2011-2012

Annual

Report

# III. Selected Special/ Capital Funds Budget Performance

## III. SELECTED SPECIAL/CAPITAL FUNDS BUDGET PERFORMANCE

This section provides financial information on the 2011-2012 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 2011-2012 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 2011-2012 Modified Budget, which includes fund balance and reserves. The 2011-2012 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 2012-2013 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.

<u>Revenue Performance</u>: 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.

<u>Expenditure Performance</u>: 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 2012-2013 budget actions (such as rebudgets); calculates the revised expenditure variance due to rebudgets approved as part of the 2012-2013 Adopted Budget or as recommended in this report; and compares expenditures to the prior year performance.

<u>Ending Fund Balance Performance</u>: This discussion provides the actual Ending Fund Balance and the estimated Ending Fund Balance used in the development of the 2012-2013 Adopted Budget; discusses variances between these two amounts; and identifies any impact on the 2012-2013 budget related to recommended actions included in this report.

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# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## AFFORDABLE HOUSING INVESTMENT FUND
(LOW AND MODERATE INCOME HOUSING ASSET FUND)

### Revenue and Expenditure Performance
($ in thousands)

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $32,720 | $41,214 | $8,494 | 26.0% |
| Expenditures | $25,411 | $16,047 | ($9,364) | (36.9%) |

Effective February 1, 2012, all redevelopment agencies in California were dissolved pursuant to AB X1 26 approved by the California Legislature in 2011. As a result, the Low and Moderate Income Housing Fund was closed out and the Affordable Housing Investment Fund was established effective February 1, 2012. As allowed under the legislation, the City elected to retain the housing assets and functions of the dissolved Redevelopment Agency by transferring eligible assets and liabilities from the Low and Moderate Income Housing Fund to the Affordable Housing Investment Fund. Due to the recent passage of AB 1484, the fund name is required to be changed from the Affordable Housing Investment Fund to the Low and Moderate Income Housing Asset Fund.

Revenue Performance

In 2011-2012, revenues totaled $41.2 million and were primarily generated from the following sources: loan repayments ($21.3 million), transfer in from the Low and Moderate Income Housing Fund ($19.7 million), miscellaneous revenues ($187,000), and interest earnings ($22,000). The 2011-2012 revenues exceeded the budgeted estimate by $8.5 million, or 26%, primarily due to higher than budgeted loan repayments as a result of an unexpected loan pay-off from the Rosemary Senior Housing Development project ($7.1 million) and higher than anticipated residual loan repayments from other housing projects.

Expenditure Performance

In 2011-2012, total expenditures of $16.0 million were $9.4 million or 36.9% below the modified budget. The expenditures were primarily attributed to the Housing Loans and Grants appropriation ($12.0 million) and Housing Department Personal Services appropriation ($2.1 million). As a result of the establishment of this new fund, encumbrances were transferred from the former Low and Moderate Income Housing Fund to this fund. These encumbrances were for the following projects: Belovida at Newbury Park, Brookwood Terrace Senior Apartments, Fourth Street Apartments, Orvieto Family Apartments, and Ford and Monterey Special Needs Housing.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### AFFORDABLE HOUSING INVESTMENT FUND
(LOW AND MODERATE INCOME HOUSING ASSET FUND)

The variance between budgeted and actual expenditures was caused primarily by the following:

- The Housing Loans and Grants appropriation generated savings of $8.8 million. As a result of the dissolution of the Redevelopment Agency and the uncertainty of the use of funds, the Department did not start any new housing projects. The savings in this appropriation were anticipated during the development of the 2012-2013 Adopted Budget and were programmed into the 2012-2013 Beginning Fund Balance.

- The Housing Department's Non-Personal/Equipment appropriation generated savings of $158,000. As a result of the dissolution of the Redevelopment Agency and the uncertainty of the use of funds, the Department was conservative with their expenditure spending in the second half of the fiscal year.

- The Workers' Compensation Claims appropriation generated savings of $128,000 as a result of the retirement and redeployment of staff members who had made claims in the prior fiscal year.

- The Housing Department's Personal Services appropriation generated savings of $124,000 as a result of position vacancies.

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $45,145 | $19,787 | $25,166 | $5,379 | $0 | $5,379 | 11.9% |

The 2011-2012 Ending Fund Balance of $25.2 million was $5.4 million above the estimate used to develop the 2012-2013 Adopted Budget as a result of higher than estimated loan repayments combined with a higher than estimated transfer from the Low and Moderate Income Housing Fund from direction received from the State's Department of Finance. However, these higher collections are offset by higher than estimated Housing Loans and Grants expenditures due to a transfer of liabilities from the close out of the Low and Moderate Income Housing Fund as assumed as part of the development of the 2012-2013 Adopted Budget. As part of this report, a total of $5.2 million of the $5.4 million in additional fund balance is recommended to be allocated to increase the Housing Loans and Grants ($4.6 million) appropriation, establish a Hazard Mitigation Grant Match appropriation ($450,000), and establish an Auto Repair Assistance Program ($100,000) appropriation. With these recommended actions, if approved, the 2012-2013 Ending Fund Balance will total $1.6 million.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## AIRPORT CAPITAL FUNDS

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $30,511 | $28,392 | ($2,119) | (6.9%) |
| Expenditures | $197,471 | $85,025 | ($112,447) | (56.9%) |

Revenue Performance

In 2011-2012, capital revenues totaled $28.4 million which was $2.1 million, or 6.9%, below the budgeted estimate. Actual revenues received in 2011-2012 consist of the following: Passenger Facility Charges (PFCs) ($16.8 million), Grant income ($7.4 million), Transfers from other Airport funds ($4.0 million), and interest earnings ($200,000). PFCs ended the year slightly below the modified budget estimate (2.4%) due to lower than anticipated passenger levels. Grant income also ended the year below the modified budget estimate (15.9%) and reflects the prefunding of the Taxiway W, Phase III construction project in 2011-2012; the deferral of the Airfield Sign Program; and the Title Search and Property Map Development projects to 2012-2013.

