmental services. For 2012-2013, expenditures of $62.4 million were $11.6 million (15.7%) below budgeted levels primarily due to expenditure savings in personal services ($1.0 million) and in non-personal/equipment ($5.2 million). Personal services expenditure savings were due to position vacancies. Non-personal/equipment expenditure savings were due to lower than budgeted utility expenditures to operate both terminals and the Consolidated Rental Car Facility; lower parking program expenses due to the installation of automated pay-on-foot stations as well as the continued testing for a new Parking Revenue Control System; lower shuttle bus program expenses due to reduced frequency of service and a new compensation model for the parking operator; and lower than budgeted expenditures in Letter of Credit fees for the Commercial Paper Program.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

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

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$278,201	$80,245	$86,010	5,765	$0	$5,765	2.1%

The 2012-2013 combined Ending Fund Balance of $86.0 million was $5.8 million above the budgeted estimate used to develop the 2013-2014 Adopted Operating Budget. The positive variance of $5.9 million in the Airport Revenue Fund resulted from expenditure savings in the Airport Maintenance and Operation Fund. The negative variance of $143,000 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 2012-2013.

In 2012-2013, passenger activity increased by 2.8% from the 2011-2012 level of 8.26 million passengers to 8.49 million passengers. Moreover, the percentage growth in annual enplanements at the Airport in 2012-2013 was 2.7%, which exceeded the Federal Aviation Administration's projection of 0.0% for national enplanement growth for 2012-2013. 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 document to reduce the 2013-2014 overhead expenses to the Airport Maintenance and Operation Fund by $420,000 to reflect a reduction of the overhead rate of 2.7% (from the adopted overhead rate of 18.25% to 15.55%). Passenger growth in 2013-2014 is anticipated to increase by 1.5%.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT OPERATING FUND - AIRPORT CUSTOMER FACILITY AND TRANSPORTATION FEE FUND

Revenue and Expenditure Performance
($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$15,236	$16,715	$1,479	9.7%
Expenditures	$16,273	$16,018	($255)	(1.6%)

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 2012-2013, revenues totaled $16.7 million and were $1.5 million (9.7%) above the budgeted estimate. Actual revenues received consist of CFCs ($13.4 million), contributions from rental car agencies ($3.3 million), and interest earning ($10,000). CFCs ended the year above the modified budget estimate (12.3%) due to higher than anticipated passenger levels, as well as increased car rental activities.

Expenditure Performance

In 2012-2013, expenditures of $16.0 million were $255,000 (1.6%) below budgeted levels. Expenditures were primarily attributed to transfers to other Airport funds ($13.7 million); non-personal/equipment ($2.3 million); and CFCs audit costs ($24,000). The remaining balance of $255,000 reflects non-personal/equipment expenditure savings due to lower than anticipated utility costs related to the operation of the compressed natural gas station, as well as reduced shuttle bus operation costs due to lower costs for shuttle bus drivers, shuttle bus maintenance, and fuel usage.

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$21,196	$5,842	$6,664	$822	$0	$822	3.9%

The 2012-2013 Ending Fund Balance of $6.6 million was $822,000 above the budgeted estimate used to develop the 2013-2014 Adopted Budget. This positive variance is a result of higher than anticipated revenues and slightly lower expenditures.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

Revenue and Expenditure Performance
($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$24,216	$16,969	($7,247)	(29.9%)
Expenditures	$33,671	$18,903	($14,768)	(43.9%)

Revenue Performance

In 2012-2013, revenues totaled $17.0 million and were primarily generated from Building and Structure Construction Tax ($13.8 million); receipts from federal grants ($1.7 million) for implementation of the Transportation Incident Management Center (TiMC), pedestrian corridor improvement projects, and the East Santa Clara Street Bridge at Coyote Creek project; and receipts from state grants ($1.2 million) for projects including traffic signal communications/synchronization, pedestrian-oriented improvements, and couplet conversion. The 2012-2013 revenues were lower than the budget by approximately $7.2 million, primarily due to lower than budgeted receipts of federal grants ($7.7 million) and State grants ($709,000), partially offset by higher than anticipated Building and Structure Construction Tax receipts ($777,000) and higher miscellaneous revenue/developer contributions ($306,000). Grant-related revenues, which were not received in 2012-2013 due to project delays, were anticipated and rebudgeted in the development of the 2013-2014 Adopted Budget.

The 2012-2013 collection level was $2.1 million lower (11.0%) than the 2011-2012 level of $19.1 million primarily as a result of decreased State and federal grant receipts ($3.6 million), partially offset by increased Building and Structure Construction Tax receipts ($1.2 million) and miscellaneous revenue ($255,000).

At $13.8 million, Building and Structure Construction Tax receipts in 2012-2013 were 9.4% higher than 2011-2012 collections ($12.6 million); however, collection remain well below 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 2013-2014 Adopted Budget estimate of $11.0 million allows for a decrease of 20.0%. The sustainability of the 2012-2013 collection level will be monitored as the year progresses, and an upward adjustment to the 2013-2014 budgeted revenue estimate may be brought forward for City Council consideration if warranted based on actual 2013-2014 collection trends.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

Expenditure Performance

In 2012-2013, expenditures of $18.9 million were primarily attributed to the following projects: The Alameda – A Plan for the Beautiful Way ($4.2 million), Route 101/Mabury Road Design ($1.8 million), Autumn Street Extension ($1.7 million), San Carlos Multimodal Streetscape Improvements Phase I ($1.7 million), ITS: Traffic Incident Management Center ($1.6 million), Traffic Signal Communications and Synchronization ($1.5 million), Traffic Signal and Lighting Program ($661,000), Safety – Pedestrian Improvements ($561,000), and Underground Utilities – City Conversions ($526,000).

The 2012-2013 expenditure level was $14.8 million (43.9%) below the modified budget. Of this variance, $12.3 million was rebudgeted as part of the 2013-2014 Adopted Capital Budget, and an additional $1.6 million was anticipated and redistributed to other projects as part of the 2013-2014 Adopted Capital Budget. Net expenditure rebudgets of $371,000 are recommended as part of this report to ensure sufficient funding for projects in 2013-2014.

The $14.8 million variance between budgeted and actual expenditures was caused primarily by the following projects: ITS: Transportation Incident Management Center ($4.7 million), Autumn Street Extension ($3.6 million), East Santa Clara Street Bridge at Coyote Creek ($1.0 million), The Alameda – A Plan for the Beautiful Way ($940,000), Jackson Street: Light Rail Train to Japantown Pedestrian Corridor ($754,000), Underground Utilities – City Conversions ($630,000), and several other projects with total savings less than $500,000. The savings 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/construction process.

The 2012-2013 expenditures of $18.9 million were $3.4 million (15.2%) below the 2011-2012 expenditures of $22.3 million primarily due to lower costs for Traffic Signal Communications and Synchronization ($4.8 million) and Route 101/Tully Interchange ($4.2 million) that were closed out in 2011-2012, offset by higher expenditures in 2012-2013 for the Alameda – A Plan for the Beautiful Way ($3.5 million) that started in 2012-2013 and Route 101/Mabury Road Project Development ($1.8 million) that had been delayed from 2011-2012.

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$41,857	$14,516	$16,215	$1,699	($350)	$1,349	3.2%

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

The 2012-2013 Ending Fund Balance of $16.2 million was $1.7 million above the estimate used to develop the 2013-2014 Adopted Capital Budget. This variance was due to higher than estimated revenues ($860,000) and lower than estimated expenditures ($838,000).

As described in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this report, it is recommended that a portion of the additional fund balance ($371,000) be allocated for net rebudget adjustments for various capital projects. Funds would be rebudgeted for several projects, including the Safety – Pedestrian Improvements ($339,000), Bridge Mitigation Monitoring ($104,000), Underground Utilities – City Conversions ($100,000), Branham Lane/Monterey Highway Rail Grade Separation ($66,000), and various other projects totaling less than $50,000. These rebudgets will be partially offset by downward adjustments of $377,000 that are recommended since several projects did not achieve the 2012-2013 assumed savings. This report also includes the rebudget of $2,000 in both the Traffic Signal Communications and Synchronization revenue and expenditures to fund staff charges for project close out. As a 2012-2013 reconciling item, this report includes downward revenue adjustments to account for revenue that was received in 2012-2013 and no longer expected to be received in 2013-2014 for the Transportation, Community and System Preservation Grant – Branham Lane/Monterey Highway Rail ($12,000), Housing Incentive Program Grant – SJSU Japantown Pedestrian Corridor ($10,000), and Metropolitan Transportation Commission: The Alameda – A Plan for the Beautiful Way ($1,000).

In addition, this report includes recommendations to increase the Valley Transportation Authority revenue estimate by $20,000 and to allocate those funds to the Route 280/880/Stevens Creek Boulevard project to reroute existing fiber optic communications systems on Stevens Creek Boulevard and facilitate construction of the I-880/Stevens Creek Interchange. This report recommends increasing the San Carlos Street Multimodal Streetscape Improvement – Phase II appropriation by $23,000 to re-establish project funding that had been eliminated due to the liquidation of a prior year carryover encumbrance that occurred in 2013-2014 and increasing the Safety – Pedestrian Improvements appropriation by $15,000 for the pedestrian beacon project on Great Oaks Boulevard. After accounting for all recommended rebudgets and adjustments, approximately $1.3 million will be added to the Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CITY HALL DEBT SERVICE FUND

Revenue and Expenditure Performance
($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$21,664	$21,663	($1)	0.0%
Expenditures	$22,222	$13,847	($8,375)	(37.7%)

Revenue Performance

In 2012-2013, nearly all of the $21.7 million received in the City Hall Debt Service Fund were transfers from the General Fund ($15.3 million), Special Funds ($4.6 million), and Capital Funds ($1.7 million). These revenues are used to pay debt service on bonds issued for the construction of City Hall and the accompanying parking garage.

Expenditure Performance

The refunding of bonds associated with the construction of City Hall and the accompanying parking garage completed in spring 2013 resulted in debt service savings in 2012-2013 of $8.4 million (37.7%). The refunding will also result in estimated savings of an additional $3.5 million in 2013-2014.

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$23,608	$1,393	$9,760	$8,367	($0)	$8,367	35.44%

The 2012-2013 Ending Fund Balance of $9.8 million was $8.4 million above the estimate used to develop the 2013-2014 Adopted Budget. As described above, this increase was due to the spring 2013 refunding of the bonds issued to construct City Hall and the accompanying parking garage. This additional fund balance, along with reduced City Hall debt service payments in 2013-2014, will result in a decrease to the transfers from the General Fund ($8.5 million), Special Funds ($2.3 million) and Capital Funds ($1.1 million) in 2013-2014. As described in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, budget actions are recommended in each of the impacted funds to reflect the reduction in the transfer to the City Hall Debt Service Fund.

In accordance with approved actions included in the 2013-2014 Adopted Budget, net General Fund savings of $7.7 million from the refunding ($8.5 million less $0.8 million associated with the Development Fee Programs) will be directed toward paying down existing debt related to the variable rate 2008D Lease Revenue Bonds issued for Hayes Mansion improvements (Phase III Debt). For additional information, please refer to the Community Facilities Revenue Fund discussion contained elsewhere within this section of the Annual Report.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

COMMUNITY FACILITIES REVENUE FUND

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

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$9,168	$9,392	$224	2.4%
Expenditures	$9,877	$8,745	($1,132)	(11.5%)

Revenue Performance

Revenues in the Community Facilities Revenue Fund are from two primary sources: (1) net revenues from the operation of the Hayes Mansion paid to the City by the operator of the facility (Dolce), and (2) transfers from the General Fund to cover debt service/operating shortfalls.

