2012-2013

Mid-Year Budget Review

Section II

Selected Special/ Capital Funds Status Report

2012-2013
MID-YEAR BUDGET REVIEW

II. SELECTED SPECIAL/CAPITAL FUNDS STATUS REPORT

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

Status of Selected Special and Capital Funds

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

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Revenues – Airport Revenue Fund	115,609,261	55,737,886	48.2%
Expenditures – Airport Maintenance and Operation Fund	63,684,827	22,945,944	36.0%

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

FUND STATUS

Revenues – General Airport revenue categories include Landing Fees, Terminal Rentals, Airfield, Terminal Concessions, Parking and Roadway, and General and Non-Aviation. Passenger activity levels at the Airport through December 2012 increased by 0.9% when compared to the same period last fiscal year. Overall revenue performance at the Airport of $55.7 million, or 48.2%, is tracking slightly above anticipated levels, compared to a benchmark of 48.1%. Airline rates and charges, primarily landing fees and terminal rentals, are slightly above the budgeted estimates due to the higher than projected common use gates and ticket counters revenues. The performance of airfield revenues also exceeds projections due to the increase of off-airport in-flight kitchen revenues. Overall parking and roadway revenues continue to slightly exceed the estimated budget.

Total general and non-aviation revenues, consisting primarily of fees associated with hangars, land and building rental, petroleum program, general aviation, and other non-aviation (miscellaneous) revenues, are tracking on target. Within this category, petroleum revenue exceeded the estimated budget by 30% as a result of increased per gallon fuel flowage charges from $0.10 per gallon to $0.20 per gallon that took effect in November 2012.

In this document, a downward adjustment to Parking & Roadway revenue estimate ($677,991) with an offsetting decrease in Non-Personal/Equipment expenditures and the Reserve Per Airline Agreement ($246,599) is recommended. On September 18, 2012, the City Council approved a new agreement with On-Demand Ground Transportation Services (Taxi San José) which resulted in Taxi San José collecting

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

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

FUND STATUS

permit fees and performing administrative functions directly rather than the Airport collecting and remitting the fees to Taxi San José. This allows for a reduction in both revenues and expenses.

Expenditures – Operating expenditures, appropriated in the Airport Maintenance and Operation Fund, include Personal Services, Non-Personal/Equipment, and overhead reimbursements. Through December, Airport Personal Services and Non-Personal/Equipment expenditures are tracking below budgeted levels.

Personal Services expenditures are tracking at 46.0%. Savings are due to vacancies in most divisions of the department. At the close of December, the department had 16 vacancies after having filled eight vacant positions since July. Some of the vacant positions were backfilled with temporary staffing. At the January 29 City Council Meeting, the City Council approved the net addition of 4.0 positions (3.0 positions in the Airport Department and 1.0 position in the Office of Economic Development) in order to drive Airport revenue generation and enhance air service development efforts, as well as to improve staffing levels and supervision at the Airport Operations Center. The estimated cost ($330,000) for these positions for the remainder of the fiscal year will be absorbed through vacancy savings. Overtime expenditures are $120,000 and are in line with expectations and will be closely monitored for the remainder of the fiscal year.

Non-Personal/Equipment expenditures (excluding encumbrances) are tracking at 28.3%, and when encumbrances are included, are tracking at 55.8% of budgeted levels. The department's efforts to efficiently operate and maintain the facilities while continuing to be fiscally responsible has resulted in effective cost controls. It is anticipated that through conservative spending, as in previous years, savings in the Non-Personal/Equipment appropriation will be generated in the current fiscal year.

Several Non-Personal/Equipment appropriation adjustments are recommended in this report. As noted earlier, the most significant is to decrease the Airport's Non-Personal/Equipment appropriation for changes related to the new agreement with On-Demand Ground Transportation Services (Taxi San José) that resulted in Taxi San José taking over permit fee collection and administrative duties from the Airport ($431,392). As detailed in Section III of this report, funding reductions are also recommended for Customer Cart and Baggage Delivery Services ($275,000), which the airlines have agreed to provide using their own contractors, and for the Lounge Operator, which was signed as a concessionaire agreement ($600,000). A Non-Personal/Equipment appropriation increase of $64,700 is recommended to provide funding to host the Airport Councils International World/North American Annual Conference and Exhibition in September 2013. This increase would be offset by the recommended reduction in the Reserve for Airport Councils International Conference that was set aside for this purpose. The net impact to the Non-Personal/Equipment appropriation is a recommended decrease of $1,241,692.

Status of Selected Special and Capital Funds

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

FUND STATUS

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Unrestricted Ending Fund Balance – Airport Revenue Fund	37,108,980	N/A	N/A
Unrestricted Ending Fund Balance – Airport Maintenance and Operation Fund	29,250,959	N/A	N/A

Interdepartmental expenditures (charges for staff and services located in other City departments including the Police and Fire departments) total $4.2 million through December and are tracking at anticipated levels.

Fund Balance – In the Airport Revenue Fund, a net increase of $4,172,120 in the Ending Fund Balance is the result of the following recommendations contained in this report: an increase of $4,418,719 for changing the source of the 2007B debt service using bond proceeds rather than airline rate and charges and a decrease of $246,599 to the Parking & Roadway revenue associated with On-Demand Ground Transportation Services (Taxi San José).

Due to the recommendations previously discussed in this report, a net increase to the Ending Fund Balance of approximately $802,000 in the Airport Maintenance and Operation Fund is recommended.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Revenues	20,924,000	8,059,150	38.5%
Expenditures	30,566,167	5,329,949	17.4%

FUND STATUS

Revenues – Tax revenue in the Building and Structure Construction Tax Fund, which is a major funding source for the Traffic Capital Program, is tracking above anticipated levels. Through December, Building and Structure Construction Tax receipts totaled $6.3 million and are on pace to exceed the budgeted estimate of $10.0 million by $1.0 million to $2.0 million. The budgeted estimate for this tax allowed for a 21% decline from 2011-2012 actual receipts, as prior year collections saw unusually strong collections related to new multi-family residential construction permits issued near the later portion of the fiscal year, as well as higher than expected commercial and industrial alteration activity. However, construction activity in 2012-2013 has sustained the previous year's surge, especially in the multi-family and industrial sectors. Staff will continue to monitor revenue performance and, while no budget adjustments are recommended at this time, construction revenue estimates for 2012-2013 will be revised upward as appropriate in the 2014-2018 Five-Year General Fund Forecast and Revenue Projections document, scheduled for release late February 2013. Federal and State grants are the other major revenue sources in the Building and Structure Construction Tax Fund.

Expenditures – Overall, current year expenditures in the Building and Structure Construction Tax Fund are tracking within expected levels, however a number of expenditure adjustments are recommended in this report, offset with a decrease in the Ending Fund Balance, to keep projects moving forward that have encountered challenges in project implementation.