Expenditure Performance

In 2011-2012, expenditures were $112.4 million, or 56.9%, below budgeted levels. This variance is primarily attributed to transfers to other funds for debt service ($21.8 million) and reimbursement from bond proceeds that were transferred to the Operating Fund and held in reserve ($26.6 million); Taxiway W Improvements ($9.9 million); Terminal Area Development, Phase I ($8.2 million); Public Parking Improvements ($2.5 million); Pavement Maintenance ($1.1 million); and Advanced Planning ($1.1 million). The remaining balance of $13.8 million primarily reflects the anticipated close out of many of the Terminal Area Improvement Program projects, as well as annual capital programs, including Terminal Building Modifications, Equipment, Operating, and Airfield Paint Removal. A total of $27.0 million in Airport capital project funding was approved for rebudget as part of the 2012-2013 Adopted Capital Budget, and rebudget true-up adjustments of $319,000 are recommended as part of this document. After the rebudget adjustments that were included in the 2012-2013 Adopted Capital Budget and the rebudgets as recommended in this report are considered, the expenditure variance will be $24.4 million or 6.9%.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### AIRPORT CAPITAL FUNDS

The expenditure variance ($112.4 million) was due to lower than budgeted project expenditures and the release of the Terminal Area Improvement Program reserve. The following is a list of the major unexpended projects totaling $106.9 million:

- The Terminal Area Improvement, Phase I project variance ($63.5 million) results primarily from the release of project reserves and savings associated with some of the design-build project components that were completed in 2011-2012. Funding of $20.5 million was rebudgeted as part of the 2012-2013 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 owner-controlled insurance program. The northeast area will provide for a fuel truck maintenance facility, shuttle bus staging and storage, a taxi staging building, and adjacent employee parking. Projects in the Terminals include the construction of a common use lounge, building system upgrades, Terminal A bag system ceiling protection, and replacement of the Federal Inspection Services facility fire system. An additional $9,000 is recommended for rebudget as part of this report until these ongoing projects are completed.
- The Consolidated Rental Car Facility project variance ($18.9 million) also reflects the release of project reserves and savings. This project was closed out in 2011-2012.
- The Public Parking Improvements project was entirely funded in its first year with the intent to rebudget funds until the project's completion scheduled for end of 2012. The project variance ($8.6 million) results from the consolidation of ongoing projects associated with the development of the northeast area in the Terminal Area Development, Phase I appropriation. These projects include a shuttle bus staging area, a taxi staging building, and adjacent employee parking. Funding of $51,000 was rebudgeted as part of the 2012-2013 Adopted Capital Budget to close out the remaining "Green Island" economy parking lot and the surface lot located south of Terminal B.
- The Clean-Up of Existing Fuel Farm project variance ($5.3 million) results largely from lower than anticipated project costs. Funding of $1.9 million was rebudgeted as part of the 2012-2013 Adopted Capital Budget to complete contamination clean-up of soil, pipelines and equipment that remain on the City-owned portion of the old aviation fuel facility.
- The project variance ($4.8 million) in the Non-Terminal Area Projects results from the consolidation of the ongoing fuel truck maintenance facility project in the Terminal Area Development, Phase I appropriation.
- The North Concourse Building variance ($3.9 million) reflects the release of project reserves and savings associated with the design-bid-build projects that were closed out in 2011-2012.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### AIRPORT CAPITAL FUNDS

- The Taxiway W Improvements project variance ($1.9 million) reflects the timing of the project phasing. All phases of the project are scheduled to be completed by 2016 contingent on continued Federal Aviation Administration grant funding. A rebudget ($2.1 million) was included as part of the 2012-2013 Adopted Capital Budget. A reduction of $241,000 is recommended as part of this report to offset lower than anticipated savings in 2011-2012. In addition, a net adjustment of $5.5 million reflects a reduction in the cost of the Taxiway W Phase IV (G to J) project based on bids received in May 2012. The Federal Aviation Administration awarded the Airport a grant associated with this project in July 2012, as well as an amendment to Phase I, allowing for an increase to the maximum federal funding.

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $349,703 | $179,053 | $154,295 | ($24,759) | $319 | ($24,440) | (6.9)% |

The 2011-2012 combined Ending Fund Balance of $154.3 million was $24.8 million below the estimate used to develop the 2012-2013 Adopted Capital Budget. The primary reason for this negative variance is the $113.0 million reduction in commercial paper capacity offset by lower than budgeted expenditures.

A portion of the unexpended funds was rebudgeted as part of the 2012-2013 Adopted Capital Budget ($27.0 million) and a net negative rebudget of $319,000 is recommended in this document to align the rebudgeted amounts with actual year-end savings.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## AIRPORT OPERATING FUNDS - AIRPORT REVENUE FUND

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $155,513 | $153,377 | ($2,136) | (1.4%) |
| Expenditures | $141,649 | $129,531 | ($12,118) | (8.6%) |

Revenue Performance

The overall revenue ended the year at $153.4 million with a variance of $2.1 million or 1.4%. The major operating revenue categories include Parking & Roadways ($40.9 million), Terminal Rental ($39.9 million), Terminal Building ($15.8 million), Landing Fees ($11.4 million), Miscellaneous Revenue ($6.3 million), and Airfield Area ($2.7 million). Additionally, $5.5 million of unspent 2004 bond proceeds and $26.6 million in reimbursement of eligible Terminal Area Improvement Program (TAIP) expenditures are included. The reimbursement funds are held in reserve and are available to offset general operating expenses and to meet the $12 cost per enplaned passenger strategy, if needed, as directed by City Council.

The negative revenue variance of $2.1 million was due to higher than budgeted revenue for Terminal Rental ($1.7 million) due to higher than anticipated common use ticket counters and gates, and the Miscellaneous Revenue ($1.0 million) category, offset by lower than budgeted Parking & Roadways ($2.9 million), Landing Fees ($660,000), Airfield Area ($200,000), and Terminal Building ($160,000) revenues primarily due to reduced passenger activity. Due to erroneously booking $3.4 million in revenue associated with the sale of 14 shuttle buses, a credit against expenditures was recognized in the Airport Maintenance and Operation Fund which caused the Parking and Roadways revenue to fall short by $2.9 million. This error, that will be corrected as part of an upcoming audit adjustment to the applicable 2011-2012 fund financial statements, will not have any effect on the financial position of the Airport.