In 2012-2013, revenues totaling $9.4 million were generated from the operation of Hayes Mansion as managed by Dolce ($4.9 million), transfers from the General Fund ($4.5 million) and interest earnings ($15,000). The 2012-2013 revenues exceeded the budget estimate by $224,000 due to stronger than expected Hayes Mansion operating revenues.

The 2012-2013 revenue level for this fund was $904,000, or 8.8%, lower than the 2011-2012 level of $10.3 million due to a decrease in the transfer from the General Fund ($1.0 million), partially offset by an increase in gross operating revenues ($96,000). The Transfer from the General Fund ($4.5 million) was reduced from the 2011-2012 amount due to expectations that the variable rate debt payments would be lower and that the profitability of Hayes Mansion would increase. The increase in gross operating revenues is attributable to an increase in both the average occupancy rate and the average room rate.

Expenditure Performance

In 2012-2013, expenditures of $8.7 million were primarily attributed to the Hayes Center Debt/Operating Subsidy ($4.7 million), the Hayes Center Phase I and III Debt Service payments ($3.4 million), and Hayes Repair and Improvements ($391,000). Overall, expenditures were $1.1 million (11.5%) below the modified budget due primarily to a lower Hayes Center – Debt/Operating Subsidy ($500,000) as a result of higher profitability of Hayes Center operations and lower than expected expenditures for Hayes Center – Phase I and III Debt Service ($495,000) due to lower interest rates on the variable rate debt.

Expenditures in this fund were $737,000, or 7.7%, lower than 2011-2012 due primarily to the factors mentioned above. Compared to 2011-2012, costs in 2012-2013 were lower for Phase I Debt Service expenses (down $615,000 from 2011-2012), Debt/Operating Subsidy (down $350,000 from 2011-2012), and Hayes Repair and Improvement (down $142,000 from 2011-2012), partially offset by an increase in the Phase III Debt Service expenses ($331,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

COMMUNITY FACILITIES REVENUE FUND

Expenditure Performance

A portion of the unspent funds for Hayes Repair and Improvements was rebudgeted as part of the 2013-2014 Adopted Budget. The remainder of the savings ($69,000) is recommended to be rebudgeted in this document. The Repair and Improvements appropriation is calculated as a percentage of the gross revenues of Hayes facilities, and any unspent funds are rebudgeted to the next year on an annual basis to ensure adequate funding for repairs.

Actions recommended in this report include increasing the transfer from the General Fund by $7.7 million, which will in turn be used to pay down existing debt related to the variable rate 2008D Lease Revenue Bonds issued for Hayes Mansion improvements (Phase III Debt). The refunding of bonds associated with the construction of City Hall and the accompanying parking garage completed in spring 2013 resulted in debt service savings in 2012-2013 and additional savings estimated for 2013-2014. The combined debt service savings total $11.9 million, of which $8.5 million will be realized in the General Fund. In accordance with the actions approved in the 2013-2014 Adopted Budget, General Fund savings from the refunding will be directed toward paying down a portion of the outstanding Hayes Mansion debt. After subtracting out the savings owed to the various fee programs, the remaining General Fund savings of $7.7 million are recommended to be transferred to the Community Facility Revenue Fund to pay down a portion of the $54.0 million in outstanding principal. This transaction will allow the City to pay down the Hayes debt related to the 2008D bonds two years earlier, realize average annual savings of $345,000 through 2025, and achieve a total savings over the remaining life of the 2008D bonds of $4.0 million. For additional information, please refer to the City Hall Debt Service Fund discussion in this section of the Annual Report.

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustment Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$11,152	$1,765	$2,631	$866	($69)	$797	7.2%

The 2012-2013 Ending Fund Balance of $2.6 million was $866,000 above the estimate used to develop the 2013-2014 Adopted Budget. This variance between the year-end estimate and the actual revenues and expenses was due to the combination of higher than projected revenues ($205,000) and greater expenditure savings of $661,000. As discussed above, it is recommended that $69,000 of the Ending Fund Balance be allocated to rebudget the unspent Hayes Repair and Improvement funds. The remaining fund balance of $797,000 is recommended to be allocated to the 2013-2014 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Revenue and Expenditure Performance
($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$52,060	$48,848	($3,212)	(6.2%)
Expenditures	$89,286	$49,250	($40,036)	(44.8%)

Revenue Performance

Revenues generated in the Construction and Conveyance (C&C) Tax Funds in 2012-2013 totaled $48.8 million and were comprised of Construction and Conveyance tax receipts ($34.4 million), transfers between funds ($13.9 million), miscellaneous revenues ($312,000), interest earnings ($201,000), and State and federal grants ($2,000). This revenue level is $3.2 million lower than the budgeted estimate of $52.1 million. This negative revenue variance is primarily due to lower than anticipated transfers between funds ($5.6 million) and grants ($1.8 million), partially offset by higher than anticipated Construction and Conveyance Tax revenue ($4.4 million).

Construction and Conveyance Tax revenue collections in 2012-2013, which were almost entirely generated from property transfers, totaled $34.4 million, an increase of $9.0 million from the 2011-2012 collection level of $25.4 million. The 2012-2013 tax receipts represent the highest collection level since the peak years of 2004-2005 to 2006-2007 (when collections exceeded $40.0 million annually). The increased C&C Tax collections in 2012-2013 are consistent with the increase in property transfers for all types of residences between 2011-2012 and 2012-2013. This positive difference in revenue collections is also reflected in the median home price for single family homes within the City between June 2012 and June 2013. The median price for single family homes increased in value, with a median home price in June 2013 of $732,500, up approximately 24.5% from the June 2012 price of $588,444. In addition, the amount of time it takes to sell a home (single-family and multi-family dwelling units) has dropped in the past year from 52 days in June 2012 to 22 days in June 2013. The June 2013 figure represents the shortest duration of time homes have stayed on the market since September 2005 when it took only 21 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 (2.2%) from 8,273 sales in 2011-2012 to 8,091 sales in 2012-2013.

When the 2012-2013 revenue estimate was developed, it was assumed that receipts would increase to $30.0 million, which was an 18.1% increase from the 2011-2012 collection level of $25.4 million. However, due to stronger than anticipated collections, the revenue exceeded budgeted levels. Therefore, as part of this document, adjustments are recommended in each Construction and Conveyance Tax fund Ending Fund Balance to reflect the higher than anticipated tax revenue.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Revenue Performance

The negative variance for transfers between funds ($5.6 million) was primarily due to a budgeted transfer from the Subdivision Park Trust Fund to the Parks City-Wide Construction and Conveyance Tax Fund ($8.0 million) that did not occur in 2012-2013. As detailed in the June 19, 2012 City Council memorandum (Item 5.2), an interfund loan from the Subdivision Parks Trust Fund to the Parks City-Wide Construction and Conveyance Tax Fund of up to $8.0 million was approved to fund the shortfall in the amount required for the defeasance of the 2008F Lease Revenue Bonds if the FMC property sale was completed. The Administration has requested that HUD amend the HUD Loan agreement to allow the City to use a portion of the proceeds of the sale of the Airport West Property financed with the HUD loan for the repayment of $8.0 million of the 2008F Bonds. If approved, the $8.0 million in debt under the HUD loan would remain outstanding. The City would pay debt service on the outstanding $8.0 million HUD loan using the revenue generated from soccer field operations of approximately $500,000 per year for 16 years. The interfund loan was to take effect only if the property was sold and the City Manager determined that negotiations with HUD would not allow for the amendments to the HUD loan in order to allow for the repayment of the Series 2008F Lease Revenue Bonds. Because the FMC property sale was not completed in 2012-2013, the repayment of the Series 2008F Lease Revenue Bonds and the loan from the Subdivision Park Trust Fund were not necessary in 2012-2013. As the developer has the option to purchase the FMC property until 2015, a loan may need to be reestablished in the future if the sale proceeds are not sufficient to pay off the 2008F Lease Revenue Bonds and the HUD loan is not amended. This report does not include a recommendation to rebudget this interfund loan transfer to 2013-2014. If the interfund loan transfer is needed, actions will be brought forward as part of a City Council memorandum or as part of a future budget process for City Council consideration. The negative revenue variance related to this transfer ($8.0 million) is partially offset by the higher than anticipated C&C Tax collections, which positively impacted the transfer category because of the methodology used to distribute the tax revenue to individual Construction and Conveyance Tax funds.

Grant revenue fell below anticipated levels by $1.8 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 significant portion of this grant revenue was rebudgeted as part of the 2013-2014 Adopted Capital Budget ($1.1 million), with an additional $100,000 recommended to be rebudgeted to 2013-2014 as part of this report. In addition, a federal grant related to the Lower Guadalupe River Trail (Gold Street to Highway 880) project ($427,000) was inadvertently budgeted in 2012-2013 to the Council District 4 Construction and Conveyance Tax Fund, however, the funding was returned to the Subdivision Park Trust Fund, as that fund was the primary fronting source for the project.

The 2012-2013 revenues of $48.8 million were $11.8 million above the 2011-2012 level of $37.0 million primarily due to stronger Construction and Conveyance Tax receipts ($9.0 million) and higher transfers ($4.0 million), partially offset by lower miscellaneous contributions ($933,000) and grant revenue ($225,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Expenditure Performance

In 2012-2013, transfers to other funds and capital project expenditures totaled $49.3 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 $40.0 million (44.8%) below the budgeted expenditure level of $89.3 million, and is primarily the result of unexpended capital project funds. A portion of these expenditure savings were anticipated and the funds were rebudgeted as part of the 2013-2014 Adopted Capital Budget ($14.1 million) or are recommended to be rebudgeted as part of this report to complete the projects ($8.6 million). After the rebudget adjustments that were included in the 2013-2014 Adopted Capital Budget and the rebudgets as recommended in this report are considered, the expenditure variance will be $17.3 million or 19.4%.

The following is a list of projects in which unexpended balances in 2012-2013 exceeded $500,000:

		($000s)
Council District 1:	Mise Park Sports Field Development	$ 822
Council District 4:	TRAIL: Lower Guadalupe River (Gold Street to Highway 880)	1,819
	TRAIL: Bay Trail Reach 9B Design	550
Council District 5:	TRAIL: Lower Silver Creek Reach 4/5A (Alum Rock Avenue to Highway 680)	1,295
Council District 7:	Roberto Antonio Balermino Park	2,288
	West Evergreen Park	1,562
Council District 10:	Allen at Steinbeck School Soccer Field	2,166
City-Wide:	City-wide FMC Property Loan Repayment	8,000
	Coleman Soccer Fields	2,339
	Coy Park Playground Renovation	600
Library:	Materials Handling Technology	2,600
	Branch Libraries FF&E	648
	Acquisition of Materials	637
Total		**$25,326**

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

- The Mise Park Sports Field Development project had an expenditure variance of $822,000 due to a favorable bid environment resulting in the bids received being significantly lower than the engineer's estimate. As part of the 2013-2014 budget process, a total of $775,000 was reallocated from the project budget to a corresponding reserve, which can be used for future needs at Mise Park Sports Field.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Expenditure Performance

- The TRAIL: Lower Guadalupe River (Gold Street to Highway 880) project had an expenditure variance of $1.8 million due to the construction contract award being lower than estimated, resulting in project savings. Funding was rebudgeted as part of the 2013-2014 Adopted Capital Budget, but as the project is complete and funds are no longer needed, this report includes a recommendation to eliminate the funding in 2013-2014.