An increase of funding in the amount of $644,000 is recommended for The Alameda: A Plan for the Beautiful Way project to modify the project's design. The project was originally designed with landscaping elements beyond the City's typical standard as the City had an expectation that a new Maintenance District approved by property owners would help maintain the enhanced landscaping elements. However, the Maintenance District did not pass so the project required a partial redesign to eliminate the enhanced landscaping elements. Further, once the project was advertised, the lowest qualified bidder came in $1.5 million over the grant amount authorized by the Metropolitan Transportation Commission. Therefore, the project was redesigned to reduce lighting, electrical and other non-essential higher cost elements, while still maintaining the core scope of the project intact.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

FUND STATUS

An increase of funding in the amount of $550,000 is recommended for the San Carlos Multimodal Streetscape Improvements Phase II project to address several unforeseen design challenges, especially with regard to utility conflicts. The additional funding of $360,000 will provide for higher Public Works Department construction management expenses, and $190,000 will be directed to VTA to redesign several facilities, including the relocation of light rail communication cabinets that were unknown until design work had been underway. Other recommended increases in project funding include Traffic Signal Communications and Synchronization ($291,000), Traffic Signal and Lighting Program ($108,000), Bus Rapid Transit ($100,000), San Carlos Multimodal Streetscape Improvements Phase I ($95,000), and Capital Program and Public Works Department Support Service Costs ($50,000), as described in Section III, Recommended Budget Adjustments and Clean-up Actions.

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Unrestricted Ending Fund Balance	2,968,768	N/A	N/A

Fund Balance – A recommendation to decrease the Ending Fund Balance by $1.6 million, from $3.0 million to $1.4 million is included in this report as a result of the additional resources allocated to the projects described above and in Section III, Recommended Budget Adjustments and Clean-up Actions.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

COMMUNITY FACILITIES REVENUE FUND

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Revenues	9,141,543	6,803,295	74.4%
Expenditures	9,851,043	611,616	6.2%

FUND STATUS

Revenues – Revenue in the Community Facilities Revenue Fund accounts for income from two primary sources: (1) net revenues from the operation of the Hayes Center paid to the City by the operator of the facility (Dolce) ($4.6 million), and (2) transfers from the General Fund to cover operating shortfalls ($4.5 million). In addition, a small amount of interest earnings ($32,000) is assumed. Through December, revenues of $6.8 million, or 74.4% of the budgeted estimate have been received. The primary reason for this is the receipt of the full $4.5 million Transfer from the General Fund. Excluding this transfer, revenues of $2.3 million reflect 49.6% of the budgeted earned revenues estimate of $4.6 million.

The revenues from operating the Hayes Center provide funding for debt, operating, and capital expenditures. Through December, $1.95 million has been received from the operator for debt expenses, or 50% of the budgeted estimate. The balance of this transfer from the Hayes Center for Debt Expenses will be received in the second half of the year, and the amount will be reconciled and adjusted in alignment with the actual debt expense. The debt has a variable interest rate, thus the debt expense may vary slightly from the budgeted amount, as described in the Expenditures section below. The first installment of the transfers from the Hayes Mansion for Capital Improvements and City expenses have been received as expected, with the remaining reimbursements for actual costs anticipated to be received in the second half of the year. Interest earnings are tracking below the budgeted estimate; however, as this revenue stream constitutes less than 1.0% of the budgeted revenues, the impact to the fund is minimal.

Expenditures – Expenditures in this fund include Hayes Center Debt Service, Hayes Repair and Improvement, Hayes Consultant Costs, and a Transfer to the General Fund to provide reimbursement to the City for expenses such as accounting support, bond administration, and insurance. Expenditures of $612,000 reflect 6.2% of the budget in the Community Facilities Revenue Fund and are tracking within expected levels. The primary reason for the low expenditure level is that a $5.2 million budgeted operating subsidy transfer to the Hayes Center will take place later in the year. Overall expenditures are anticipated to end the year within budgeted levels, with the exception of one, for which an adjustment is recommended, as described below.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

COMMUNITY FACILITIES REVENUE FUND

FUND STATUS

The facility operator of the Hayes Center receives an annual subsidy from the City to cover operating shortfalls. The facility operator's expenditures include direct and indirect expenditures (not reflected in this fund), debt service, as well as expenses associated with the City's management of the fund. Because the facility operator's revenues are tracking $971,000 (16.8%) above expected levels with corresponding expenditures tracking only $432,000 (7.2%) above expected levels, and because lower than anticipated variable interest rates may lower the debt expense for the year, the facility operator is tracking to recognize net operating savings in 2012-2013. If this tracking remains, it may be possible to lower the General Fund subsidy to the operator later this year or in 2013-2014.

An increase of $26,000 to the Transfer to the General Fund is recommended as part of this report to ensure the full reimbursement of City staff time (Principal Accountant) directly associated with the Community Facilities Revenue Fund. A corresponding increase to the revenue estimate for the transfer from the Hayes Center – City Expenses is also recommended, as it is anticipated sufficient revenues will be available from the Hayes Mansion operations to reimburse this cost.

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Unrestricted Ending Fund Balance	1,274,840	N/A	N/A

Fund Balance – No adjustment to the Ending Fund Balance in the Community Facilities Revenue Fund is recommended at this time.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Revenues	38,163,500	15,370,472	40.3%
Expenditures	83,249,822	13,769,918	16.5%

FUND STATUS

Revenues – A total of 17 Construction and Conveyance (C&C) Tax Funds are budgeted throughout the Capital Budget. A majority of these funds (13) support the Parks and Community Facilities Development Capital Program, with the remaining four funds supporting the Public Safety Capital Program, Library Capital Program, Service Yards Capital Program, and Communications Capital Program. The primary source of funding in the C&C Tax Funds is C&C Tax receipts. However, grant funding, transfer revenue, and other miscellaneous revenue may also be included in these funds. Through December 2012 revenue in the C&C Tax Funds totaled $15.4 million, which is 40.3% of the 2012-2013 Modified Budget of $38.2 million. While C&C Tax receipts are tracking higher than budgeted levels, as discussed in more detail below, the year-to-date revenues are tracking low primarily as the result of grant revenue that has not yet been received, but is anticipated to be received by year-end.

As previously reported in the Bi-Monthly Financial Reports, continuing the trend experienced since mid 2011-2012, C&C Tax revenues are experiencing strong growth compared to receipts from the prior fiscal year. Receipts through December 2012 totaled $12.4 million, which is an increase of 41.0% from the $8.8 million collected during the same time period last year. The City has also received notification from the County of Santa Clara that the January Conveyance receipt totals $6.7 million, an unprecedented single month receipt. This high collection level is likely due to the timing of tax receipt processing, and not an indicator that revenues will continue at this significantly higher collection level.

Nearly 99% of the total C&C Taxes are comprised of conveyance receipts, a tax based on the value of property transfers. Consistent with the C&C Tax performance, housing statistics are also performing strongly when compared to activity levels experienced during the same time period in 2011-2012. The median single-family home price totaled $584,500 in December 2012, which is an increase of 23.2% from the $474,500 home price in December 2011. In addition, it is taking less time to sell these homes, as the average days-on-market for single-family and multi-family dwellings totaled 36 days in December 2012, which is a 57.1% drop from the 84 days experienced in December 2011. The number of listings of new single-family and multi-family dwellings on the market has dropped approximately 33.3% from 583 listings in December 2011 to 389 in December 2012. Likely as a result of the lower level of inventory, the property transfers (sales) for all types of residences dropped approximately

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

FUND STATUS

5.3% from 713 in December 2011 to 675 in December 2012. Cumulatively, property transfers from July through December totaled 4,171, which was up 3.4% from the 4,032 transfers during the first six months of 2011-2012.