Expenditure Performance

Expenses in this fund consist entirely of transfers to other Airport funds. The largest transfer is made to the Airport Maintenance and Operation Fund. In 2011-2012, the transfer to the Airport Maintenance and Operation Fund was $11.9 million less than budgeted due to lower than anticipated expenditures as described elsewhere in this report.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## AIRPORT OPERATING FUNDS - AIRPORT REVENUE FUND

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $190,325 | $55,220 | $58,657 | $3,437 | $0 | $3,437 | 1.8% |

The 2011-2012 fund balance variance of $3.4 resulted from expenditure savings due to a reduced transfer to the Airport Maintenance and Operation Fund.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## AIRPORT OPERATING FUNDS - AIRPORT CUSTOMER FACILITY AND TRANSPORTATION FEE FUND & AIRPORT MAINTENANCE AND OPERATION FUND

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $103,739 | $93,270 | ($10,469) | (10.1%) |
| Expenditures | $93,941 | $86,148 | ($7,793) | (8.3%) |

Revenue Performance

Airport Operating funds include the Airport Customer Facility and Transportation Fee Fund, which includes the Rental Car Customer Facility Charge Fees and the Rental Car Contributions; and the Airport Maintenance and Operation Fund that provides for all general Airport operating expenses including Police, Fire, and interdepartmental services. Revenues in these two funds ended the year $10.5 million below budgeted levels, or 10.1%, primarily due to a lower than anticipated transfer from the Airport Revenue Fund to the Airport Maintenance and Operation Fund. The lower transfer ($11.9 million) was possible primarily due to targeted savings of $7.5 million in the various Airport operating expenses, partially offset by higher than budgeted Customer Transport Fees ($212,000) in the Customer Facility and Transportation Fee Fund. Greater fees result from a change to the Customer Transportation Fee model effective December 2011, as well as increased car rental activities.

Expenditure Performance

Consistent with the performance of the Airport operating fund revenues, Airport operating expenses also ended the year below budgeted levels. For 2011-2012, expenditures in these two funds totaled $86.1 million were $7.8 million, or 8.3%, below budgeted levels primarily due to savings in non-personal/equipment ($5.1 million) and personal services ($2.3 million). Non-personal/equipment savings were realized due to lower than budgeted utility expenditures for the operation of both Terminal B and the Consolidated Rental Car Facility; lower shuttle bus program expenses due to reduced frequency of service and a new compensation model for parking management; and maintenance cost savings associated with the Parking Revenue Control System as testing and acceptance of the new system has not yet occurred. Personal services savings were due to vacancies, efficiencies associated with the consolidation of staff at the Airport, and reduced compensated absence liability and workers' compensation costs associated with decreased Airport staffing levels. Although most of the savings are one-time, $7.5 million were anticipated as part of the development of the rates and charges for the 2012-2013 Adopted Budget. It should be noted that a portion of these savings was a result of erroneously booking revenue of $3.4 million generated from the lease of 14 shuttle buses as an offset to expenditures in this fund instead recognizing the revenue in the Airport Revenue Fund. This error, which will be corrected as part of an upcoming audit adjustment to the 2011-2012 fund financial statements of this fund, will not have an effect on the financial position of the Airport.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## AIRPORT OPERATING FUNDS - AIRPORT CUSTOMER FACILITY AND TRANSPORTATION FEE FUND & AIRPORT MAINTENANCE AND OPERATION FUND

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $127,143 | $28,644 | $31,155 | $2,511 | $0 | $2,511 | 2.0% |

The 2011-2012 combined Actual Ending Fund Balance of $31.1 million was $2.5 million above the budgeted estimate used to develop the 2012-2013 Adopted Budget. This variance was primarily due to greater than anticipated Other Post Employment Benefit costs that are set aside in Fund Balance as well as expenditure savings in the Airport Customer Facility and Transportation Fee Fund.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $25,905 | $19,067 | ($6,838) | (26.4%) |
| Expenditures | $33,747 | $22,295 | ($11,452) | (33.9%) |

Revenue Performance

In 2011-2012, revenues totaled $19.1 million and were generated from Building and Structure Construction Tax ($12.6 million); receipts from State grants ($5.0 million) for projects including traffic signal communications/synchronization, signal retiming, and couplet conversion; and receipts from federal grants ($1.4 million) for various Intelligent Transportation Systems (ITS) projects, pedestrian corridor improvement projects, and the Branham Lane/Monterey Highway Rail and East Santa Clara Street Bridge at Coyote Creek projects. The 2011-2012 revenues were below the budget estimate by $6.8 million primarily due to lower than budgeted receipts of federal grants ($7.0 million) and State grants ($1.7 million) as a result of project delays, which were partially offset by higher than budgeted receipts of Building and Structure Construction Tax ($2.1 million). Grant related revenues, which were not received in 2011-2012 due to project delays, were anticipated in the development of the 2012-2013 Budget or are recommended to be rebudgeted to 2012-2013 in this report.

The 2011-2012 collection level was $148,000 higher (0.8%) than the 2010-2011 level of $18.9 million primarily as a result of increased Building and Structure Construction Tax receipts ($3.2 million), partially offset by decreased federal and State grant receipts ($3.0 million) and miscellaneous revenue ($32,000).

At $12.6 million, Building and Structure Construction Tax receipts in 2011-2012 were 34% higher than 2010-2011 collections ($9.4 million); however, far from 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 2012-2013 Adopted Budget estimate of $10.0 million allows for a decrease of 20.6%. The sustainability of the 2011-2012 collection level will be monitored as the year progresses, and an upward adjustment to the 2012-2013 budgeted revenue estimate may be brought forward for City Council consideration at a later date.