- The TRAIL: Bay Trail Reach 9B Design project had an expenditure variance of $550,000 due to the third-party review and approval of the project's environmental documents taking longer than anticipated. The necessary review process extended the schedule and has delayed further work on preparation of construction documents. It is anticipated for work to resume on the construction documents in 2013. This expenditure variance was anticipated and rebudgeted as part of the 2013-2014 budget process.

- The TRAIL: Lower Silver Creek Reach 4/5A (Alum Rock Avenue to Highway 680) project had an expenditure variance of $1.3 million due to the project being delayed as a result of a new consultant hired to address a more complex set of project issues than had been initially anticipated. This expenditure variance was anticipated and rebudgeted as part of the 2013-2014 Adopted Capital Budget.

- The Roberto Antonio Balermino Park had an expenditure variance of $2.3 million due to a delay in completing the construction documents for the project. The project design was altered to create a more visually dynamic space and to enhance the play experiences at the park. An expenditure variance of $2.5 million was anticipated and rebudgeted as part of the 2013-2014 budget process. An additional budget adjustment is recommended as part of this report to reduce the project ($174,000) as part of the rebudget true-up adjustments.

- The West Evergreen Park project had an expenditure variance of $1.6 million due to a delay in the project beginning construction. The project is currently anticipated to begin construction in December 2013 and complete in August 2014. A recommendation is included in this report to rebudget the unexpended funds to 2013-2014.

- The Allen at Steinbeck School Soccer Field project had an expenditure variance of $2.2 million due to a delay related to a change in the project scope to add an additional soccer field. The construction drawings for this project are currently with the Department of State Architect for review. Construction of the soccer fields is anticipated to begin in spring 2014 and be completed in fall 2014. A recommendation is included in this report to rebudget the unexpended funds to 2013-2014.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Expenditure Performance

- The City-wide FMC Property Repayment project had an expenditure variance of $8.0 million as this appropriation, which had been established to repay a portion of the loan associated with the FMC Property, was not necessary in 2012-2013. As described in the Revenue Performance section, this funding was not needed in 2012-2013 because the FMC property was not sold, and this funding is not recommended to be rebudgeted to 2013-2014 as part of this report. However, if this appropriation and the associated interfund loan transfer from the Subdivision Park Trust Fund are needed, actions will be brought forward as part of a City Council memorandum or as part of a future budget process for City Council consideration.

- The Coleman Soccer Fields project had an expenditure variance of $2.3 million due to a delay in beginning the construction phase of the soccer fields. Issues related to storm water, environmental, grading, and drainage at the site took longer than anticipated. However, it is currently anticipated that construction will begin soon, and the project will be completed by summer 2014. A recommendation is included in this report to rebudget the unexpended funds to 2013-2014.

- The Coy Park Playground Renovation had expenditure variance of $600,000 due to the design phase for the project being funded from the Park Trust Fund. The construction phase of the project (which will be funded from the Parks City-Wide C&C Tax Fund) is currently anticipated to begin in fall 2013 and be completed in summer 2014. This expenditure variance was anticipated and rebudgeted as part of the 2013-2014 Adopted Capital Budget.

- The Materials Handling Technology project to improve the efficiency of the checkout and check-in process at branch libraries has been delayed as the Library administration continues to research the current Radio Frequency Identification technology and assess if the efficiencies created would be cost effective and to ensure that this project aligns with the strategic priorities of the Library Department. This expenditure variance ($2.6 million) was anticipated and rebudgeted as part of the 2013-2014 budget process.

- 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 $648,000 in 2012-2013, of which $200,000 was anticipated and rebudgeted as part of the 2013-2014 Adopted Capital Budget. The remaining unexpended funds ($448,000) are recommended to be rebudgeted to 2013-2014 as part of this report.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Expenditure Performance

- 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 $637,000, of which $550,000 was anticipated and rebudgeted as part of the 2013-2014 Adopted Capital Budget.

The 2012-2013 expenditure level of $49.3 million was $8.0 million above the 2011-2012 expenditure level of $41.3 million. This variance is primarily the result of a higher C&C Tax collection level in 2012-2013 compared to 2011-2012, which resulted in higher expenditure transfers from the Parks Central C&C Tax Fund to the ten Council Districts and Parks City-Wide C&C Tax Funds. In addition, a one- time transfer from the Council District 4 C&C Tax Fund to the Subdivision Park Trust Fund occurred in 2012-2013 ($845,000). Funding was received from Pacific Gas and Electric (PG&E) for an expanded easement on City-owned property. However, since this property was donated to the City from a developer in lieu of parkland fees, revenue received from the easement is required to be allocated in the Subdivision Park Trust Fund for future land acquisition costs in the surrounding area.

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact*	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$130,609	$62,029	$78,699	$16,670	($9,061)	$7,609	6.2%

* 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 27, 2013.

The 2012-2013 Ending Fund Balance of $78.7 million was $16.7 million above the estimate used to develop the 2013-2014 Adopted Capital Budget. This variance was due primarily to lower than anticipated project expenditures ($18.6 million) and higher than anticipated Construction and Conveyance Tax revenue ($4.4 million), partially offset by lower than anticipated transfers between funds ($5.6 million) and grant revenue ($562,000). A significant portion of expenditure savings are recommended for rebudget as part of this report ($8.6 million), which in conjunction with the $495,000 rebudgeted as part of the City Council memorandum approved on August 27, 2013, brings the revised Ending Fund Balance variance to $7.6 million.

As described in more detail in the General Obligation Bond Funds discussion contained elsewhere within this section of the Annual Report, an internal reconciliation of the Branch Library Bond Projects Fund revealed approximately $4.0 million of expenditures that occurred in prior years that are not eligible for reimbursement from bond proceeds. Since these expenses could not be submitted to the bond trustee for reimbursement, this had the effect of creating a negative balance of $4.0 million in the Library Bond Fund. Recent capital expenditures of approximately $621,000 that were paid from the

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Library C&C Fund have been deemed to be reimbursable from bond proceeds. Actions included in this report, therefore, transfer $621,000 to and from the Library C&C Fund and the Branch Library Bond Projects Fund to appropriately align expenditures and to allow for bond reimbursement for these expenses, thereby lowering the outstanding amount of non-reimbursable expenditures to $3.4 million.

Further, due to higher than anticipated C&C revenues received in 2012-2013, a recommendation is also included to establish an Ineligible Branch Libraries Bond Projects Reserve in the amount of $625,000 for future transfer to the Library Bond Fund. The 2015-2019 Capital Improvement Program will include a recommendation to transfer funds from the Library C&C Fund to the Library Bond Fund. This transfer will fund the construction of capital projects in the Library Bond Fund that are eligible for reimbursement from bond proceeds. Over the next several years, these transfers will allow for the construction of a variety of bond-eligible improvements at the City's branch libraries, while simultaneously allowing a phased pay down of the outstanding $3.4 million in Library Bond Fund capital expenditures that have been determined as ineligible to be reimbursed from bond proceeds. It should be noted that transferring C&C funding to the Library Bond Fund limits the ability of the Library Capital Program to fund non-construction activities such as books and materials.

This report also includes recommended adjustments totaling $1.7 million in several Construction and Conveyance Tax funds to allocate new funding to various projects, including the Reserve: Facilities Improvements (Fire Construction and Conveyance Tax Fund - $620,000), Rancho del Pueblo Netting Replacement (Parks City-Wide Construction and Conveyance Tax Fund - $319,000), Copper Wire Replacement (Parks City-Wide Construction and Conveyance Tax Fund - $288,000), Happy Hollow Park and Zoo Minor Renovations (Parks City-Wide Construction and Conveyance Tax Fund - $197,000), TRAIL: Three Creeks Interim Improvements and Trestle Bridge (Parks City-Wide Construction and Conveyance Tax Fund - $188,000), Calabazas Basketball Court Renovation (Council District 1 Construction and Conveyance Tax Fund - $70,000), Facilities Improvements (Fire Construction and Conveyance Tax Fund - $32,000), and the Family Camp Master Plan (Parks City-Wide Construction and Conveyance Tax Fund - $30,000). Information on these adjustments can be found in Section IV of this report, Recommended Budget Adjustments and Clean-up Actions. The remaining fund balance is recommended to be allocated to the respective funds' 2013-2014 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

Revenue and Expenditure Performance
($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$68,347	$55,292	($13,055)	(19.1%)
Expenditures	$72,452	$43,527	($28,925)	(39.9%)

Revenue Performance

In 2012-2013, revenues totaled $55.3 million and were generated primarily from the following: Construction Excise Tax ($17.8 million), miscellaneous revenue (including Traffic Impact Fees) ($15.0 million), State grants ($9.3 million), federal grants ($5.8 million), other agencies receipts ($5.6 million), and Valley Transportation Authority ($1.6 million). The 2012-2013 revenues were lower than the modified budget by $13.1 million primarily due to lower receipts of federal grants ($9.5 million) and State grants ($4.9 million), partially offset by higher than estimated receipts of miscellaneous revenue ($1.5 million) and Construction Excise Tax ($838,000).

While revenue from the Federal Government came in $9.5 million lower than budgeted, this variance was largely assumed in the development of the 2013-2014 Adopted Capital Budget. Of this variance, Pavement Maintenance – State Route Relinquishment ($5.8 million) was rebudgeted to 2013-2014 and Pavement Maintenance – Federal ($1.7 million) was assumed to be received in 2014-2015 in the 2014-2018 Capital Improvement Program (CIP). State grants came in lower than budgeted ($4.9 million) due primarily to decreased State Gas Tax receipts.

Construction Excise Tax collections exceeded the budgeted level by $838,000 due to higher than estimated issuances of residential multi-unit permits, as well as commercial valuation. At $17.8 million, 2012-2013 Construction Excise Tax receipts were slightly below (1.1%) the strong collection level of $18.0 million in 2011-2012. The 2013-2014 Adopted Budget estimate of $14.0 million does not assume a continuation of such high collection levels and allows for a decrease of 21% from 2012-2013 actual tax receipts. However, the sustainability of the 2012-2013 collection level will be monitored as the year progresses, and an upwards adjustment to the 2013-2014 budgeted revenue estimate may be brought forward for City Council consideration based on actual 2013-2014 performance.

Miscellaneous revenues of $15.0 million were $1.5 million higher than budgeted primarily due to Route 101/Oakland Mabury Traffic Impact Fee collections ($868,000) and a Transfer from the Economic Development Enhancement Fund ($450,000). The Traffic Impact Fee revenue is only budgeted after it is received, and its use is restricted to the areas for which the fees are collected. With the close out of the Economic Development Enhancement Fund in 2012-2013, $450,000 that was included in the Construction Taxes Incentive Program Reserve was transferred to the Construction Excise Tax Fund. These funds were originally set aside to reduce the impact to the Traffic Capital Improvement Fund of suspending the collection of construction taxes on tenant improvements and equipment installations for

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

Revenue Performance

research and development uses, data center uses, and installation of solar photovoltaic systems as approved by the City Council on January 31, 2012.

The 2012-2013 collection level of $55.3 million was $12.2 million (28.4%) higher than the 2011-2012 level of $43.1 million primarily due to higher miscellaneous revenue ($7.3 million), other agencies ($5.5 million), and federal grants ($4.3 million), partially offset by lower collections in State grants ($4.5 million) and developer contributions ($392,000).