The 2012-2013 Adopted Capital Budget estimate for C&C Taxes is $21.0 million, which allows for a 17.3% drop from the actual 2011-2012 collection level. However, as discussed above, year-to-date collection levels have far exceeded expectations; therefore, a recommendation is included in this report to increase the 2012-2013 C&C Tax estimate from $21.0 million to $30.0 million. The $9.0 million increase to the C&C Tax revenue estimate would be distributed as follows: Parks C&C Tax allocation ($5.8 million); Library C&C Tax allocation ($1.3 million); Service Yards C&C Tax allocation ($790,000); Fire C&C Tax allocation ($756,000); Communications C&C Tax allocation ($306,000); and Park Yards C&C Tax allocation ($108,000). With the exception of the Service Yards C&C Tax Fund and the Fire C&C Tax Fund, as described below, the additional revenue is recommended to be placed in each respective funds' Ending Fund Balance for future allocation. Further detail regarding these transactions can be found in Section III, Recommended Budget Adjustments and Clean-up Actions, of this report.

Expenditures – Overall, expenditures in the various C&C Tax Funds are tracking within expected levels through December and are anticipated to end the year within budgeted levels. This report, however, includes a few expenditure adjustments or new expenditure allocations, as described below.

- The Service Yards C&C Tax Fund includes a recommendation to establish a Reserve: Debt Service Payments in the amount of $790,000. This reserve will be available to offset 2013-2014 General Fund contributions to the debt service payments related to the Central Service Yard Phase I project. In 2012-2013, the General Fund is providing funding in the amount of $1.3 million of the $1.7 million debt service payment. In the 2013-2017 Capital Improvement Program, it is assumed that the General Fund would fund the entire $1.7 million debt service payment in 2013-2014. This new reserve will be offset by the additional C&C Tax revenue allocated to the Service Yards C&C Fund that is recommended to be recognized as part of this report.

- The Fire C&C Tax Fund includes a recommendation to establish a Reserve: Fire Facilities Improvements in the amount of $756,000. There are many fire stations in the City that are more than 50 years old and they are recently showing signs of significant maintenance and repair needs. This reserve will help to ensure that funding is available for any critical fire station needs that may arise in the near future. This new reserve will be offset by the additional C&C Tax revenue allocated to the Fire C&C Fund that is recommended to be recognized as part of this report.

Status of Selected Special and Capital Funds

CONSTRUCTION AND CONVEYANCE TAX FUNDS

FUND STATUS

- The Parks Central and Park Yards C&C Tax Funds include recommendations to increase the transfer to the General Fund by $864,000 and $16,000, respectively. Per City Council policy, 15% of Parks C&C Tax revenue is transferred to the General Fund for Parks, Recreation and Neighborhood Services Department operating and maintenance costs. Therefore, as this report includes upward adjustments to the C&C Tax revenue estimate, an increase to the General Fund transfer is recommended as well. These transfers will be offset by the additional C&C Tax revenue allocated to the Parks Central and Park Yards C&C Tax Funds that is recommended to be recognized as part of this report.

- The Parks Central C&C Tax Fund includes recommendations to increase the transfer budgets to each of the ten Council District C&C Tax Funds as well as the Parks City-Wide C&C Tax Fund. These budget adjustments are the result of the recommendation to increase the C&C Tax revenue estimate, which is recognized in the Parks Central C&C Tax Fund.

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Unrestricted Ending Fund Balance	25,692,466	N/A	N/A

Fund Balance – As previously mentioned, this report includes a recommendation to increase the current year C&C Tax revenue estimate by $9.0 million. With the exception of the Service Yards ($790,000) and Fire ($756,000) C&C Tax Funds, the increased C&C Tax revenue for the remaining funds is recommended to be allocated to the respective Ending Fund Balances ($3.3 million). This additional funding will be programmed as part of the upcoming 2013-2014 Proposed Capital Budget and the 2014-2018 Proposed Capital Improvement Program. For more detailed information regarding the Ending Fund Balance adjustments by fund, please refer to Section III, Recommended Budget Adjustments and Clean-up Actions of this report.

Status of Selected Special and Capital Funds

CONSTRUCTION EXCISE TAX FUND

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Revenues	49,626,543	17,324,286	34.9%
Expenditures	66,232,574	21,045,544	31.8%

FUND STATUS

Revenues – Construction Excise Tax receipts are the single largest source of revenue in the Traffic Capital Program, constituting approximately 26% of the budgeted revenue estimate for this fund. Through December, Construction Excise Tax receipts are tracking above anticipated levels at $7.8 million and are on pace to exceed the budgeted estimate of $13.0 million by $1.0 million to $2.0 million. The budgeted estimate for this tax allowed for a 28% decline from 2011-2012, as prior year collections saw unusually strong gains late in the year related to new multi-family residential construction, as well as higher than expected commercial alteration activity. Residential construction activity in 2012-2013 has sustained the previous year's surge, but growth is tempered by a decline in commercial-related construction. Staff will continue to monitor revenue performance and, while no budget adjustments are recommended at this time, construction revenue estimates for 2012-2013 will be revised upward as appropriate in the 2014-2018 Five-Year General Fund Forecast and Revenue Projections document, scheduled for release late February 2013.

Other major revenue sources in this fund include funds for pavement maintenance from the State Gas Tax allocation ($7.5 million), the Federal Transportation Bill ($7.3 million), federal government revenues related to Caltrans' relinquishment of certain state routes ($5.8 million), the County of Santa Clara ($5.0 million), and various grants. Most of these revenue sources are received on a reimbursement basis and are tracking within anticipated levels. Traffic Impact Fees are appropriated as they are collected from developers and are set aside in a reserve until they can be expended. Included in this report is a recommendation to increase the estimate for Traffic Impact Fees collected in the North San José area ($3.0 million) and the Evergreen area ($1.2 million), and their reserves, respectively.

This report also includes recommendations to recognize additional revenue received from the County of Santa Clara for maintenance of streets relinquished by the County to the City ($400,000), and from greater than anticipated State Gas Tax proceeds ($1.8 million) which will establish a State Gas Tax Pavement Maintenance Reserve in the same amount for use in 2013-2014.

Expenditures – Overall, expenditures in the Construction Excise Tax Fund are tracking within expected levels and are anticipated to end the year within budgeted levels. However, a number of expenditure adjustments recommended in this report decrease the Ending Fund Balance or increase grant revenue, as

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

FUND STATUS

summarized below, as well as in Section III, Recommended Budget Adjustments and Clean-Up Actions of this report.

A decrease of funding in the amount of $2.0 million is recommended for the Montague Expressway North San Jose - County Settlement Agreement, from $6.0 million to $4.0 million, to reflect the settlement payment schedule agreed to with the County of Santa Clara. According to the schedule, $4.0 million will be paid from the City to the County in 2012-2013, $2.0 million per year from 2013-2014 to 2015-2016, and a final payment of $1.0 million in 2016-2017, yielding a total payment of $11.0 million. It is further recommended to set aside the $2.0 million reduction in the 2012-2013 settlement payment into a reserve for the 2013-2014 settlement payment.