Expenditure Performance

In 2011-2012, expenditures of $22.3 million were primarily attributed to the following projects: Traffic Signal Communications and Synchronization ($6.3 million), Route 101/Tully Road Interchange Upgrade ($4.2 million), San Carlos Street Multimodal Streetscape Improvements Phase I ($1.5 million), Julian and St. James Couplet Conversion ($967,000), The Alameda – A Plan for the Beautiful Way

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

($691,000), Traffic Flow Management and Signal Retiming ($537,000), Traffic Signal and Lighting Program ($469,000), Autumn Street Extension ($415,000), a transfer to the City Hall Debt Service Fund ($407,000), ITS Enhancements ($386,000), San Carlos Street Multimodal Streetscape Improvements Phase II ($351,000), and Regional Improvements ($350,000).

The 2011-2012 expenditure level was $11.5 million (33.9%) below the modified budget. $9.2 million of this variance was anticipated and rebudgeted as part of the 2012-2013 Adopted Capital Budget, and another $500,000 of this variance was anticipated and redistributed to other projects as part of the 2012-2013 Adopted Capital Budget. A total of $1.0 million is recommended for rebudget as part of this report to ensure sufficient funding for projects in 2012-2013. These rebudgets, combined with the rebudgets and redistribution of funds approved as part of the 2012-2013 Adopted Capital Budget, bring the expenditure variance down to $750,000 (2.8%) below modified budget levels.

The $11.5 million variance between budgeted and actual expenditures was caused primarily by the following projects: ITS: Transportation Incident Management Center ($5.2 million), Underground Utilities – City Conversions ($1.3 million), Route 101/Mabury Road Design ($1.0 million), Jackson Street: LRT to Japantown Pedestrian Corridor ($891,000), Julian and St. James Street Couplet Conversion ($674,000), 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.

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $43,311 | $11,597 | $14,387 | $2,790 | ($670) | $2,120 | 4.9% |

The 2011-2012 Ending Fund Balance of $14.4 million was $2.8 million above the estimate used to develop the 2012-2013 Adopted Capital Budget. This variance was due to lower than estimated expenditures ($2.0 million) and revenue collections which were higher than those assumed ($742,000) in the development of the 2012-2013 Budget.

It is recommended that a portion of the additional fund balance be allocated for rebudgets for various capital projects ($1.0 million) to ensure sufficient funding for these projects to continue in 2012-2013. A rebudget in the amount of $500,000 is also recommended for the Reserve for Transportation Grants to ensure local match resources are available for grant funded projects which may be received in 2012-2013. Recommendations to rebudget $850,000 in revenues are included in this report to reflect grant

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

revenue that was originally anticipated in 2011-2012 but is now anticipated in 2012-2013. Finally, a $350,000 upward adjustment to the San Carlos Streetscape Multimodal Streetscape Phase I project is recommended in this report. This adjustment will ensure sufficient resources are available for this project as numerous factors, including an evolving scope of work and complications with the undergrounding elements of the project, have contributed to increased costs. After accounting for all recommended rebudgets and adjustments, approximately $1.8 million will be added to the Ending Fund Balance to be available for future use.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## CONSTRUCTION AND CONVEYANCE TAX FUNDS

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $31,081 | $37,038 | $5,957 | 19.2% |
| Expenditures | $79,037 | $41,308 | ($37,729) | (47.7%) |

Revenue Performance

Revenues generated in the Construction and Conveyance Tax Funds in 2011-2012 totaled $37.0 million and were comprised of Construction and Conveyance tax receipts ($25.4 million), transfers between funds ($10.0 million), State and federal grants ($227,000), interest earnings ($206,000), and miscellaneous revenues ($1.2 million).. This revenue level is $6.0 million higher then the budgeted estimate of $31.1 million. This positive revenue variance is due to higher than anticipated Construction and Conveyance Tax revenue ($4.4 million), transfers of Construction and Conveyance revenue between funds ($2.4 million), and miscellaneous revenues ($632,000), partially offset by lower an anticipated grants ($1.5 million) and interest earnings ($6,000).

Construction and Conveyance Tax revenue collections in 2011-2012, which were almost entirely generated from property transfers, totaled $25.4 million, which was $4.0 million more then the 2010-2011 collection level of $21.4 million. After experiencing sharp declines over the past five years, it appears as though the real estate market has stabilized and is now experiencing modest growth, resulting in the 2011-2012 Construction and Conveyance Tax revenues reaching the highest collection level since 2007-2008. This increase is consistent with the increase in property transfers for all types of residences between 2010-2011 and 2011-2012. This positive difference in revenue collections is also reflected in the median home price for single family homes within the City between June 2011 and June 2012. The median price for single family homes increased in value, with a median home price in June 2012 of $588,000, up approximately 13.2% from the June 2011 price of $520,000. 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 76 days in June 2011 to 52 days in June 2012.

When the 2011-2012 budget was developed, it was assumed that receipts would remain consistent with 2010-2011 levels. However, due to stronger then 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. The higher than anticipated tax collections also positively impacted the transfer category because of the methodology used to distribute the tax revenue to individual Construction and Conveyance Tax funds.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### CONSTRUCTION AND CONVEYANCE TAX FUNDS

The negative variance for the interest earnings resulted from lower than expected average cash balances. Grant revenue fell below anticipated levels by $1.5 million as many of the grants are paid on a reimbursement basis and the work on the eligible projects has not yet been completed. In addition, a number of the projects were recently completed, but the reimbursement requests have not yet been finalized. All of the grant revenues are expected to be received in 2012-2013 and were already rebudgeted as part of the 2012-2013 Adopted Capital Budget.

The 2011-2012 revenues of $37.0 million were $3.8 million above the 2010-2011 level of $33.2 million primarily due to stronger Construction and Conveyance Tax receipts ($4.0 million) and higher transfers ($3.3 million), partially offset by lower grant revenue ($2.6 million), miscellaneous contributions ($677,000), and interest earnings ($178,000).