Expenditure Performance

In 2012-2013, expenditures of $43.5 million were primarily attributed to Pavement Maintenance – State Gas Tax ($13.6 million), Pavement Maintenance – Federal ($4.9 million), Pavement Maintenance – Measure B ($4.4 million), Montague Expressway North San José – County Settlement Agreement ($4.0 million), transfers to the General Fund for general purpose and pavement maintenance activities ($2.8 million), American Disability Act Sidewalk Accessibility Program ($1.7 million), Montague Expressway Improvements ($1.6 million), BART Design and Construction ($839,000), Prop 111 Congestion Management ($784,000), City-Wide and Public Works Capital Support Costs ($760,000), Santa Clara/Alum Rock Bus Rapid Transit ($675,000), Traffic Flow Management and Signal Retiming ($500,000), and numerous other projects with total expenditures less than $500,000.

The 2012-2013 expenditure level of $43.5 million was $28.9 million (39.9%) below the modified budget. This variance was primarily attributable to the following projects: Pavement Maintenance - State Route Relinquishment ($5.8 million), Pavement Maintenance – State Gas Tax ($4.5 million), Pavement Maintenance - City ($3.5 million), Pavement Maintenance – Federal ($2.3 million), Bicycle and Pedestrian Facilities ($1.6 million), Recovery Act – Street Resurfacing and Rehabiliation ($1.5 million), Prop 1B Street Maintenance ($1.2 million), Route 101/Mabury Land Acquisition, and Autumn Street Extension ($1.0 million), Pavement Maintenance – Measure B ($616,000), Coyote Creek Trail ($500,000), and other projects totaling $6.4 million all with variances below $500,000. These expenditure variances were primarily due to delays in projects. The delays resulted from several factors including issues with granting agencies, competing workload demands, unexpected complications in the design/construction process, and procurement issues. Of the $28.9 million in expenditure savings, $14.3 million was rebudgeted and an additional $3.8 million was anticipated and redistributed to other projects as part of the 2013-2014 Adopted Capital Budget. A total of $8.7 million is recommended for rebudget in this report offset by ending fund balance and revenue, to ensure sufficient funding for existing projects in 2013-2014.

The 2012-2013 expenditure level of $43.5 million was $10.8 million (33.0%) higher than the 2011-2012 level of $32.7 million primarily due to higher Pavement Maintenance – Measure B ($4.4 million),

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

Expenditure Performance

Pavement Maintenance – Federal ($4.2 million), Montague Expressway NSJ – County Settlement Agreement ($4.0 million), Pavement Maintenance – State Gas Tax ($2.4 million), ADA Sidewalk Accessibility Program ($1.5 million), Montague Expressway Improvements ($1.1 million), partially offset by lower expenditures for Prop 1B – Pavement Maintenance ($2.9 million), Capitol Expressway: Story Road and Aborn Road Improvements ($1.3 million), Bicycle and Pedestrian Facilities ($819,000), Automated Transit Network ($694,000), and Pavement Maintenance – City ($590,000).

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$116,876	$50,773	$61,383	$10,610	($6,948)	$3,662	3.1%

The 2012-2013 Ending Fund Balance of $61.4 million was $10.6 million above the estimate used to develop the 2013-2014 Adopted Capital Budget. This variance was due to expenditure savings ($13.0 million), partially offset by lower revenues ($2.4 million).

It is recommended that a portion of the additional fund balance be allocated to rebudget funds for various capital projects ($7.1 million) to ensure sufficient funding for project continuation in 2013-2014 including Pavement Maintenance – Federal ($2.3 million), Pavement Maintenance – City ($1.5 million), Pavement Maintenance – State Gas Tax ($1.4 million), Pavement Maintenance – Measure B ($1.0 million), Bicycle and Pedestrian Facilities ($779,000), Capitol Expressway – Story and Aborn Improvements ($296,000), and $1.6 million in various other projects totaling less than $250,000. Downward adjustments of $172,000, including Prop 1B – Pavement Maintenance ($120,000), Safety – Signs and Markings ($28,000), Walk n Roll ($13,000), Diridon Station Planning ($11,000) are recommended since several projects did not achieve the 2012-2013 assumed savings. Revenue supported rebudgets totaling $1.8 million are also recommended primarily attributable to One Bay Area Grant – Pavement Maintenance – Federal ($1.7 million) for the STP project originally scheduled to be completed in 2012-2013 and delayed due to weather. This project is scheduled to be completed in 2013-2014.

In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to: increase the Safe Access San José Revenue by $186,000 and appropriate these funds to the Safe Access San José project to award the Leigh and Dry Creek intersection improvements in 2013-2014; and increase the Earned Revenue for the State of California by $150,000 and appropriate these funds to the Street Tree Inventory project to complete the project. This report also includes recommendations to increases the Reserve – Route

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

101/Oakland Mabury Traffic Impact Fees by $868,000 to recognize traffic impact fees collected in May 2013 from developers and increase the North San José Deficiency Plan Improvements appropriation by $94,000 for sidewalks, bus shelters, bike lanes, and other improvements in North San José. After accounting for all recommended rebudgets and adjustments, approximately $2.7 million will be added to the Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION AND CULTURAL AFFAIRS FUND

Revenue and Expenditure Performance
($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$41,791	$31,275	($10,516)	(25.2%)
Expenditures	$46,392	$33,582	($12,810)	(27.6%)

Revenue Performance

In 2012-2013, revenues totaling $31.3 million were generated from operating revenues from the City's convention facilities ($22.9 million) as managed by Team San José, transfers from the Transient Occupancy Tax (TOT) Fund ($7.2 million), proceeds from City National Bank for naming rights to the Civic Auditorium and Center for the Performing Arts ($1.2 million), and interest earnings ($9,000). The 2012-2013 revenues fell short of the budget estimate by $10.5 million (25.2%) primarily due to a delay in the need to issue commercial paper related to the Convention Center Expansion/Renovation project ($10.0 million), which will instead be issued in 2013-2014, combined with a technical accounting adjustment of prior year accounts receivables related to this fund ($924,000).

The 2012-2013 revenues tracked 21.1% ($5.4 million) above the 2011-2012 level of $25.8 million due to increases in operating revenues from the City's convention facilities ($3.5 million), naming rights revenue from City National Bank ($1.2 million), and the transfer from the TOT Fund ($774,000).

TOT receipts recognized in the TOT Fund are allocated according to the Council-approved distribution formula to three program categories (San Jose 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 2012-2013 approximately $30,000 above budgeted levels, a recommendation is included in this document, according to the Council-approved distribution formula, to increase the 2013-2014 transfer from the TOT Fund to the Convention and Cultural Affairs Fund by $14,900. For more information on the 2012-2013 performance of the TOT Fund, please refer to the TOT Fund in this section of the document.

Expenditure Performance

In 2012-2013, expenditures of $33.6 million were primarily attributed to costs associated with operating the Convention Center and cultural facilities ($26.8 million); fixtures, furnishings and equipment (FF&E) to outfit the expanded and remodeled Convention Center ($1.8 million); a variety of miscellaneous capital repairs and replacements ($1.4 million); and a Transfer to the General Fund ($1.2 million) for Team San José contract oversight, City overhead, cultural facility cost-sharing, and Mexican Heritage Plaza support. Total expenditures were $12.8 million (27.6%) below the modified budget primarily because commercial paper proceeds ($10.0 million) were not yet required to pay the contractor

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION AND CULTURAL AFFAIRS FUND

Expenditure Performance

for work on the Convention Center Expansion/Renovation project. Other significant savings included Civic Auditorium/Center for the Performing Arts Marketing and Capital Improvement ($870,000), FF&E ($754,000), Miscellaneous Improvements & Repairs ($263,000), and Commercial Paper Debt Service ($222,000). A portion of the $12.8 million in expenditure savings was anticipated and rebudgeted as part of the development of the 2013-2014 Adopted Budget ($10.5 million); additional rebudgets of $1.6 million are recommended and discussed further below.

Expenditures in this fund were 28.1% above the 2011-2012 level of $26.2 million due primarily to higher Convention Facilities Operations expenses ($4.6 million) based on the higher activity level, FF&E ($1.6 million), and Miscellaneous Improvements & Repairs ($800,000).

When the 2012-2013 Budget was developed, it was assumed that revenues and expenditures would be negatively impacted by the Convention Center Expansion/Renovation project. However, due to an improving economy and Team San José's ability to grow labor and food and beverage revenue and generate short-term bookings, activity at the Convention Center greatly outperformed original expectations. With the grand opening of the Convention Center occurring in fall 2013, activity is expected to remain high in 2013-2014.

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustment Impact*	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$50,685	$4,850	$6,606	$1,756	($1,576)	$180	0.4%

* 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 27, 2013.

The 2012-2013 Ending Fund Balance of $6.6 million was $1.8 million above the estimate used to develop the 2013-2014 Adopted Budget. This variance was due to facility revenues that were higher than the estimates used in the development of the 2013-2014 Budget ($1.4 million) and lower than anticipated expenditures ($376,000).

It is recommended that unexpended funds for Fixtures, Furnishing and Equipment ($754,000), Civic Auditorium/Center for the Performing Arts Marketing and Capital Improvement ($470,000), and Miscellaneous Improvements & Repairs ($263,000) be rebudgeted as part of the actions included in this report. Combined with the early rebudget of $89,000 for Center for Performing Arts improvements, the total amount of unexpended funds recommended for rebudget into 2013-2014 is $1.6 million.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION AND CULTURAL AFFAIRS FUND

Actions also included in this report recommend allocating $140,000 of remaining fund balance to the Center for Performing Arts Improvements to pay for the abatement of unexpected asbestos encountered during the upgrade of the fire protection system. An additional $140,000 is recommended for Miscellaneous Improvements & Repairs to fund integration of the heating and cooling system software across several cultural facilities, and the purchase of replacement trash cans. The $140,000 adjustment is recommended to be funded from the remaining additional fund balance ($40,000) and the Capital Reserve ($100,000). Combined with the original budget of $250,000 and the recommended rebudget of $263,000, the budget available for Miscellaneous Repairs and Improvements in 2013-2014 will total $653,000. The 2013-2014 remaining fund balance would remain relatively unchanged at $1.1 million.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

GENERAL OBLIGATION BOND FUNDS

Revenue and Expenditure Performance ($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$12,157	$4,003	($8,154)	(67.1%)
Expenditures	$29,575	$19,660	($9,914)	(33.5%)

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 remains to be issued for the Branch Library Bond Projects Fund and $3.3 million remains 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 2013-2014. In 2012-2013, revenues totaled $4.0 million and were generated primarily from miscellaneous revenues ($2.5 million), transfers from the General Fund and the Construction and Conveyance Tax Fund ($690,000), two grants from the State of California related to the Guadalupe River Trail ($652,000) and interest earnings ($187,000). The negative revenue variance of $8.2 million (67.1%) primarily represents lower than estimated Library bond proceeds ($5.9 million) and Public Safety bond proceeds ($3.4 million). Library Bond Fund miscellaneous revenues of $2.5 million were higher than the budgeted revenue by $469,000. The variance is directly related to the revenue from the sale of the original Bascom Branch land site of $2.5 million that was higher than budgeted estimate by $469,000 (23%).

The 2012-2013 revenue of $4.0 million was $1.9 million above the 2011-2012 total of $2.1 million. This increase is primarily due to the sale of the original Bascom Branch land site, partially offset by lower transfers and interest earnings.