In this report, it is also recommended to turn on approximately 900 streetlights previously turned off in 2008-2009 due to budget reductions. Generally located along arterial streets, these streetlights will improve street and public safety, as well as street appearance, and will be turned on beginning in March at the rate of approximately 225 per month. One-time costs totaling $44,000 are needed for equipment, materials, and overtime to replace various lamps and fuses. The increased electricity costs in 2012-2013 can be absorbed in the General Fund due to one-time PG&E credits related to LED installations. If this recommendation is approved, starting in 2013-2014, ongoing annual electricity costs of $92,000 will be included in the General Fund as part of the Department of Transportation's 2013-2014 Base Budget.

As detailed in Section III of this report, other recommended increases to project funding include San Fernando Street Enhanced Bikeway and Pedestrian Access ($318,000), Safety: Traffic Signals & Rehabilitation ($127,000) offset with revenue from the Valley Transportation Authority, Jackson Avenue and Alexian Drive Pedestrian Improvements ($125,000) offset with developer fees, Safe Access San José ($100,000), Bicycle and Pedestrian Facilities ($48,000) offset with a Clean Air grant, and Land Management and Weed Abatement ($25,000).

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Unrestricted Ending Fund Balance	1,613,578	N/A	N/A

Fund Balance – A recommendation to decrease the Ending Fund Balance by $487,000, from $1.6 million to $1.1 million is included in this report as a result of the additional resources allocated to the projects described above and in Section III, Recommended Budget Adjustments and Clean-up Actions.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION AND CULTURAL AFFAIRS FUND

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Revenues	28,723,783	6,846,092	23.8%
Expenditures	33,731,757	14,773,547	43.8%

FUND STATUS

Revenues – The Convention and Cultural Affairs Fund is funded primarily from revenues received through the operations of the Convention Center and other cultural facilities ($11.5 million), through transfers from the Transient Occupancy Tax (TOT) Fund ($7.2 million), and the issuance of commercial paper to remodel the Convention Center kitchen and HVAC ($10.0 million). For the first half of the fiscal year, revenues of $6.8 million are tracking at 23.8% of the budget and include operations revenue of $5.2 million and a transfer of $1.6 million from the TOT Fund. Commercial paper has not yet been issued through December.

While operations revenues of $5.2 million have been recognized, the operator of the Convention and Cultural Facilities, Team San Jose (TSJ), has provided financial reports reviewed by the City showing operations revenues through December of $8.4 million, compared to a December target of $4.3 million. The better than anticipated revenue performance is primarily due to the increase of food and beverage and contract labor revenues driven by a greater than expected number of contracted events in the facilities managed by TSJ. The 2012-2013 budget was developed with the expectation that construction activity from the Convention Center expansion project would adversely impact contracted events, yet demand for facilities remains relatively strong. Due to the strong performance thus far, and the number of contracted bookings for the remainder of the fiscal year, this report includes a recommendation to increase operating revenues by $6.3 million, from $11.5 million to $17.8 million, partially offset by related expenditure increases as described below. Revenues will continue to be closely monitored as the year progresses.

In November 2012, the City Council authorized staff to negotiate and execute agreements for naming rights at the San José Civic Auditorium and sponsorship rights at the Center for the Performing Arts (CPA) for a period of five years and total fee of $1.2 million. Consequently, a $1.2 million increase in revenues is recommended to recognize funds scheduled to be received from City National Bank for naming and sponsorship. A corresponding expenditure increase is recommended and discussed below.

The full transfer of $7.2 million from the Transient Occupancy Tax is expected to be received by year-end. The commercial paper will be issued as necessary to support the Convention Center kitchen and HVAC project.

Status of Selected Special and Capital Funds

CONVENTION AND CULTURAL AFFAIRS FUND

FUND STATUS

Expenditures – Through December, expenditures of $14.8 million were tracking at 43.8% of the budget. Based on current activity levels, operating appropriations are anticipated to end the year at higher than budgeted levels, due to a greater number of contracted events, as described previously. To account for this increase and TSJ's future activity forecast, this report includes a recommendation to increase the Convention Facilities Operations appropriation by $5.1 million, from $16.4 million to $21.5 million. The increase will primarily cover food and beverage expenses and contract labor costs, which are passed on to facility users.

As recommended in this report, $870,000 of the $1.2 million naming rights revenue will be allocated to capital improvements and marketing of the Civic Auditorium and the Center for Performing Arts and $330,000 will be allocated to Front Row and Nederlander as an incentive fee for their efforts in securing the naming rights agreement.

Additionally, it is recommended that an appropriation in the amount of $150,000 be established to fund efforts for the Public Works Department to develop and administer a Request for Proposal (RFP) process to select two separate vendors for coffee concessions and business center services at the newly remodeled Convention Center. The Coffee Shop RFP will select an operator/vendor to establish a coffee concessions site at the Convention Center Plaza. In return for receiving a prime downtown location on City property, the operator/vendor will provide funding in the form of a loan or prepaid lease to construct related improvements and final build-out of the plaza. The Business Center RFP will select an operator/vendor to add essential services to event managers and participants, such as printing, copying, shipping, electronic communication, and office supplies. In return, the operator/vendor shall pay to the City as a Concession Fee, the greater of a Minimum Annual Guarantee or a Percentage Fee of revenues as described in the RFP. This appropriation only funds staff time related to the RFP processes; all construction and other physical improvement costs will be paid by the selected operators/vendors.

Due to a large volume of unanticipated urgent repairs and maintenance issues experienced at the Convention Center and Center for the Performing Arts, this report includes a recommendation to increase funding for Miscellaneous Improvements and Repairs in the amount of $500,000. The additional funds will be spent on items such as carts, trash cans, kitchen equipment, pressure washing equipment, and electrical maintenance equipment.

In assessing TSJ's performance for 2011-2012, the City Auditor determined that TSJ achieved only 84% of the target for theater performance days. While TSJ achieved an overall weighted incentive fee score of nearly 137% for 2011-2012, which would typically earn it the maximum incentive fee of $350,000, the Management Agreement stipulates that TSJ must achieve at least 90% of each performance measure to receive any incentive fee. Therefore, a recommendation is included to eliminate the Team San José Incentive Fee appropriation, yielding an expenditure reduction in the amount of $200,000.