Expenditure Performance

In 2011-2012, transfers to other funds and capital project expenditures totaled $41.3 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 $37.7 million (47.7%) below the budgeted expenditure level of $79.0 million, and is primarily the result of unexpended capital project funds. A majority of these expenditure savings were anticipated and the funds were rebudgeted as part of the 2012-2013 Adopted Capital Budget or are recommended to be rebudgeted as part of this report to complete the projects. After the rebudget adjustments that were included in the 2012-2013 Adopted Capital Budget and the rebudgets as recommended in this report are considered, the expenditure variance will be $14.9 million or 18.9%.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### CONSTRUCTION AND CONVEYANCE TAX FUNDS

The following is a list of projects in which unexpended balances in 2011-2012 exceeded $500,000:

| | | ($000s) |
|---|---|---|
| Council District 1: | Mise Park Sports Field Development | $ 1,007 |
| Council District 4: | TRAIL: Lower Guadalupe River (Gold Street to Highway 880) | 1,886 |
| | TRAIL: Bay Trail Reach 9 Design | 550 |
| | Strategic Capital Replacement and Maintenance Needs | 526 |
| Council District 5: | TRAIL: Lower Silver Creek Reach 4/5A (Alum Rock Avenue to Highway 680) | 1,335 |
| Council District 6: | Strategic Capital Replacement and Maintenance Needs | 637 |
| | Bascom Community Center – Multi-Service | 570 |
| Council District 7: | Roberto Antonio Balermino Park | 2,500 |
| | Solari Park Sports Field Conversion | 562 |
| Council District 9: | Carolyn Norris Turnkey Park | 804 |
| Council District 10: | Allen at Steinbeck School Soccer Field (Phase I) | 2,421 |
| | Strategic Capital Replacement and Maintenance Needs | 562 |
| City-Wide: | Happy Hollow Park and Zoo Phase II Renovations and Improvements | 861 |
| | Coy Park Playground Renovation | 600 |
| Communications: | City-Wide Trunking Radio System | 900 |
| Library: | Materials Handling Technology | 2,600 |
| | Branch Libraries FF&E | 2,168 |
| | New Branch Opening Day Collections | 1,770 |
| | Acquisition of Materials | 517 |
| **Total** | | **$22,776** |

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 due to delay in the development of a joint-use agreement with Archbishop Mitty High School. This project is scheduled to be awarded in September 2012 and completed by May 2013.

- The TRAIL: Lower Guadalupe River (Gold Street to Highway 880) project had an expenditure variance due to the project schedule spanning multiple fiscal years. This project is currently anticipated to complete in summer 2013.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### CONSTRUCTION AND CONVEYANCE TAX FUNDS

- The TRAIL: Bay Trail Reach 9B Design project had an expenditure variance due to the project schedule spanning multiple fiscal years. This project is currently anticipated to complete in summer 2013.

- The Strategic Capital Replacement and Maintenance Needs allocations for Council Districts 4, 6, and 10 all had a project expenditure variances exceeding $500,000. The Capital Infrastructure Team had issued work orders for the implementation of numerous infrastructure projects in all the Council Districts; however, vacancies in the Department of Public Works significantly impacted the speed with which projects were completed. In addition, where possible, available funds in the Subdivision Park Trust Fund were utilized first for minor projects, leaving balances in the various Construction and Conveyance Tax funds. As a process improvement strategy, open purchase orders have been established for the most common renovation projects such as concrete and asphalt pavement repairs, hard court resurfacings, and playground surfacing repairs allowing for faster project implementation in the future.

- The TRAIL: Lower Silver Creek Reach 4/5A (Alum Rock Avenue to Highway 680) project had an expenditure variance due to the project schedule spanning multiple fiscal years. This project is currently anticipated to complete in spring 2014.

- The Bascom Community Center Multi-Service project had an expenditure variance due to project schedule delays as a result of negotiations of change orders taking longer than originally anticipated.

- The Roberto Antonio Balermino Park had an expenditure variance due to the project not being established until June 2012. Project design is currently underway and the construction contract is anticipated to be awarded in fall 2013 with the project completing in fall 2014.

- The Solari Park Sports Field Conversion project had an expenditure variance due to a delay in the project start date. Vacancies in the Department of Public Works have caused a work backlog and prioritization of projects. As a result, the project schedule has been extended and is anticipated to begin in 2011-2012 and be completed in 2012-2013.

- The Carolyn Norris Turnkey Park project had an expenditure variance due to the project completing with expenditure savings.

- The Allen at Steinbeck School Soccer Field (Phase I) project had an expenditure variance due to a delay in the development of a joint-use agreement with San Jose Unified School District. This project is currently anticipated to begin in December 2012.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### CONSTRUCTION AND CONVEYANCE TAX FUNDS

- The Happy Hollow Park and Zoo Phase II Renovations project and the Happy Hollow East Side Improvements project were completed in 2010-2011; however, final invoices from the contractors are expected to be received in 2012-2013.

- The Coy Park Playground Renovation had expenditure variance due to the design phase for the project being funded from the Park Trust Fund. The project is currently anticipated to be awarded in January 2013, and funds in the Parks City-Wide Construction and Conveyance Tax Fund will be used for the award of the construction contract.

- The City-Wide Trunking Radio System allocation had an expenditure variance due to the delay of the initial purchase of the core Trunking equipment that serves as a controller for the entire City-wide Trunking Radio System. It is anticipated that Phase One of the project will be completed in 2012-2013.

- The Materials Handling Technology project to improve the efficiency of the checkout and check-in process at branch libraries has been delayed due to the Library's leadership transition. It is anticipated this project will resume in 2012-2013.

- The Branch Libraries Fixtures, Furnishings and Equipment (FF&E) allocation provides funding to outfit the General Obligation Bond-funded libraries. All unexpended funds were carried over to the following year to purchase the necessary furniture, fixtures and equipment for the new and remodeled libraries as four facilities come on-line in 2012-2013.

- New Branch Opening Day Collections allocations provide funding for new materials at each of the newly constructed branch libraries funded by the Branch Libraries Bond Projects Fund. This funding was reallocated to the Acquisition of Materials allocation as part of the 2012-2013 Adopted Capital Budget in preparation of four branches opening in 2012-2013.

- The Acquisition of Materials allocation provides funding for new materials at all facilities, including the four newly constructed branch libraries. All unexpended funds were carried over to the following year to adequately provide new and popular materials to meet the demands and needs of the community. Delays in ordering materials were mainly due to procurement staffing vacancies in the Finance Department.