Expenditure Performance

Expenditures in the G.O. Bond Funds totaled $19.7 million and were broken down as follows: Public Branch Libraries Bond Projects Fund ($3.0 million); Neighborhood Security Act Bond Fund ($2.4 million); and Parks and Recreation Bond Projects Fund ($14.3 million). Expenditures in 2012-2013 were $9.9 million (33.5%) below the modified budget due primarily to unexpended capital project funds. Of the $9.9 million expenditure variance, $6.0 million was attributable to savings in the Fire Station 21 Relocation ($4.0) and Soccer Complex ($2.0 million) appropriations. Construction of Fire Station 21 was expected to begin in 2012-2013, but it has experienced delays in the design process; the construction is now scheduled for award this winter. The Soccer Complex project variance is due to project delays as a result of design changes that differed from the original bid. The project is currently scheduled to be completed by the end of 2014.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

GENERAL OBLIGATION BOND FUNDS

Expenditure Performance

The majority of the savings in the Bond Funds were anticipated and either rebudgeted to 2013-2014 as part of the 2013-2014 Adopted Capital Budget or redistributed to other projects. Additional budget adjustments are recommended in this report to reduce projects as part of rebudget true-up adjustments and to rebudget savings to 2013-2014 to allow for completion of projects. After the rebudget adjustments that were included in the 2013-2014 Adopted Capital Budget and the rebudget adjustments recommended in this report are considered, the expenditure variance will total $3.0 million (10.3%).

Expenditures in the G.O. Bond Funds in 2012-2013 were $6.4 million higher than expenditures in 2011-2012. This increase in expenditures is primarily the result of several projects having significant expenditures in 2012-2013, including Fire Station 21 Relocation, Soccer Complex, and Southeast Branch.

An internal reconciliation of the Branch Library Bond Projects Fund revealed approximately $4.0 million of expenditures that occurred in prior years that are not eligible for reimbursement from bond proceeds: $2.3 million resulting from a clerical error related to the Alum Rock land purchase, $1.4 million in past program management costs, and $350,000 for Public Works capital program support. These expenses were originally paid from other funds and reimbursed from the Library Bond Fund. However, since these expenses could not be submitted to the bond trustee for reimbursement, this had the effect of creating a negative balance of $4.0 million in the Library Bond Fund. Recent capital expenditures of approximately $621,000 that were paid from the Library Construction and Conveyance (C&C) Tax Fund have been deemed to be reimbursable from bond proceeds. Actions included in this report, therefore, transfer $621,000 to and from the Library C&C Fund and the Branch Library Bond Projects Fund to appropriately align expenditures and to allow for bond reimbursement for these expenses, thereby lowering the outstanding amount of non-reimbursable expenditures to $3.4 million.

This remaining negative balance will be eliminated within a period no longer than five years by shifting the budgeting for bond-eligible projects from the Library C&C Fund to the Library Bond Fund. Due to higher than anticipated C&C revenues received in 2012-2013, a recommendation is included in the Library C&C Fund to establish an Ineligible Branch Libraries Bond Projects Reserve in the amount of $625,000 for future transfer to the Library Bond Fund. The 2015-2019 Capital Improvement Program will include a recommendation to transfer funds from the Library C&C Fund to the Library Bond Fund. This transfer will fund the construction of capital projects in the Library Bond Fund that are eligible for reimbursement from bond proceeds. Over the next several years, these transfers will allow for the construction of a variety of bond-eligible improvements at the City's branch libraries, while simultaneously allowing a phased pay down of the outstanding $3.4 million in Library Bond Fund capital expenditures that have been determined as ineligible to be reimbursed from bond proceeds. It should be noted that transferring C&C funding to the Library Bond Fund limits the ability of the Library Capital Program to fund non-construction activities such as books and materials. For additional

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

GENERAL OBLIGATION BOND FUNDS

Expenditure Performance

information, please refer to the Construction and Conveyance Tax Funds discussion contained elsewhere within this section of the Annual Report.

Ending Fund Balance Performance ($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact*	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$65,925	$35,932	$38,387	$2,455	($789)	$1,666	2.5%

* 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 27, 2013.

The 2012-2013 Ending Fund Balance of $38.4 million was $2.5 million above the estimate used to develop the 2013-2014 Adopted Capital Budget. This variance was primarily due to lower than anticipated project expenditures ($1.8 million) and higher than anticipated grant revenue ($624,000). A portion of expenditure savings are recommended for rebudget as part of this report ($176,000), which in conjunction with the $613,000 rebudgeted as part of the City Council memorandum approved on August 27, 2013, brings the revised Ending Fund Balance variance to $1.7 million (2.5%).

In addition to other budget adjustment actions, this report also recommends increasing the Fire Station 21 Relocation appropriation by $765,000. A construction award for this project was initially expected to occur in spring 2013, with a corresponding budget increase to align the project budget with the construction cost estimate. With the project now expected to be awarded in the winter, a budget adjustment is recommended in this report to align with the estimated project cost.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

GENERAL PURPOSE PARKING FUND

Revenue and Expenditure Performance ($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$11,584	$12,145	$562	4.8%
Expenditures	$16,054	$13,221	($2,832)	(17.6%)

Revenue Performance

In 2012-2013, revenues of $12.1 million were generated from parking garages and lots ($9.6 million), parking meters ($2.4 million), miscellaneous revenue ($48,000), interest earnings ($34,000), and a transfer from the Parking Capital Development Revenue Fund ($19,000). The 2012-2013 revenues exceeded the 2012-2013 budget by approximately $562,000 (4.8%), primarily due to higher than budgeted revenues from parking garages and lots ($398,000) and parking meters ($141,000).

The revenue generated from parking activity in 2012-2013 was $374,000 (3.2%) above the 2011-2012 revenues of $11.8 million primarily due to higher revenue from parking garages and lots ($565,000) and parking meters ($269,000), offset by lower revenue from San José Redevelopment Agency facilities ($374,000) and a lower transfer from the Parking Capital Development Fund ($134,000). The increase is partially attributable to additional revenue generated at the Market Street/San Pedro Garage ($264,000) associated with increased activity at this facility and the Convention Center Garage ($72,400), as this facility was impacted less by the Convention Center Renovation and Expansion project than originally anticipated.

Expenditure Performance

In 2012-2013, expenditures of $13.2 million were primarily attributed to Department of Transportation (DOT) non-personal/equipment ($5.1 million), debt service payments for the 4th and San Fernando garage ($3.4 million), DOT personal services ($1.9 million), garage elevator updates ($694,000), and transfers to the General Fund ($497,000). Expenditures were $2.8 million (17.6%) below the modified budget, with the variance primarily due to savings in various capital projects ($2.6 million), DOT non-personal/equipment ($68,000), Public Works Department personal services ($43,000), and DOT personal services ($38,000). Savings in the Parking Capital Program were primarily due to various timing delays and $2.3 million of these savings were rebudgeted to 2013-2014 as part of the 2013-2014 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 Public Works and DOT Personal Services appropriations were generated by lower than budgeted overtime expenses and higher than anticipated vacancy levels.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

GENERAL PURPOSE PARKING FUND

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

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$25,490	$12,044	$13,066	$1,022	$0	$1,022	4.0%

The 2012-2013 Ending Fund Balance of $13.1 million was $1.0 million above the estimate used to develop the 2013-2014 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.

Included in this document is a recommendation to increase the Successor Agency to Redevelopment Agency (SARA) appropriation by $44,000 to allow for the transfer of additional revenues generated by the SARA parking lots that are managed by the City (Almaden/Balbach, San Pedro/Bassett, and South Hall). Actual 2012-2013 revenue from the South Hall and Almaden/Balbach parking lots exceeded estimates, and revenue from the San Pedro/Bassett parking lot from January 2011 to July 2013 was not previously included.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Revenue and Expenditure Performance ($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$124,979	$122,534	($2,446)	(2.0%)
Expenditures	$130,392	$126,369	($4,023)	(3.1%)

Revenue Performance

In 2012-2013, revenues totaled $122.5 million and were generated from the following: Recycle Plus Collection Charges ($105.4 million), Lien-Related Charges ($6.7 million), AB939 Fees ($5.3 million), a one-time payment from the New Market Tax Credit (NMTC) Proceeds/Reimbursements ($2.7 million), Construction and Demolition Diversion Deposit (CDDD) Ineligible Refunds ($1.2 million), and other sources of revenue ($1.7 million). The 2012-2013 revenues fell short of the budget by $2.4 million (2.0%) primarily due to lower NMTC Proceeds/Reimbursement ($2.1 million) and lower than expected Lien-Related Charges ($481,000). The delay of the Environmental Innovation Center (EIC) project located on Las Plumas Avenue has delayed NMTC proceeds. 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, a Clean Technology Demonstration Center, conference space, and a Habitat for Humanity ReStore to sell discounted, new, and surplus construction materials.

This 2012-2013 revenue collection level was $15.1 million (11.0%) below the 2011-2012 level of $137.7 million primarily due to the one-time NMTC Transaction – 1 day loan payment ($8.0 million), one-time EIC-Ground Lease payment ($8.0 million), and one-time NMTC Proceeds – First Draw payment ($4.7 million) that occurred in 2011-2012, partially offset by a one-time NMTC Proceeds/Reimbursement ($2.7 million) payment and higher than anticipated AB939 Fees ($2.0 million) in 2012-2013.

Expenditure Performance

In 2012-2013, expenditures of $126.4 million were primarily attributed to the Single-Family Dwelling Recycle Plus contracts ($49.7 million), Yard Trimmings/Street Sweeping contract ($22.5 million), Multi-Family Dwelling Recycle Plus contracts ($17.2 million), Household Hazardous Waste Las Plumas Facility ($7.2 million), IDC Disposal Agreement ($8.6 million), Environmental Services Department (ESD) Personal Services ($6.3 million) and Non-Personal/Equipment ($4.0 million) appropriations.

In 2012-2013, expenditures were $4.0 million (3.1%) below the modified budget. The most significant savings were in the Household Hazardous Waste Las Plumas Facility ($2.3 million) due to project delays, and ESD Non-Personal/Equipment ($1.1 million) appropriations. While actual savings of $2.26 million were realized in the Household Hazardous Waste Las Plumas Facility appropriation, $4.7 million was rebudgeted as part of the 2013-2014 Adopted Operating Budget. This report includes a

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Expenditure Performance

recommendation to decrease the 2013-2014 Household Hazardous Waste Las Plumas Facility appropriation by $2.4 million from $4.7 million to $2.3 million to reduce this over-rebudget based on actual 2012-2013 expenditures. The funding in the Household Hazardous Waste Las Plumas Facility is for furniture, fixtures and equipment for the Household Hazardous Waste Las Plumas Facility.

Expenditures in this fund, including transfers, were $28.0 million (21.5%) below the 2011-2012 level of $154.4 million due primarily to NMTC Transaction Leverage Loan ($19.6 million), the NMTC Transaction One-Day Loan Repayment ($8.0 million) and Household Hazardous Waste Las Plumas Facility ($2.6 million) appropriation expenditures in 2011-2012, partially offset by higher Single-Family Recycle Plus ($1.3 million), and Yard Trimmings/Street Sweeping ($1.3 million) expenditures which occurred in 2012-2013.