Status of Selected Special and Capital Funds

CONVENTION AND CULTURAL AFFAIRS FUND

FUND STATUS

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Unrestricted Ending Fund Balance	2,057,982	N/A	N/A

<u>Fund Balance</u> – A recommendation to increase the Ending Fund Balance by $750,000, from $2.1 million to $2.9 million, is included in this report as a result of the net revenue from additional activity ($1.2 million) offset with net expenditure adjustment recommendations ($450,000) as described above.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Revenues	130,965,917	67,438,177	51.5%
Expenditures	134,359,317	42,801,206	31.9%

FUND STATUS

<u>*Revenues*</u> – Revenues in the Integrated Waste Management Fund include payments received from residential solid waste generators under the Recycle Plus Integrated Waste Management Program (Recycle Plus Collection Charges) ($105.7 million); New Market Tax Credit Reimbursements (NMTC) ($10.9 million); Lien-Related Charges ($7.2 million); (AB 939) fees ($4.2 million); payments received from the Construction and Demolition Deposit (CDDD) Program ($820,000) that are identified as ineligible deposits for refund; SB 332 Beverage Container Recycling payments ($255,428); NMTC leverage loan interest ($96,142); interest earnings ($78,000); franchise applications ($390); and various grants, including the California Energy Commission (CEC) Grant: Biomass to Energy Technology Project ($745,492), and Safe Routes to Schools Creative (SRTC) Grant ($110,000).

Through December, revenues totaled $67.4 million, or 51.5% of budget, and were generated primarily from the following: Recycle Plus Collection Charges ($57.1 million); Lien-Related Charges ($5.4 million); AB939 Fees ($2.5 million); New Market Tax Credit (NMTC) Reimbursements ($1.4 million); Recycle Plus – Late Fees ($951,295); Construction and Demolition Diversion Deposit (CDDD) Ineligible Refunds ($564,199); and New Market Tax Credit - Loan Interest ($96,142). Through December, there have been no reimbursements from the California Energy Commission (CEC) Grant: Biomass to Energy Technology Project or the Safe Routes to Schools Creative (SRTC) Grant.

Although the Recycle Plus Collection Charges, AB939 Fees, Lien-Related Charges, CDDD, Franchise Applications, and NMTC leverage loan interest are tracking to end the year at or above budgeted estimates, overall revenues are expected to end the year $6.9 million below budgeted levels primarily due to lower than expected NMTC proceeds scheduled to be received during the current fiscal year and delays in projects reimbursed with grant funds. Reimbursements of only $5.3 million of the $10.9 million budgeted NMTC proceeds are estimated to be received by year-end due to unexpected delays in the construction of the Environmental Innovation Center (EIC) project as discussed below. The City will be reimbursed for eligible costs incurred, per the NMTC agreements. Upon project completion, the City will be fully reimbursed for all eligible project expenses which is anticipated for 2013-2014. Delay in several grant-funded projects resulted in lower than expected grant revenue received during the first half of the year. The Safe Routes to Schools Creative (SRTC) Grant ($110,000) is in the process of preparing for its first reimbursement request and it is anticipated that approximately 50% of the projected revenue will be received by the end of 2012-2013. The California Energy Commission (CEC)

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

FUND STATUS

Grant: Biomass to Energy Technology Project ($745,492) has previously accrued revenue of $39,919 and the Department anticipates receiving the next reimbursement of $125,495 before the end of this fiscal year. The Administration will recommend rebudgeting any remaining balances for the two grants as well as any outstanding NMTC reimbursements as part of the 2013-2014 budget process.

In fall 2012, the City received a settlement payment in the amount of $880,530 for unpaid Source Reduction and Recycling Fees (AB939 fees) for solid waste disposed at Kirby Canyon Landfill. The County is authorized by the City to collect AB939 fees from landfills through an agency agreement between the County and each city in the County and to remit a portion of these fees to cities for their waste diversion programs. County AB939 fees are broken into two parts: the part remitted back to each jurisdiction and the part the County uses to run the Household Hazardous Waste (HHW) program. Since the payment of these funds is a settlement of unpaid AB939 fees, these funds are restricted. The HHW part of the fee is further restricted by the City's agreement with the County which stipulates that unused HHW funds remitted to cities can only be used to support HHW activities (e.g. HHW facility capital costs, operational costs, public outreach). This report recommends recognizing the settlement revenue in the amount of $880,530, offset with an increase to the HHW Las Plumas Facility appropriation as discussed below.

<u>*Expenditures*</u> – Through December, $42.8 million, or 31.9% of the budget, has been expended, and an additional $74.8 million or 55.7% encumbered. The year-to-date expenditures of $117.6 million were primarily attributed to the actual expenditures and encumbrances of Recycle Plus contracts for Single Family Dwelling ($50.5 million), Yard Trimmings/Street Sweeping ($22.9 million), and Multi-Family Dwelling ($17.6 million). Additional expenditures include IDC Disposal Agreement ($8.8 million), Household Hazardous Waste Las Plumas Facility ($5.6 million), and Environmental Services Department (ESD) Personal Services ($3.0 million) and Non-Personal/Equipment ($2.3 million) appropriations.

The Administration projects savings at the end of 2012-2013 in various appropriations. The Household Hazardous Waste Las Plumas Facility project is funded by various sources which include Lien Related Charges, CDDD, and NMTC reimbursements. The Household Hazardous Waste Las Plumas Facility appropriation ($11.8 million), is expected to generate $2.0 million in savings due to unexpected delays in the construction of the project as discussed below. These expenditure savings are not sufficient to offset the anticipated reduction in NMTC reimbursements described above. Although expenditures will exceed reimbursements, as a result of the hazardous material abatement issues and construction delays, it is anticipated that savings in other appropriations as discussed below will be sufficient to offset the anticipated decrease in NMTC reimbursements. Upon completion of this project, which is anticipated in the fall 2013, remaining NMTC reimbursements will be received.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

FUND STATUS

It is anticipated that the Recycle Plus Contracts appropriations of $91.0 million will generate savings of approximately $800,000 due to a lower than anticipated rate increases as stipulated in the contracts with the haulers, savings from the haulers' incentive payments for achieving diversion targets, and lower than anticipated expenses for on-demand services (e.g. large civic tonnage fluctuations/changes in yard trimmings, carts subscriptions, and variable enhances street sweeps requested by the Department of Transportation). It is anticipated that the ESD Personal Services appropriation will have savings of approximately $647,000 due to approximately seven vacancies in this fund and the ESD Non-Personal appropriation is anticipated to have savings of approximately $300,000-$400,000 primarily due to savings in marketing expenses and various other non-personal/equipment expenditures.

Grant expenditures are tracking below anticipated levels. As discussed above, staff does not anticipate expending the entire amount for the CEC Grant: Biomass to Energy Technology Project by the end of the fiscal year due to reduced need for consultant services on the feasibility study. Upon completion of the feasibility study, if it is recommended to proceed with the Biomass to Energy Technology Project, the Administration will recommend to rebudget the grant funding and expenditure appropriation for this project. The Safe Routes to Schools Creative Grant is anticipating savings by year end due to project delays. The Administration will recommend rebudgets of this appropriation and the related grant revenue as part of the 2012-2013 year-end cleanup process as well as the 2013-2014 budget process.

Due to the hazardous material found inside the existing warehouse, which requires abatement, the construction timeline of the HHW Facility has been extended and additional project delivery costs will need to be incurred for abatement related contracts. Therefore, as discussed above, it is recommended in this report to increase to the HHW Las Plumas Facility appropriation by $880,530, offset by additional AB939 fees received this year.