The 2011-2012 expenditure level of $41.3 million was $6.8 million below the 2010-2011 expenditure level of $48.1 million. This variance is the result of several projects having significant expenditures in 2010-2011 including Alum Rock School District Sports Field Partnership, Kelley Park East Picnic Grounds and Restroom Renovation, Nisich Park Development, Vietnamese Cultural Heritage Garden, and Watson Site Clean-up and Restoration.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### CONSTRUCTION AND CONVEYANCE TAX FUNDS

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $109,060 | $52,553 | $74,497 | $21,944 | ($9,527) | $12,417 | 11.4% |

The 2011-2012 Ending Fund Balance of $74.5 million was $21.9 million above the estimate used to develop the 2012-2013 Adopted Capital Budget. This variance was due primarily to lower than anticipated project expenditures ($14.2 million) and higher than anticipated tax revenues ($4.4 million), transfers ($2.5 million), and miscellaneous revenue ($634,000). The majority of expenditure savings were rebudgeted as part of the 2012-2013 Adopted Capital Budget or are recommended for rebudget as part of this report.

This report also includes recommended adjustments totaling $1.2 million in several Construction and Conveyance Tax funds to allocate new funding to various projects, such as the Fire Station 5 Remediation project. Due to recently-identified mold issues that render Fire Station 5 uninhabitable, the station crew has been transferred to Fire Station 34 until another temporary location can be identified. Total funding of $1.2 million is recommended for mold abatement at Fire Station 5—$1.1 million from the Fire Construction and Conveyance Tax Fund, which includes $232,000 of unanticipated/critical facility repair funding transferred from the General Fund to the Fire C&C Tax Fund, and $89,000 from the Neighborhood Security Bond Fund. Other recommended Construction and Conveyance Tax Fund budget actions include the Family Camp Master Plan (Parks City-Wide Construction and Conveyance Tax Fund - $40,000); Facilities Improvements, ($155,000), Fire Construction and Conveyance Tax Fund and Neighborhood Security Bond Fund Expenditure Alignment ($66,000), Hose Replacement ($40,000), and a reduction in the Fire Station 21 – Relocation (White Road) project ($159,000) (Fire Construction and Conveyance Tax Fund - $102,000). In addition, this report includes a recommendation to transfer funding of $845,000 from the Council District 4 Construction and Conveyance Tax Fund to the Subdivision Park Trust Fund. 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. Information on these adjustments can be found in Section IV. Recommended Budget Adjustments and Clean-up Actions. The remaining fund balance is recommended to be allocated to the respective fund's 2012-2013 Ending Fund Balance and made available for future use.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## CONSTRUCTION EXCISE TAX FUND

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $42,245 | $43,062 | $817 | 1.9% |
| Expenditures | $51,775 | $32,739 | ($19,036) | (36.8%) |

<u>Revenue Performance</u>

In 2011-2012, revenues totaled $43.1 million and were generated primarily from the following: Construction Excise Tax ($18.0 million), Revenue from the State ($13.8 million), Miscellaneous Revenue (including Traffic Impact Fees) ($7.7 million), Revenue from the Federal Government ($1.6 million), Valley Transportation Authority ($1.1 million), and Developer Contributions ($392,000). The 2011-2012 revenues were higher than the budgeted estimate by $817,000 primarily due to higher receipts of Miscellaneous Revenue ($3.9 million), Construction Excise Tax ($3.0 million), and State grants ($2.3 million), partially offset by lower than budgeted receipts of federal grants ($5.7 million), Recovery Act funds ($1.9 million), and Valley Transportation Authority funds ($412,000).

While Revenue from the Federal Government came in $5.7 million lower than budgeted, this variance was largely assumed in the development of the 2012-2013 Adopted Capital Budget. A significant portion of the budget to actual variance ($5.4 million) was due to an anticipated delay in Federal Transportation Bill funding. As a result, $5.6 million was rebudgeted to 2012-2013 in the Adopted Budget. A recommendation to decrease the 2012-2013 revenue estimate in this category by $200,000 is included in this report as a result of higher than estimated 2011-2012 receipts.

Construction Excise Tax collections exceeded the budgeted level by $3.0 million due to higher than estimated issuances of residential multi-unit permits, as well as commercial valuation. Miscellaneous Revenue came in at higher than budgeted levels ($3.9 million) primarily due to Evergreen and North San José Traffic Impact Fee collections. These fees, which are only budgeted after they are received and whose use is restricted to the areas for which they are collected, are recommended to be placed into reserves for future use in these areas as part of this report.

At $18.0 million, 2011-2012 Construction Excise Tax receipts were 36.0% higher than 2010-2011 collections ($13.3 million). The higher than budgeted collections were a result of increased issuances of residential multi-family permits, and commercial/industrial alteration activity. The 2012-2013 Adopted Budget estimate of $13.0 million does not assume a continuation of such high collection levels and allows for a decrease of 27.9% from 2011-2012 actual tax receipts. However, the sustainability of the 2011-2012 collection level will be monitored as the year progresses, and an upwards adjustment to the 2012-2013 budgeted revenue estimate may be brought forward for City Council consideration at a later date.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## CONSTRUCTION EXCISE TAX FUND

Miscellaneous revenue receipts were $3.9 million higher than budgeted due to increased traffic impact fees in the North San Jose ($3.2 million) and Evergreen ($700,000) areas. State grants exceeded the budgeted revenue estimate ($2.3 million) due primarily to increased State Gas Tax receipts ($4.0 million), partially offset by lower than budgeted collections in the Pedestrian/Bicycle Facilities ($1.1 million) grant. A recommendation is included in this report to rebudget the revenue associated with the Pedestrian/Bicycle Facilities grant.

The 2011-2012 collection level of $43.1 million in this fund was $3.0 million (6.6%) lower than the 2010-2011 level of $46.1 million primarily due to lower American Recovery and Reimbursement Act reimbursements of $10.4 million, Developer Contributions of $808,000, and Valley Transportation Authority revenue of $464,000, partially offset by higher Construction Excise Tax collections of $4.7 million and State grant funds of $3.2 million.