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance from Estimate	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$134,264	$7,478	$7,787	$309	$4,958	5,267	3.9%

The 2012-2013 Ending Fund Balance of $7.8 million was attributed to higher expenditure savings of $9.3 million, partially offset by lower revenues of $1.7 million. In 2012-2013, revenues fell short by approximately $1.7 million compared to estimated levels primarily due to reimbursements that were not received from the NMTC Proceeds/Reimbursement ($2.1 million), partially offset by higher lien related fees ($221,000), recycle plus collection reimbursements ($169,000), and CDDD Ineligible Refunds ($160,000). Expenditures in 2012-2013 generated savings of approximately $9.3 million primarily in the Household Hazardous Waste Las Plumas Facility ($5.2 million) and ESD Non-Personal/Equipment ($2.3 million) appropriations. The variance of $309,000 from the 2012-2013 estimate was a result of lower revenues offset by higher expenditure savings.

As described in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes several recommendations. As part of the 2013-2014 Adopted Budget, savings of $2.4 million for the Household Hazardous Waste Las Plumas Facility appropriation were anticipated and rebudgeted for finishing furniture and equipment expenditures. Due to an administrative error, this rebudget was approved for $4.7 million. To correct this error and to align 2012-2013 actual expenditure savings of $2.26 million, a downward adjustment of $2.44 million to the Household Hazardous Waste Las Plumas Facility appropriation is included as part of the 2012-2013 reconciliation. Also, an AB939 settlement of $880,530 that was available for the EIC project was anticipated to have savings of $822,290 and was rebudgeted as part of the 2013-2014 Adopted Budget. However, actual

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

expenditures were $468,749, therefore, a downward adjustment of $410,509 is recommended to the EIC (Misc Funding Sources) revenue estimate.

It is also recommended to rebudget revenue that is now anticipated to be received in 2013-2014 for the Safe Routes to Schools Creative Grant ($6,000) and NMTC Proceeds/Reimbursements ($2.1 million) for the Household Hazardous Waste Las Plumas Facility project. The fund balance will be increased by $5.0 million with the recommended budget adjustments and clean-up actions.

While not reflected in the 2012-2013 Annual Report actions, on September 17, 2013, the City Council approved several actions related to the EIC project that impacted the Integrated Waste Management Fund. Due to construction delays and the original contractor's failure to appear at the construction site and subsequently filing Chapter 7 bankruptcy, the surety Liberty Mutual Insurance Company will be completing the EIC project. Additional funding of $1.1 million will now be allocated to the renamed EIC (Misc Funding Sources) appropriation for construction costs. This additional funding was offset by a reduction to the HHW Las Plumas Facility ($600,000), ESD Non-Personal/Equipment ($318,000) and Ending Fund Balance ($120,000), and additional HHW revenues from the County that are anticipated to be received in 2013-2014,

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

LIBRARY PARCEL TAX FUND

Revenue and Expenditure Performance
($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$7,517	$7,714	$197	2.6%
Expenditures	$8,175	$6,037	($2,138)	(26.2%)

Revenue Performance

In 2012-2013, revenues totaled $7.7 million and were generated primarily from parcel tax revenue ($7.7 million) and interest earnings ($14,000). The 2012-2013 revenues exceeded the modified budget by $197,000, or 2.6%, due to higher than budgeted parcel tax revenue.

Revenues in 2012-2013 were $238,000 (3.1%) above the 2011-2012 level of approximately $7.5 million due to higher Library Parcel Tax collections ($237,000) and higher interest earnings ($1,000). The increase in Library Parcel Tax collections is attributable to the 2012-2013 rate increase of 3.0% based on the Consumer Price Index (CPI) as approved by the City Council in June 2012 with an effective date of July 1, 2012.

Expenditure Performance

In 2012-2013, expenditures of $6.0 million were primarily generated from Library Department Personal Services ($3.0 million), Acquisition of Materials ($1.9 million), Non-Personal/Equipment ($534,000), and Automation Projects ($514,000) appropriations. This expenditure level was $2.1 million, or 26.2%, below the modified budget primarily due to savings in various appropriations such as Library Personal Services ($861,000) given a high number of vacancies in the department, Automation Projects ($610,000) due to procurement delays, and Acquisition of Materials ($388,000) due to a priority realignment that resulted in staff focusing on purchasing collections for the new branch libraries rather than acquiring new materials for the system as a whole. This report includes a recommendation to rebudget $300,000 for Acquisition of Materials to purchase new materials and supplement existing collections, increasing per capita holdings for residents. The rebudget brings the expenditure variance to $1.8 million, or 22.5% in savings.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

LIBRARY PARCEL TAX FUND

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$14,504	$7,685	$8,668	$983	($300)	$683	4.7%

The 2012-2013 Ending Fund Balance of $8.7 million was $983,000 above the estimate used to develop the 2013-2014 Adopted Budget. This variance is primarily the result of the combined impact of the lower than estimated expenditures and higher than estimated revenues.

As discussed above, it is recommended that a portion of the additional fund balance be rebudgeted to Acquisition of Materials ($300,000). The remaining fund balance of $683,000 is recommended to be allocated to the 2013-2014 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

PUBLIC WORKS PROGRAM SUPPORT FUND

Revenue and Expenditure Performance
($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$12,822	$13,519	$697	5.4%
Expenditures	$13,324	$13,145	($179)	(1.3%)

Revenue Performance

In 2012-2013, revenues totaling $13.5 million were primarily generated through Transfers from Capital Projects for Compensated Absences ($7.0 million), Public Works Program Support ($4.2 million), and Capital Program Support ($2.3 million). The 2012-2013 revenues exceeded the budget estimate by $697,000 due to higher than budgeted transfers for Public Works Program Support ($423,000), Compensated Absences ($181,000), and Capital Program Support ($96,000), offset by lower than anticipated interest earnings ($3,000). The 2012-2013 collection level was $3.8 million (38.6%) above the 2011-2012 level of $9.7 million due, in part, to increases in the Public Works Program Support ($1.6 million) and Capital Program Support ($893,000) rates applied to each capital program and an increase in the Compensated Absence rate ($1.3 million) based on estimated absence and direct labor costs.

Included in this report is a recommended decrease of $652,000 to the Transfers from Capital Program Support ($193,000) and Public Works Program Support ($459,000) revenue estimates in order to align revenues with estimated expenditures and ensure full cost recovery. This action would be offset by a reduction to the 2013-2014 Ending Fund Balance. As part of the development of the 2013-2014 Adopted Budget, higher than necessary expenditure estimates were inadvertently used to generate the revenue estimates for this fund.

Expenditure Performance

In 2012-2013, expenditures of $13.1 million were primarily comprised of compensated time off ($6.6 million), Public Works Department personal services ($3.9 million), overhead ($1.2 million), compensated absences liability ($700,000), Public Works Department non-personal/equipment ($495,000), and the Human Resources Department personal services ($104,000). Overall, expenditure savings of $179,000 (1.3%) primarily reflects unexpended funding for compensated time off ($146,000) and Human Resources Department personal services costs ($37,000). The expenditures in this fund were $345,000 (2.7%) above the 2011-2012 level of $12.8 million due primarily to higher Public Works Department personal services ($248,000), overhead ($240,000), compensated time off ($140,000), and Public Works Department non-personal/equipment ($89,000) costs, partially offset by lower transfers ($217,000) and Valley Transportation Authority Collaboration expenditures ($120,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

PUBLIC WORKS PROGRAM SUPPORT FUND

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

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
$13,929	$504	$1,503	$999	$0	$999	7.2%

The 2012-2013 Ending Fund Balance of $1.5 million is $999,000 (7.2%) above the estimate of $504,000 used to develop the 2013-2014 Adopted Budget. This variance is primarily the result of the combined impact of the lower than estimated expenditures and higher than estimated revenues. As discussed above, a decrease to the 2013-2014 revenue estimate for Transfers is recommended in order to align revenues with estimated expenditures and will decrease the Ending Fund Balance by $652,000. With the adjustments recommended in this report, it is estimated that the fund will have a remaining unrestricted fund balance of $1.6 million for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE/SANTA CLARA TREATMENT PLANT CAPITAL FUND

Revenue and Expenditure Performance
($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$39,703	$41,826	$2,123	5.3%
Expenditures	$96,794	$42,928	($53,866)	(55.6%)

Revenue Performance

In 2012-2013, revenues totaled $41.8 million and were generated primarily from Transfers from the Sewer Service and Use Charge Fund ($23.3 million) and the Sewage Treatment Plant Connection Fee ($3.1 million), federal grants ($7.7 million), contributions from the tributary agencies for equipment projects and debt service payments ($4.8 million), SBWR Strategic Plan Contribution ($1.2 million), Santa Clara Valley Water District contributions ($1.0 million), Calpine MEC repayments ($406,000), and interest earnings ($322,000). This revenue level was $2.1 million (5.3%) above the budgeted estimate, mainly due to higher receipts of grants from the U.S. Bureau of Reclamation ($6.4 million), partially offset by lower than budgeted contributions from the Tributary Agencies ($4.5 million). Contributions from the Tributary Agencies reflect the true cost of these Agencies' 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 2012-2013 collection level was $1.4 million (3.0%) below the 2011-2012 level of $43.2 million due primarily to lower contributions from the tributary agencies for equipment projects ($4.7 million) and a lower transfer from the Sewer Service and Use Charge Fund ($4.5 million) in 2012-2013, offset by higher U.S. Bureau of Reclamation Grant funds ($7.3 million) and higher SBWR strategic plan contributions ($1.2 million) in 2012-2013.

Expenditure Performance

In 2012-2013, expenditures of $42.9 million were primarily attributed to capital improvement projects ($27.5 million) and debt service payments ($11.4 million). This expenditure level was $53.9 million (55.6%) below budget. The largest projects included the Revised South Bay Action Plan – SBWR Extension ($5.0 million), Plant Infrastructure Improvements ($3.6 million), Treatment Plant Distributed Control System ($2.4 million), SBWR Master Plan ($2.0 million), Equipment Replacement ($1.7 million), Plant Master Plan ($1.6 million), Plant Backup Water Supply ($1.5 million), and Plant Electrical Reliability ($1.4 million). Projects with the largest amounts of unused funding at the end of 2012-2013 included Digester Rehabilitation ($12.5 million), Headworks No. 2 Enhancement ($6.7 million), Revised South Bay Action Plan - SBWR Extension ($3.7 million), Secondary and Nitrification Clarifier Rehabilitation ($3.2 million), Combined Heat and Power Technology Evaluation ($2.5 million), and Plant Infrastructure Improvements ($2.2 million). These projects were mainly delayed due

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE/SANTA CLARA TREATMENT PLANT CAPITAL FUND

Expenditure Performance

to staffing shortages and some procurement issues. Of the $53.9 million in savings, approximately $44.2 million was rebudgeted for use in 2013-2014 as part of the 2013-2014 Adopted Capital Budget. After accounting for these rebudgets, approximately $9.6 million in savings remained at the end of 2012-2013. Additional net rebudgets of $1.2 million are recommended in this document, thereby reducing the remaining expenditure variance to $8.4 million.

Expenditures in this fund were $5.9 million or 12.0% lower than the 2011-2012 level of $48.8 million, primarily due to lower capital project expenditures resulting from staffing shortages and some procurement issues.