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Unrestricted Ending Fund Balance	154,389	N/A	N/A

<u>Fund Balance</u> – No adjustment to the Ending Fund Balance in the Integrated Waste Management Fund is recommended at this time.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

MUNICIPAL GOLF COURSE FUND

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Revenues	2,374,500	2,111,762	88.9%
Expenditures	2,272,000	1,406,249	61.9%

FUND STATUS

Revenues –Budget revenues for this fund consist of the following: subsidy from the General Fund ($1.8 million), course fees from the San José Municipal and Los Lagos Golf Courses ($554,000), and miscellaneous revenues and interest ($20,500). Through December, the full subsidy of $1.8 million has been received from the General Fund. Course revenues totaled $293,000, or 52.8% of the budgeted estimate, and are tracking close to estimated levels. Miscellaneous revenues and interest totaled $19,000, or 93.7% of the budgeted estimate.

Revenues from the San José Municipal Golf Course, which totaled $260,000 through December, are based on a fixed percentage of the gross sales, regardless of operator costs, and are estimated to end the year at budgeted levels of $444,000.

For the Rancho del Pueblo and Los Lagos Golf Courses, only the net profits from the operation of the courses are paid into the Municipal Golf Course Fund. Based on estimated activity, the 2012-2013 Adopted Budget included a revenue estimate of $110,000 for the Los Lagos Golf Course only, with no revenue assumed for the Rancho del Pueblo Golf Course. During the first three months of the fiscal year, activity levels at the Los Lagos and Rancho del Pueblo were slightly higher than the same period a year ago. However, due to comparably lower activity levels from October to December due to inclement weather and a colder fall, activity at the two municipal golf courses is down in comparison to the first six months of 2011-2012. Specifically, rounds of golf played through December 2012 decreased by 11.1% at Los Lagos and by 8.7% at Rancho del Pueblo. The Los Lagos Golf Course revenue projection for 2012-2013 was built on the assumption that activity levels would remain stable at estimated 2011-2012 levels. However, based on actual performance in 2011-2012 and activity through the first six months of 2012-2013, Los Lagos revenues are anticipated to end the year at $85,000, which is 22.7% below the budgeted estimate of $110,000. In accordance with the budgeted estimate, Rancho del Pueblo is not projected to generate a net operating profit or revenue for this fund.

All revenues generated in this fund are intended to offset or partially offset the debt service costs of these facilities. Though the San José Municipal Golf Course has no debt service obligations, its revenue helps offset the debt service costs of the other two courses. Due to the fact that the course fees have been unable to cover both the fixed costs of operating the facilities and the debt service, a General Fund

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

MUNICIPAL GOLF COURSE FUND

FUND STATUS

subsidy has been required to support the debt service payments. For 2012-2013, a General Fund subsidy of $1.8 million is necessary.

Expenditures – Expenditures in this fund are generally made for two purposes: payments to course operators in months when course fees are unable to cover the fixed costs of operating the facilities at the Rancho del Pueblo and Los Lagos Golf Courses, and payment of the debt service for the bonds used to develop the two courses. Although activity levels at the Rancho del Pueblo Golf Course have declined, the Rancho del Pueblo Golf Course appropriation of $290,000 is tracking within anticipated levels and appears to be sufficient at this time. For the Los Lagos Golf Course, it was assumed that an expenditure appropriation of $115,000 would be necessary and would be almost entirely offset by revenues of $110,000, for a net operating loss of $5,000. However, because costs are outpacing revenues beyond the level assumed in the 2012-2013 Adopted Budget during the first half of the year and anticipated during the remainder of the year, an increase to the Los Lagos Golf Course appropriation by $115,000 from $115,000 to $230,000 is recommended to ensure sufficient funds are available to support course operating costs. In the meantime, City staff continues to work with the operators to identify and implement expenditure reduction strategies at the courses.

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Unrestricted Ending Fund Balance	477,982	N/A	N/A

Fund Balance – As the result of the significant decline in activity at Los Lagos, a decrease to the Ending Fund Balance in the amount of $115,000 is recommended to offset the increase to the Los Lagos Golf Course appropriation for operating costs for the remainder of the year.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ/SANTA CLARA TREATMENT PLANT CAPITAL FUND

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Revenues	39,703,000	13,000,231	32.7%
Expenditures	96,902,525	13,465,274	13.9%

FUND STATUS

Revenues – Budgeted revenue for this fund in the San José/Santa Clara Treatment Plant Capital Fund in 2012-2013 consists of transfers from the City of San José Sewer Service and Use Charge Fund ($23.3 million) and the Sewage Treatment Plant Connection Fee Fund ($3.1 million); contributions from the City of Santa Clara and other tributary agencies ($9.2 million) and from the Santa Clara Valley Water District ($750,000); Calpine Metcalf Energy Center Facilities Repayments ($389,000); two federal grants from the US Bureau of Reclamation ($2.6 million); and interest earnings ($327,000). Although, year-to-date only about 32.7% of revenues have been received, it is anticipated that all revenues will be received by the end of the year, as budgeted.

Expenditures – Expenditures in this fund represent the costs of improvements and rehabilitation of the Water Pollution Control Plant. Through December, $13.5 million, or 13.9%, of the budget had been expended and an additional $13.2 million, or 13.6%, encumbered.

It is expected that at year-end, approximately $5.4 million, or 5.8%, of the expenditure budget will fall to fund balance in 2013-2014 as part of the 2013-2014 Proposed Capital Budget and 2014-2018 Proposed Capital Improvement Program (CIP). Year-end savings are anticipated in the Plant Backup Water Supply, Urgent & Unscheduled Treatment Plant Rehabilitation, Inactive Lagoons Bio Solids Removal, Equipment Replacement, Unanticipated/Critical Repairs, and Treatment Plant Street Rehabilitation projects.

The Water Pollution Control Plant (WPCP) currently has approximately 70 vacancies and projects have been delayed in the first half of the year due to staffing shortages. However, it is currently estimated that approximately $91.4 million, or 94.2%, will be expended or encumbered on projects and related expenses by the end of the year. Staff anticipates completing and/or awarding projects in 2012-2013, focusing on large efforts such as: Digester Rehabilitation project ($12.8 million), Headworks Enhancement project ($6.8 million), Plant Infrastructure Improvements ($5.8 million), Secondary & Nitrification Clarifier Rehabilitation ($3.2 million), Treatment Plant Distributed Control System ($2.5 million), Urgent and Unscheduled Treatment Plant Rehabilitation ($2.2 million), Advanced Process Control & Automation ($1.9 million), Iron Salt Feed Station project ($1.9 million), Plant Electrical Reliability project ($1.8 million), Combined Heat and Power Technology Evaluation ($1.3 million), Dissolved Air Flotation Dissolution Improvement project ($1.0 million), New Filter Technology project

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ/SANTA CLARA TREATMENT PLANT CAPITAL FUND

FUND STATUS

($1.0 million), Biosolids Transition Technology project ($1.0 million), and Alternative Disinfection project ($1.0 million). This estimated expenditure level is contingent on successful procurement of significant consultant and contractor resources to help deliver the program. Efforts are well underway to procure a program advisor and project management services; and procurement of technical consultants is anticipated to occur towards the end of the fiscal year.