Expenditure Performance

In 2011-2012, expenditures of $32.7 million were primarily attributed to Gas Tax – Pavement Maintenance activities ($11.3 million), transfers to the General Fund for general purpose and pavement maintenance activities ($4.3 million), Prop 1B - Pavement Maintenance activities ($2.9 million), and Capitol Expressway- Story and Aborn Road Improvements ($1.4 million), Bicycle and Pedestrian Facilities ($1.1 million), Congestion Management Program Dues ($784,000), Pavement Maintenance – City (777,000), Automated Transit Network ($734,000), Pavement Maintenance – Federal ($695,000), and numerous other projects with total expenditures less than $500,000.

The expenditure level was $19.0 million, or 36.8%, below the modified budget. The majority of these savings ($14.3 million) were anticipated and rebudgeted or redistributed as part of the 2012-2013 Adopted Capital Budget. A total of $3.0 million is recommended for rebudget in this report to ensure sufficient funding for existing projects in 2012-2013. The variance between the budget and the actual expenditure level is primarily attributable to the following projects: Pavement Maintenance – Federal ($5.5 million), Gas Tax – Pavement Maintenance ($2.3 million), Montague Expressway Improvements ($1.6 million), ARRA – Street Resurfacing and Rehabilitation ($1.5 million), Prop 1B Pavement Maintenance ($1.2 million), Route 101/Mabury Road Acquisition Project ($1.0 million), ADA Sidewalk Accessibility Program ($823,000), Federal Pavement Maintenance ($591,000), and other projects totaling $4.5 million, all with variances below $500,000. The variance in these projects was primarily due to delays in projects with full expenditure expected in 2012-2013, pending rebudget of funds as recommended in this document. The delays resulted from several factors, including issues with granting agencies, competing workload demands, unexpected complications in the design/construction process, and procurement issues. As mentioned previously, the majority of project savings are recommended to be rebudgeted to 2012-2013 to allow for completion of projects.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### CONSTRUCTION EXCISE TAX FUND

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $66,979 | $35,268 | $46,476 | $11,208 | ($20) | $11,188 | 16.7% |

The 2011-2012 Ending Fund Balance of $46.5 million was $11.2 million above the estimate used to develop the 2012-2013 Adopted Capital Budget. This variance was due to the following: higher than estimated revenues ($6.0 million) and lower than estimated expenditures ($5.2 million). It is recommended that a portion of the additional fund balance be allocated to rebudget funds for various capital projects ($3.0 million) to ensure sufficient funding for project continuation in 2012-2013. Recommendations to rebudget $3.0 million in revenues are also included in this report to reflect revenue that was anticipated in 2011-2012, but is now expected in 2012-2013.

In addition to the rebudgets, several other budget adjustments are included in this report. Due to the strength of 2011-2012 Construction Excise Tax collections and expenditure savings across the fund, a recommendation is included to establish a Reserve for Pavement Maintenance ($6.5 million). As detailed in the 2012-2013 Adopted Capital Budget, a significant portion of the City's roads will no longer be proactively maintained due to funding shortfalls, including 400 miles of major streets and all 1,600 miles of local/neighborhood streets. This reserve, while not sufficient to address all of these needs ($80.0 million projected annual cost), can potentially be used for the highest needs in these areas. The uses of these funds will be examined in the coming months and, if feasible, a recommendation to utilize these funds may be brought forward for City Council consideration for the 2013 paving season.

The establishment of an appropriation ($230,000) for the Adaptive Bicycle Detection System project is recommended in this document. This multi-year project supported by a federal grant will conduct a study and field analysis of bicycle signal detection technologies and install the technologies on key priority bikeway corridors on the City's Primary Bikeway Network. This project will improve bicycle comfort and safety, making cycling an appealing alternative to short vehicular trips and attractive as a "last mile" solution to reaching public transit. $120,000 of the 2012-2013 cost of $230,000 will be reimbursed by federal funds.

An increase to the Pavement Maintenance – State Gas Tax project ($3.8 million), is recommended based upon a reconciliation of 2011-2012 tax collections and associated expenditures as part of the year-end process. Additionally, a recommendation to increase the 2012-2013 revenue estimate for this project by $3.6 million, along with the corresponding expenditure appropriation, is included in this document to account for a revision to the anticipated collection level.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### CONSTRUCTION EXCISE TAX FUND

Finally, several technical adjustments to Traffic Impact Fee Reserves are recommended in this report. Increases to the North San José Traffic Impact Fees Reserve ($1.4 million), Evergreen Traffic Impact Fees Reserve ($759,525), and Route 101/Oakland/Mabury Traffic Impact Fees Reserve ($1,424) are recommended in order to preserve traffic impact fees collected in those areas for future use. After accounting for all recommended rebudgets and other adjustments, the Ending Fund Balance will be at approximately $1.5 million, which is in alignment with the level assumed in the 2012-2013 Budget.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## CONVENTION AND CULTURAL AFFAIRS FUND

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $25,394 | $25,826 | $432 | 1.7% |
| Expenditures | $27,484 | $26,216 | ($1,268) | (4.6%) |

Revenue Performance

In 2011-2012, revenues totaling $25.8 million were generated from operating revenues from the City's convention facilities ($19.4 million) as managed by Team San José, transfers from the Transient Occupancy Tax (TOT) Fund ($6.4 million), and interest earnings ($17,000). The 2011-2012 revenues exceeded the budget estimate by $432,000 due to higher than budgeted operating revenues associated with building rental, food and beverage, and contractual labor.

The 2011-2012 collection level was also $1.6 million (6.8%) above the 2010-2011 level of $24.2 million due to increases in the transfer levels from the TOT Fund ($1.4 million) and operating revenues from the City's convention facilities ($742,000), partially offset by the planned elimination of transfers from the General Purpose Parking Fund ($450,000) and General Fund ($48,000).