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

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustment)
$167,245	$118,373	$127,270	$8,897	($1,193)	$7,704	4.6%

The 2012-2013 Ending Fund Balance of $127.3 million was $8.9 million above the estimate used to develop the 2013-2014 Adopted Budget. Of this Ending Fund Balance, total net rebudgets of $1.2 million are recommended. The remaining variance of $7.7 million is recommended to be allocated to the 2013-2014 Ending Fund Balance for future use. These funds are not recommended to be rebudgeted to 2013-2014 as a result of scope refinement for several projects including the SBWR System Reliability and Infrastructure Replacement ($1.1 million), New Biosolids Facility ($1.0 million), East Primary Rehabilitation, Seismic Retrofit, and Odor Control ($1.0 million), Fine Bubble Membrane Diffuser Conversion ($1.0 million), and Urgent and Unscheduled Treatment Plant Rehabilitation ($815,000). In anticipation of the implementation of Package 2 projects, which include the Energy Generation Improvements and New Biosolids Facility projects, ESD is reprioritizing projects to maintain the funding levels that are programmed in the 2014-2018 Capital Improvement Program.

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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)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$208,549	$214,918	$6,369	3.1%
Expenditures	$215,793	$208,595	($7,198)	(3.3%)

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 2012-2013, gross revenues in these funds totaled $214.9 million and were generated primarily from sewer service and use charges for residential ($104.4 million), commercial ($22.3 million), and industrial ($4.1 million) users; a transfer from the Sewer Service and Use Charge (SSUC) Fund ($49.0 million) to the San José/Santa Clara Treatment Plant Operating Fund; contributions from tributary agencies ($15.5 million); contributions from the City of Santa Clara ($9.9 million); recycled water sales and rebates ($4.2 million); and Connection Fees ($2.3 million).

Revenue collections ended the year $6.4 million (3.1%) above budget primarily due to higher sewer service and use charge collections for commercial users ($3.2 million), higher sales of recycled water ($1.5 million), and higher contributions from the City of Santa Clara ($462,000) and the other tributary agencies ($407,000). The 2012-2013 combined revenue level was also $17.6 million (8.9%) above the 2011-2012 level of $197.4 million, primarily due to higher SSUC Fund transfers ($9.0 million), higher service and use charge collections for commercial users ($3.5 million), higher contributions from the tributary agencies, including the City of Santa Clara ($2.5 million), and a higher Fiber Optics Fund loan repayment ($2.2 million).

Expenditure Performance

In 2012-2013, gross expenditures of $208.6 million were primarily attributed to: Transfers from the Sewer Service and Use Charge Fund to the Treatment Plant Operating Fund ($49.0 million), Sewer Service and Use Charge Capital Fund ($25.0 million), and Treatment Plant Capital Fund ($23.3 million); Environmental Services Department (ESD) personal services ($39.2 million); ESD non-personal/equipment ($33.5 million); overhead reimbursements ($10.7 million); and Department of Transportation personal services ($10.5 million) and non-personal/equipment ($6.2 million). Expenditures ended the year $7.2 million below the modified budget due primarily to savings in ESD personal services ($4.3 million), workers' compensation claims ($715,000), and major litigation costs ($450,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE/SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Expenditure Performance

In 2012-2013, expenditures were $5.4 million (3.0%) above the 2011-2012 level of $203.2 million, primarily due to higher ESD personal services ($3.7 million) and Department of Transportation non-personal/equipment ($1.6 million) costs.

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$284,847	$80,285	$86,767	$6,482	$0	$6,482	2.3%

The 2012-2013 Ending Fund Balance of $86.8 million was $6.5 million above the estimate used to develop the 2013-2014 Adopted Budget, primarily due to higher sewer service and use charge collections for commercial users revenues ($3.3 million) and staff vacancy savings.

It is 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 the IDC Disposal Contract appropriation be reduced by $31,850 to align with actual funding of $128,000 that is necessary for this contract in 2013-2014.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL PROGRAM

Revenue and Expenditure Performance
($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$26,969	$26,791	($178)	(0.7%)
Expenditures	$106,380	$39,249	($67,131)	(63.1%)

Revenue Performance

The Sanitary Sewer Capital Program includes the Sewer Service and Use Charge Capital Fund and the Sanitary Sewer Connection Fee Fund. In 2012-2013, revenues totaling $26.8 million were generated primarily from a Transfer from the Sewer Service and Use Charge Fund ($25.0 million), Connection Fees ($790,000), Joint Participation revenue ($645,000), and interest earnings ($268,000).

In total, 2012-2013 revenues ended the year $178,000 below the budgeted estimate primarily due to lower Joint Participation revenue ($515,000), partially offset by higher Connection Fees ($140,000) and interest earnings ($133,000). 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; however, this revenue shortfall is offset by corresponding project savings.

The 2012-2013 revenues were $5.9 million below the 2011-2012 level of $32.7 million due primarily to a lower transfer from the Sewer Service and Use Charge Fund (down $6.0 million from $31.0 million in 2011-2012 to $25.0 million in 2012-2013), partially offset by higher Joint Participation revenue ($438,000).

Expenditure Performance

In 2012-2013, expenditures totaled $39.2 million. The largest projects in this program with over $1.0 million in expenditures were the Condition Assessment Sewer Repairs ($4.0 million), Sanitary Sewer Condition Assessment Phase II ($3.6 million), Spreckles Sanitary Sewer Force Main Supplement ($3.4 million), Monterey-Riverside Sanitary Sewer, Phase V ($2.8 million), Cast Iron Pipe-Remove and Replace ($2.5 million), Miscellaneous Projects ($2.5 million), Infrastructure – Sanitary Sewer Condition Assessment ($2.4 million), Reinforced Concrete Pipe Rehabilitation Program ($2.3 million), 60" Brick Interceptor Rehabilitation ($2.0 million), Flow Monitoring Program – Master Planning ($1.9 million), Miscellaneous Rehabilitation Projects ($1.8 million), Moorpark-Meridian Trunk Sewer Rehabilitation, Phase III ($1.1 million), Inflow and Infiltration Reduction ($1.0 million), and Rehabilitation of Sanitary Sewer Pump Stations ($1.0 million).

The 2012-2013 expenditures ended the year 63.1% ($67.1 million) below the budgeted level of $106.4 million. This variance was primarily due to project delays as a result of staff vacancies and procurement

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL PROGRAM

Expenditure Performance

processes. Projects with the largest savings include the 60" Brick Interceptor Rehabilitation, Phase VIA and VIB ($26.0 million), Almaden Expressway Sanitary Sewer Improvement ($3.9 million), Monterey-Riverside Relief Sanitary Sewer ($3.2 million), Coleman Road Sanitary Sewer Improvement ($3.2 million), Husted-Richland Sanitary Sewer Improvements ($2.7 million), Rehabilitation of Sanitary Sewer Pump Stations ($2.4 million), Immediate Replacement and Diversion Projects ($2.3 million), and Almaden Road Supplement Sewer Rehabilitation ($2.0 million). Of the $67.1 million expenditure variance, $50.9 million was rebudgeted and $6.1 million was reprogrammed for other purposes as part of the 2013-2014 Adopted Capital Budget. An additional $8.4 million is recommended to be rebudgeted as part of this document, thereby reducing the expenditure variance to $1.7 million or 1.6%.

Expenditures in this fund were $8.2 million (21.0%) above the 2011-2012 level of $31.0 million, primarily due to higher Spreckles Sanitary Sewer Force Main Supplement ($3.0 million), Monterey-Riverside Sanitary Sewer, Phase V ($2.7 million), Cast Iron Pipe – Remove and Replace ($2.5 million), Infrastructure – Sanitary Sewer Condition Assessment ($2.4 million) project expenditures in 2012-2013.

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$131,004	$79,331	$92,152	$12,821	($8,378)	$4,443	3.4%

The 2012-2013 Ending Fund Balance of $92.2 million was $12.8 million above the estimate used to develop the 2013-2014 Adopted Budget. This variance was due to lower than expected expenditures partially offset by lower than expected revenues. This document recommends rebudgets of $8.4 million for a number of projects, including the Immediate Replacement and Diversion Projects ($1.5 million), Cast Iron Pipe – Remove and Replace ($1.5 million), and Urgent Rehabilitation and Repair Projects ($1.3 million). The remaining fund balance of $4.4 million is recommended to be allocated to the 2013-2014 Ending Fund Balance and available for future use.

In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes a recommendation to increase the Miscellaneous Revenue – Insurance Proceeds by $477,000 to recognize an anticipated settlement payment from a surety to complete construction of a pipeline rehabilitation project on Montague Expressway. The Immediate Replacement and Diversion Projects appropriation is recommended to be increased by the corresponding amount.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER CAPITAL PROGRAM

Revenue and Expenditure Performance
($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$6,218	$5,901	($317)	(5.1%)
Expenditures	$18,613	$9,161	($9,452)	(50.8%)

Revenue Performance

In 2012-2013, revenues totaled approximately $5.9 million and were generated from a transfer from the Storm Sewer Operating Fund ($5.6 million), Storm Drainage Fees ($260,000), interest earnings ($37,000), and joint participation revenue ($4,000). The 2012-2013 revenues came in below the budget estimate of $6.2 million (5.1%) primarily due to a delay in the transfer from the Alviso Ring Levee Fund that was anticipated to be received in 2012-2013 ($445,000) but will now be received in 2013-2014, offset by increased revenue in Storm Drainage Fees ($119,000) and interest earnings ($9,000).

The 2012-2013 collection level was $325,000 (5.2%) below the 2011-2012 level of $6.2 million primarily due to a lower planned transfer from the Storm Sewer Operating Fund (down $400,000 from $6.0 million in 2011-2012 to $5.6 million in 2012-2013), offset by a Storm Drainage Fee revenue increase of $77,000 (29.6%) to $260,000.

Expenditure Performance

In 2012-2013, expenditures totaled $9.2 million. Major projects contributing to this expenditure level were the Storm Drainage Improvements – Special Corridors ($1.7 million), Storm Pump Station Rehabilitation and Replacements ($1.6 million), Master Planning ($918,000), and the Alviso Storm Network Infiltration Control ($637,000).

The expenditure level was $9.5 million (50.8%) below the modified budget due primarily to unexpended funds associated with Master Planning ($2.2 million), Miscellaneous Projects ($1.5 million), Minor Neighborhood Storm Drain Improvements ($969,000), and Gold Street Pump Station Force Main ($908,000) projects. Expenditures related to these projects were delayed due to staff vacancies, delays in awarding contracts, and delays in obtaining permits to complete work on several projects. Of the $9.5 million expenditure variance, $5.3 million was rebudgeted and $801,000 reprogrammed for other purposes as part of the 2013-2014 Adopted Capital Budget. An additional $3.1 million is recommended to be rebudgeted as part of this document, thereby, reducing the expenditure variance to approximately $225,000 or 1.2%.

Expenditures in this program were $2.2 million (30.7%) above the 2011-2012 level of $7.0 million primarily due to higher spending on Storm Drainage Improvements – Special Corridors ($1.5 million),

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER CAPITAL PROGRAM

Expenditure Performance

Alviso Storm Network Infiltration Control ($636,000), and Upper Bird Avenue Storm Sewer Improvements ($600,000) in 2012-2013.

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$20,362	$7,130	$10,923	$3,793	($3,103)	$690	3.4%

The 2012-2013 Ending Fund Balance of $10.9 million was $3.8 million above the estimate used to develop the 2013-2014 Adopted Budget. This variance was mainly due to the lower than expected expenditures in Urgent Flood Prevention and Repair Projects ($979,000), Minor Neighborhood Storm Drain Improvements ($969,000), Outfall Rehabilitation – Capital ($393,000), Storm Pump Station Rehabilitation & Replacements ($379,000), and Storm Drainage Improvements – Special Corridors ($317,000).