The Administration plans to recommend using the reserves in this fund as part of the 2013-2014 Proposed Capital and the 2014-2018 Proposed Capital Improvement Program to accelerate two key projects: Energy Generation Improvements and Biosolids Transition Technology. The delivery schedule for these two projects has been accelerated based on direction from the City Council and Treatment Plant Advisory Committee in February 2012.

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Unrestricted Ending Fund Balance	30,051,043	N/A	N/A

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

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ-SANTA CLARA TREATMENT PLANT OPERATING FUND

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Revenues	76,371,000	16,883,711	22.1%
Expenditures	89,065,307	36,341,688	40.8%

FUND STATUS

Revenues – Revenue for the San José-Santa Clara Treatment Plant Operating Fund consists of contributions from participating tributary agencies, interest earnings, and transfers from the Sewer Service and Use Charge Fund. Through December, revenues totaled $16.9 million, or 22.1% of the budgeted estimate. The largest source of revenue in this fund, the transfer from the Sewer Service and Use Charge Fund ($49 million), has not yet been received. This transfer occurs in two installments which occur on February 1st and June 1st. All revenues are expected to be received by the end of the year, as budgeted.

Expenditures – Expenditures in this fund represent the costs required for the operation and maintenance of the San José-Santa Clara Water Pollution Control Plant (WPCP), including the South Bay Water Recycling System and associated regulatory activities. Through December, $36.3 million, or 40.8% of the budget, has been expended, and an additional $16.5 million, or 18.5%, has been encumbered. Spending is lower than expected in several appropriations, with the largest savings expected in the Environmental Services Department (ESD) Personal Services and Workers' Compensation appropriations. It is estimated that the $42.7 million ESD Personal Services appropriation may have $4.5 million in savings by year-end and the $700,000 Workers' Compensation appropriation is estimated to have $390,000 in savings. These savings are primarily due to 70 positions in the fund having been vacant including positions in the following classifications: Plant Operators, Plant Mechanics, Heavy Diesel Equipment Operator/Mechanics, Instrumentation, and Electricians. Recruiting efforts have been underway to fill many of these positions; however, there have been significant challenges in recruiting and retaining staff at the Water Pollution Control Plant.

The Administration has been making substantial efforts to strategize and manage the WPCP staffing challenges. On August 14, 2012, Council approved a contract for temporary staffing to fill critical vacancies in the industrial electrician and instrument control technician positions. Additionally, the Administration has filled other positions with temporary staffing for operations and maintenance and realigned the existing staffing complement to supervise new and temporary entry level staff. In September 2012, the Industrial Electrician job classification series was also established to recognize the specialized training, experience, and duties required to maintain high-electrical power generation equipment at the WPCP. ESD will continue to work with the Human Resources Department to recruit for these positions.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ-SANTA CLARA TREATMENT PLANT OPERATING FUND

FUND STATUS

All other appropriations in this fund are tracking to meet the estimated budget or are estimated to have slight savings by year end.

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Unrestricted Ending Fund Balance	4,761,500	N/A	N/A

Fund Balance – No adjustment to the Ending Fund Balance in the San José-Santa Clara Treatment Plant Operating Fund is recommended at this time. However, due to expenditure savings, it is anticipated that the year-end unrestricted ending fund balance will be higher than budgeted.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CONNECTION FEE FUND

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Revenues	1,801,000	447,349	24.8%
Expenditures	8,243,633	590,874	7.2%

FUND STATUS

Revenues – Revenue for this fund in the Sanitary Sewer Capital Program consists of joint participation payments, connection fees, and interest earnings. Joint participation revenues reflect cost sharing of actual expenditures incurred in areas benefiting the County Sanitation Districts 2-3 and West Valley Sanitation District (WVSD). Through December, approximately $447,000, or 24.8%, in revenues from Connection Fees and Interest have been received. All revenues are expected to be received by the end of the year, as budgeted.

Expenditures – Expenditures in this fund represent the costs for increasing the capacity of and expanding the Sanitary Sewer System. Through December, $590,874, or 7.2%, of the budget had been expended and an additional $1.2 million or 14.5% encumbered.

Staff anticipates expending and encumbering approximately $6.4 million, or 77.5%, in projects in 2012-2013 focusing primarily on large efforts such as the Flow Monitoring, Immediate Replacement and Diversion, and Monterey Riverside Relief projects. The Flow Monitoring Program, a city-wide sanitary sewer master planning effort to identify capacity improvement needs and provide for flow analysis and condition assessments, has an unspent balance of approximately $1.0 million, or 52.5%, through December. It is anticipated that this appropriation will end the year with $150,000 in savings. The Immediate Replacement & Diversion Projects appropriation ($1.0 million), which is used for areas that require immediate sewer replacement as part of maintenance activities and in response to sanitary sewer overflows, has $968,793, or 93.3%, of the budget unexpended through December. It is anticipated all funds will be expended or encumbered by year-end. The Monterey-Riverside Relief Sanitary Sewer appropriation, which is used for the installation of approximately 4,100 linear feet of 27-inch vitrified clay pipe along Cottle Road between Beswick Drive and Monterey Highway, has had no expenditures through December. It is anticipated, however, that these funds will be expended or encumbered by year-end.

The North San José Sanitary Sewer Improvement appropriation which funds capacity studies, flow monitoring, preliminary engineering, and potential cost sharing arrangements for developer installed sanitary improvements in the North San José area has an unspent balance of $211,474, or 99.8%, through December. Development in the area did not occur in the first part of 2012-2013, but is anticipated to be completed by year-end.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CONNECTION FEE FUND

FUND STATUS

It is expected that at year-end, approximately $1.9 million, or 22.5%, of the expenditure budget will fall to fund balance or be recommended for rebudget into 2013-2014 as part of the 2013-2014 Proposed Capital Budget and 2014-2018 Proposed Capital Improvement Program (CIP). This is due to the delay of several projects, such as the Mackey Avenue Sanitary Sewer Replacement, Coleman Road Sanitary Sewer Supplement, and the 30" Old Bayshore Supplement projects. Reasons for these delays include staffing shortages and permitting issues with the Santa Clara Valley Water District and County Sanitation District.

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Unrestricted Ending Fund Balance	7,681,095	N/A	N/A

Fund Balance – No adjustment to the Ending Fund Balance in the Sanitary Sewer Connection Fee Fund is recommended at this time.

2012-2013
MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SEWER SERVICE AND USE CHARGE CAPITAL IMPROVEMENT FUND

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Revenues	25,094,000	8,496,364	33.9%
Expenditures	98,399,656	7,649,108	7.8%

FUND STATUS

Revenues – Budgeted revenue for this fund in the Sanitary Sewer Capital Program in 2012-2013 consists of transfers from the Sewer Service and Use Charge Fund ($25.0 million) and Interest ($94,000). Transfers from the Sewer Service and Use Charge Fund take place in three installments over the year and the remaining two transfers will take place as scheduled in the second half of the fiscal year. All revenues are expected to be received by the end of the year, as budgeted. As part of this report, it is recommended elsewhere, to recognize grant revenue in the amount of $73,577 from an Environmental Protection Agency grant that reimburses the City for costs incurred in 2011-2012 for the Japantown Sewer Infrastructure project.