It is recommended that $3.1 million of the Ending Fund Balance be allocated to rebudget funds for the continuation of several projects, including the Minor Neighborhood Storm Sewer Improvements ($969,000), Urgent Flood Prevention and Repair Projects ($936,000), Outfall Rehabilitation ($392,000), and Storm Pump Station Rehabilitation and Replacement ($378,000). The remaining balance of $690,000 is recommended to be allocated to the 2013-2014 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER OPERATING FUND

Revenue and Expenditure Performance
($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$32,112	$32,504	$392	1.2%
Expenditures	$31,464	$28,567	($2,897)	(9.2%)

Revenue Performance

In 2012-2013, revenues totaled $32.5 million and were generated primarily by storm sewer service fee assessments ($32.1 million), other non-operating revenues ($380,000), and interest earnings ($43,000). The slight positive variance to the budget of $392,000 (1.2%) was mainly due to higher than expected miscellaneous revenues ($380,000). The miscellaneous revenues received in 2012-2013 were attributed to Bay Area Stormwater Management Agencies Association reimbursements for the design and construction costs for the installation of a hydrodynamic separator device to treat stormwater in the Leo Avenue drainage area of San José.

The 2012-2013 revenue level was $409,000 (1.3%) above the 2011-2012 level of $32.1 million due to higher miscellaneous revenues ($334,000), assessments ($66,000), and interest ($8,000).

Expenditure Performance

Expenditures in this fund are focused primarily on maintenance and operation of the Storm Sewer System and stormwater pollution reduction. In 2012-2013, expenditures of $28.6 million consisted primarily of a Transfer to the Storm Sewer Capital Fund ($5.6 million), Department of Transportation (DOT) personal services ($5.4 million), Environmental Services Department (ESD) personal services ($4.8 million), ESD non-personal/equipment ($3.4 million), DOT non-personal/equipment ($2.5 million), overhead reimbursements ($2.4 million), and yard trimmings/street sweeping contract ($2.1 million) costs.

This spending level was $2.9 million (9.2%) below the modified budget. The most significant savings were in the ESD personal services expenditures ($1.1 million) due to vacancy savings and DOT ($733,000) and ESD ($729,000) non-personal/equipment expenditures primarily due to contract delays and delays in implementing elements of the short term trash load reduction plan such as the auto retractable screens pilot program. Of the $2.9 million expenditure variance, savings in the DOT Non-Personal/Equipment ($488,000) and Personal Services ($33,000) appropriations were rebudgeted as part of the 2013-2014 Adopted Budget for the Supervisor Control and Data Acquisition (SCADA) implementation, purchase of a front loader, and street sweeping signage installation.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER OPERATING FUND

Expenditure Performance

Expenditures in this fund were $1.6 million (4.9%) below the 2011-2012 level of $30.1 million due primarily to a decrease in ESD non-personal/equipment ($751,000) due to project delays, ESD personal services ($818,000) due to vacancy savings, and the Transfer to the Storm Sewer Capital Fund ($400,000) based on projected 2012-2013 capital project needs, partially offset by higher spending in yard trimmings/street sweeping contracts ($410,000), Public Works personal services costs ($220,000) and overhead costs ($191,000) in 2012-2013.

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impacts	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$52,467	$23,647	$24,672	$1,025	$0	$1,025	2.0%

The 2012-2013 Ending Fund Balance of $24.7 million was $1.0 million above the estimate used to develop the 2013-2014 Adopted Budget. This variance was partially due to lower than estimated expenditure levels in yard trimmings ($476,000), DOT non-personal/equipment ($88,000), and DOT personal services ($87,000). Actual revenues were also approximately $454,000 higher than the estimate primarily due to miscellaneous revenues ($364,000), and assessments ($89,000). The remaining fund balance of $1.0 million is recommended to be allocated to the 2013-2014 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

TRANSIENT OCCUPANCY TAX FUND

Revenue and Expenditure Performance ($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$15,157	$15,188	$31	0.2%
Expenditures	$16,608	$14,874	($1,734)	(10.4%)

Revenue Performance

In 2012-2013, revenues generated from Transient Occupancy Tax (TOT) receipts totaled $15.2 million, the highest amount collected since the 2000-2001 peak of $16.4 million. Of this amount, approximately $15.1 million was for 2012-2013 activity, with an additional $60,000 generated from taxes that should have been paid in prior years ($35,000) and associated penalties ($25,000) due to a biennial TOT compliance audit. Total TOT revenues ended the year 11.0% above 2011-2012 revenue collections of $13.7 million, and 0.2% above the 2012-2013 modified budget. The strong revenue performance in 2012-2013 is reflected in the average occupancy rate for the City's 14 largest hotels climbing from 61.6% to 66.6% and a $10 increase in the average room rate for the same set of hotels (from $129 to $139).

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 $14.9 million ended the year $1.7 million below the modified budget due to savings in the Cultural Development category, which includes the Cultural Grants and Cultural Grants Administration appropriations. Approximately $1.0 million of these savings was rebudgeted to 2013-2014 as part of the Adopted Budget. At year-end, after accounting for funds previously rebudgeted, additional savings of $765,000 in the Cultural Development category were realized in the Cultural Grants ($651,000) and Cultural Grants Administration ($114,000) appropriations. Savings from these appropriations are recommended to be rebudgeted into the Cultural Grants appropriation as part of this report.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

TRANSIENT OCCUPANCY TAX FUND

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

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$19,572	$4,050	$4,849	$799	($765)	$34	1.1%

The 2012-2013 Ending Fund Balance of $4.8 million was $799,000 above the estimate used to develop the 2013-2014 Adopted Budget. This variance was primarily due to lower than anticipated expenditures ($765,000) in the Cultural Development category, which are recommended to be rebudgeted into 2013-2014 elsewhere in the report. Revenues also ended the year slightly above estimate ($31,000) due to compliance revenues and penalties and, as a result, this report recommends corresponding increases in 2013-2014 to the following categories according to the City Council approved distribution formula: Cultural Development ($7,500), Convention and Visitor's Bureau ($7,500), and Transfer to the Convention and Cultural Affairs Fund ($14,900).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL PROGRAM

Revenue and Expenditure Performance
($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$2,793	$3,154	$361	12.9%
Expenditures	$5,761	$3,294	($2,467)	(42.8%)

Revenue Performance

In 2012-2013, revenues totaled $3.2 million and were generated primarily from a Transfer from the Water Utility Fund ($2.6 million) and fees paid by developers for direct services ($527,000). The fees consist of Major Facilities Fees ($317,000), Advanced System Design Fees ($87,000), Meter Installation Fees ($75,000), and Service Connection Fees ($48,000). The 2012-2013 revenues came in above the budget estimate of $2.8 million by $361,000, or 12.9%, mainly due to higher collections for major facilities fees ($317,000) and advanced system design fees ($37,000).

The developer fee revenues ended the year $16,000 (2.9%) below the 2011-2012 levels. Major Facilities Fees were $52,000 below the 2011-2012 level. However, the Advanced System Design Fees were $21,000 (31.7%) above the 2011-2012 level and the Meter Installation Fees were $5,000 (7.6%) above the 2011-2012 level.

Expenditure Performance

In 2012-2013, expenditures totaled $3.3 million. Major projects in this program included Infrastructure Improvements ($894,000), System Maintenance/Repairs ($750,000), Bon Bon Drive Replacement ($455,000), and Service Installations ($446,000).

Expenditures were $2.5 million (42.8%) below budget due primarily to savings or delays in the following projects: Nortech and Trimble Reservoir Rehabilitation ($1.1 million), Bon Bon Drive Main Replacement ($505,000), and Infrastructure Improvements ($316,000). Of the $2.5 million in savings, $1.3 million was rebudgeted and $428,000 was redistributed for other purposes in the 2013-2014 Adopted Budget. Expenditures for 2012-2013 in this fund were $1.1 million or 24.9% below the 2011-2012 level of $4.4 million.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL PROGRAM

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact*	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$11,832	$8,564	$9,255	$691	($191)	$500	4.2%

* 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 27, 2013.

The 2012-2013 Ending Fund Balance of $9.3 million was $691,000 above the estimate used to develop the 2013-2014 Adopted Budget primarily due to higher than estimated revenues ($283,000) and lower than estimated expenditures ($408,000).

It is recommended that $66,000 of the Ending Fund Balance be allocated to rebudget funds to execute a consultant agreement for infrastructure improvements. Additionally, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes a recommendation to increase the Meter Installations project ($14,000). Estimated revenues from 2012-2013 exceeded the estimate and will be used to purchase, test and install water meters for customers. The remaining fund balance of $500,000 is recommended to be allocated to the 2013-2014 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

Revenue and Expenditure Performance
($ in Thousands)

	2012-2013 Budget	2012-2013 Actuals	Variance	% Variance
Revenues	$29,241	$31,866	$2,625	9.0%
Expenditures	$30,833	$30,591	($242)	(0.8%)

Revenue Performance

In 2012-2013, revenues totaled $31.9 million and were generated from potable and recycled water sales ($31.5 million), late fees ($307,000), and interest earnings ($21,000). The favorable variance to the budget of $2.6 million (9.0%) was mainly due to higher than budgeted revenues from potable water sales ($2.5 million), late fees ($82,000), and interest earnings ($1,700). The higher potable water sales were driven mainly by drier weather in the late spring.

Expenditure Performance

In 2012-2013, expenditures of $30.6 million were primarily for Environmental Services Department (ESD) non-personal/equipment ($22.7 million), ESD personal services ($3.4 million), a transfer to the Water Utility Capital Fund ($2.6 million), and overhead expenses ($895,000). Expenditures ended the year $242,000 (0.8%) below budget, due primarily to savings in Finance personal services ($66,000), workers' compensation claims ($58,000), ESD personal services ($48,000), and ESD non-personal/equipment ($15,000) appropriations. It should be noted that due to higher potable water sales, the ESD non-personal/equipment appropriation was anticipated to exceed the budget. To maintain expenditures below the 2012-2013 budget levels, expenditures that were deemed capital related were shifted to the Infrastructure Replacements appropriation in the Water Utility Capital Fund.

Expenditures in this fund were $2.0 million (6.6%) above the 2011-2012 level of $28.6 million due primarily to a higher ESD non-personal/equipment expenditures ($2.8 million), partially offset by a lower transfer to the Water Utility Capital Fund ($700,000) in 2012-2013. The higher ESD non-personal/equipment expenditures can be attributed to higher than expected wholesale purchases of potable water and distribution of potable water to customers.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

Ending Fund Balance Performance
($ in Thousands)

2012-2013 Modified Budget	2012-2013 Estimated Ending Fund Balance	2012-2013 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustment)
$36,964	$7,708	$9,170	$1,462	$0	$1,462	4.0%

The 2012-2013 Ending Fund Balance of $9.2 million was approximately $1.5 million above the estimate used to develop the 2013-2014 Adopted Budget. This variance was largely due to higher than estimated revenues from potable water sales ($2.0 million) used in the development of the 2012-2013 budget and interest earnings ($11,000), offset by higher than estimated ESD non-personal/equipment ($696,000) expenditures. No rebudget adjustments are recommended for this fund. The remaining fund balance of $1.5 million is recommended to be allocated to the 2013-2014 Ending Fund Balance for future use.