Expenditures – Expenditures in this fund represent the costs of improvements and rehabilitation of the Sanitary Sewer System. Through December, $7.6 million, or 7.8%, of the budget had been expended and an additional $12.2 million, or 12.4%, encumbered. Staff anticipates expending approximately $57.5 million, or 58.5%, in projects in 2012-2013, focusing on such large efforts such as the Spreckles Sanitary Sewer Force Main Supplement and Almaden Expressway Sanitary Sewer Improvement projects and a number of neighborhood sewer improvement projects that will reduce sanitary sewer overflows.

However, it is expected that at year-end, approximately $40.9 million, or 41.5%, of the expenditure budget will primarily be recommended for rebudget into 2013-2014 as part of the 2013-2014 Proposed Capital Budget and 2014-2018 Proposed Capital Improvement Program (CIP). This is due to the delay of several projects. Reasons for these delays include a more extensive environmental review process for larger projects, permitting issues with the Union Pacific Railroad, and the coordination and timing of the large sewer interceptor projects to limit construction impacts on the Water Pollution Control Plant.

The 60" Brick Interceptor Rehabilitation Project comprises the largest portion that is anticipated to be unexpended ($26.0 million) this year due to the added scope for the design work that will be included in this project and staffing changes. The Almaden Road Supplement Sewer Rehabilitation (North) project ($2.2 million) is delayed due to a longer than expected permitting process for work under the Union Pacific Railroad tracks and within other portions of the railroad company's right of way. The Fourth Major Interceptor Phase IIB ($2.0 million) and Minnesota Sanitary Sewer Improvement ($1.7 million)

Status of Selected Special and Capital Funds

SEWER SERVICE AND USE CHARGE CAPITAL IMPROVEMENT FUND

FUND STATUS

projects will be rescheduled to coincide with related construction to be performed at the Water Pollution Control Plant. This work is expected to begin in spring 2013.

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Unrestricted Ending Fund Balance	14,503,414	N/A	N/A

Fund Balance – A recommendation to increase the Ending Fund Balance by $73,577, from $14.5 million to $14.58 million is included in this report to recognize a grant reimbursement for the Japantown Sewer Infrastructure project that was completed in 2011-2012.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER CAPITAL FUND

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Revenues	5,626,000	1,880,684	33.4%
Expenditures	17,758,906	2,003,596	11.3%

FUND STATUS

Revenues – The budgeted revenue estimate for this fund in the Storm Sewer Capital Program consists of transfers from the Storm Sewer Operating Fund ($5.6 million) and interest earnings ($26,000). Although, through December, revenues totaled $1.9 million, or 34% of the budgeted estimate, it is anticipated that the transfers will end the year at the budgeted estimate.

This report includes a recommendation to transfer unused funds in the amount of $444,873 from the Alviso Ring Levee Fund to this fund. The Alviso Ring Levee Fund was created to record the deposit of direct assessments originally from properties identified in the "Alviso Ring Levee Special Benefit District" in order to construct portions of a ring levee around the community of Alviso. Established in 1983, moneys deposited in this fund were used for the construction of the southeast section of the Alviso Ring Levee. The ordinance that established this fund provides that upon completion of the levee, which occurred several years ago, any remaining balance be transferred to the Storm Sewer Capital Fund.

Expenditures – Expenditures in this fund represent the costs of improvements and rehabilitation of the Storm Sewer System. Through December, $2.0 million or 11.3% of the budget, had been expended, and an additional $2.0 million or 11.3% had been encumbered.

It is expected that at year-end, approximately $4.5 million, or 25.4%, of the expenditure budget will primarily be recommended for rebudget into 2013-2014 as part of the 2013-2014 Proposed Capital Budget and 2014-2018 Proposed Capital Improvement Program (CIP). It is anticipated that the Storm Sewer Master Plan appropriation will be rebudgeted due to delays in the selection of consultant services for hydraulic modeling of the existing storm system. The Gold Street Pump Station Force Main appropriation is anticipated to be rebudgeted due to delays in obtaining necessary permits for work in the wetland area.

It is currently estimated that approximately $13.3 million, or 74.6%, will be expended on projects and related expenses by the end of the year including the award of the following construction projects: Citywide Storm Sewer Inlet and Lateral Replacement, Lincoln Avenue/San Carlos Street Storm Improvements, Gateway East Storm Sewer Improvements, Gateway Storm Pump Station Rehabilitation, and Bird Avenue Storm Improvements.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER CAPITAL FUND

FUND STATUS

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Unrestricted Ending Fund Balance	873,691	N/A	N/A

Fund Balance – A recommendation to increase the Ending Fund Balance by $444,872, from $873,691 to $1.32 million is included in this report to recognize the transfer from the Alviso Ring Levee Fund. The additional funding will be available for future use.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

TRANSIENT OCCUPANCY TAX FUND

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Revenues	13,657,254	5,494,884	40.2%
Expenditures	16,607,960	6,707,596	40.4%

FUND STATUS

Revenues – Revenues in the Transient Occupancy Tax (TOT) Fund are tracking above estimated levels and are anticipated to end the year above the budgeted level. The 2012-2013 Modified Budget assumed a 5.0% increase from 2011-2012 revenues. Through December 2012, year-to-date Transient Occupancy Tax receipts of $5.4 million are 16.7% above December 2011 receipts. As a result of the higher than anticipated revenue collections, an increase to the budgeted revenue estimate by $1.5 million from $13.7 million to $15.2 million is recommended as part of this report, representing an increase of 12.8% from 2011-2012 collection levels. This $1.5 million of additional revenue is further recommended to be placed into a reserve for future distribution in 2013-2014 as described below.

The increase in TOT receipts is due to increased occupancy and average daily room rates. Through December, the average hotel occupancy rate at the City's 14 major hotels was 64.4%, up from 57.9% for the same period last year, while room rates have increased from $121.99 to $134.34 (10.1%). As of December, the trailing 12-month average revenue-per-available-room (RevPAR) increased to $87.56, a 23.7% increase from the $70.76 level experienced in December 2011.

Expenditures – Expenditures through December are generally tracking within budgeted levels. The allocations to the three recipient organizations are based on a fixed percentage of TOT receipts, guided by the formula outlined in the Municipal Code. When collections exceed or fall short of anticipated levels, the allocations to the recipients are adjusted. Based on the additional revenue as discussed above, it is recommended to establish a reserve for future distribution with allocations to the three recipient organizations as follows: $750,000 to the Convention and Cultural Affairs Fund for operation of convention facilities, $375,000 for the Convention and Visitors Bureau, and $375,000 for Cultural Development. Placing the additional funding in reserve, rather than increasing the 2012-2013 recipient appropriations, will allow for further monitoring of the tax collections to ensure all funding is received as projected by year-end.

Status of Selected Special and Capital Funds

TRANSIENT OCCUPANCY TAX FUND

FUND STATUS

	2012-2013 Current Modified	2012-2013 YTD Actual	2012-2013 % of Budget
Unrestricted Ending Fund Balance	1,464,498	N/A	N/A

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

PAGE IS INTENTIONALLY LEFT BLANK