TOT receipts above budgeted levels are recognized in the TOT Fund upon collection and allocated according to the Council-approved distribution formula. Due to the fact that actual TOT receipts ended 2011-2012 higher than budgeted levels, according to the Council-approved distribution formula, a recommendation is included in this document to increase the 2012-2013 transfer from the TOT Fund to the Convention and Cultural Affairs Fund by $610,000. An additional increase to the transfer from the TOT Fund ($288,000) is included in this report based on a recommendation to increase the 2012-2013 TOT revenue estimate by 5.0% from the 2011-2012 actual collection level to bring the estimate in line with the 2012-2013 Adopted Budget assumed growth levels. For more information on the 2011-2012 performance of the TOT Fund and the 2012-2013 recommended revenue adjustment, please refer to the TOT Fund section of this document.

Expenditure Performance

In 2011-2012, expenditures of $26.2 million were primarily attributed to non-personal/equipment ($21.2 million) and personal services ($1.1 million) costs associated with operating the convention and cultural facilities. This expenditure level was $1.3 million (4.6%) below the modified budget due primarily to lower than budgeted expenditures in the Center for Performing Arts Improvements ($610,000), Miscellaneous Improvements ($308,000), Workers' Compensation Claims ($124,000), Convention Center Kitchen Remodel ($100,000), and Personal Services ($56,000) appropriations. Expenditures in this fund were 16.0% above the 2010-2011 level of $22.6 million due primarily to higher Non-

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### CONVENTION AND CULTURAL AFFAIRS FUND

Personal/Equipment ($3.1 million), Miscellaneous Improvements ($589,000), and Executive Management Fees ($257,000), partially offset by lower Personal Services appropriation costs ($843,000). A portion of the $1.3 million in expenditure savings ($630,000) generated in this fund were anticipated in the development of the 2012-2013 Adopted Budget, with additional rebudgets of $296,000 recommended in this report, as further discussed in the Ending Fund Balance discussion for this fund.

When the 2011-2012 Budget was developed, it was assumed that revenues and expenditures would be negatively impacted by the Convention Center Expansion/Renovation project. While some impacts were felt, they were largely mitigated by Team San Jose's ability to grow rental and food and beverage revenue, and generate short-term bookings. This additional activity did have some corresponding expenditures; however, the revenues generated from these events exceeded the additional expenses. As construction activity has moved from the outside of the building to the inside, the negative impacts are anticipated to be more apparent in 2012-2013. These impacts have been built into the 2012-2013 budget, and performance will be actively monitored as the year progresses.

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustment Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $34,311 | $7,654 | $8,526 | $872 | ($296) | $576 | 1.7% |

The 2011-2012 Ending Fund Balance of $8.5 million was $872,000 above the estimate used to develop the 2012-2013 Adopted Budget. This variance was due to facility revenues that were higher than the estimates used in the development of the 2012-2013 Budget ($1.4 million), partially offset by higher than anticipated expenditures ($504,000).

It is recommended that a portion of the additional fund balance be allocated to rebudget a total of $316,000 in unexpended funds for Miscellaneous Improvements ($308,000) and Fixtures, Furnishing and Equipment ($8,000). Additionally, a rebudget true-up adjustment in the Center for Performing Arts Improvements appropriation (-$20,000) is recommended due to lower than anticipated 2011-2012 savings in this appropriation. The rebudgeted funds for Miscellaneous Improvements will be used for the completion of improvements at the San Jose Civic Auditorium, as originally approved as part of the 2010-2011 Annual Report.

As part of the Convention Center Expansion and Renovation project, an unfunded need of $2.2 million for furniture, fixtures, and equipment (FF&E) has been identified (out of a total projected FF&E cost of $4.5 million). The Convention Center Expansion and Renovation project can support $2.0 million of $4.5 million FF&E costs, and $300,000 for this purpose was appropriated as part of the 2012-2013

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### CONVENTION AND CULTURAL AFFAIRS FUND

Adopted Budget; therefore, actions are recommended in this report to appropriate the remaining $2.2 million. The need for new items such as tables and chairs, flatware, garbage cans, and linens has existed for some time, and with the projected completion of the project in September 2013, the purchase of these items is not recommended to be deferred any longer. By moving forward and packaging the purchase of these items together, cost savings can be realized and the items can be delivered or installed in time for the project's completion. The allocation of resources for this project will not jeopardize the health of the fund as the cost will be supported by the following recommendations included in this report: utilizing additional fund balance ($576,000) available due to 2012-2013 cost savings and additional unbudgeted revenue; utilizing increased TOT resources available due to higher than anticipated 2011-2012 collections ($610,000) and a recommended increase to the 2012-2013 Adopted Budget revenue estimate ($288,000); reducing the Convention Center Kitchen Remodel Design appropriation ($200,000) as these costs were charged against the Convention Center Expansion/Renovation Project; reducing the Convention and Visitor Bureau (CVB) Marketing Services appropriation ($449,000); and reducing the Ending Fund Balance by $77,000. The reduction to the CVB Marketing Services appropriation will have no negative effect on the level of marketing services provided by the CVB as an offsetting addition of funds is recommended elsewhere in this report for the CVB in the Transient Occupancy Tax Fund as a result of higher than anticipated 2011-2012 Transient Occupancy Tax receipts.

The establishment of a new appropriation for $160,000 is recommended in this report for Convention Center Expansion and Renovation Construction Coordination. This funding will allow for contractual assistance with project communication and coordination between the construction team, Team San José work groups, and external stakeholders such as vendors and hotels. After accounting for all recommended rebudgets and other adjustments in this report, the Ending Fund Balance will be reduced by a net $236,000. The recommended reduction to the Ending Fund Balance would leave approximately $2.1 million in the Unrestricted Ending Fund Balance and keep the fund on track to achieve the City Council approved goal of retaining $1.5 million in fund balance at the end of the Convention Center Expansion/Renovation Project.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## GENERAL OBLIGATION BOND FUNDS

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $2,276 | $2,054 | ($222) | (9.8%) |
| Expenditures | $21,572 | $13,249 | ($8,323) | (38.6%) |

Revenue Performance

The General Obligation Bond (G.O. Bond) Funds consist of the Branch Libraries Bond Projects Fund, Neighborhood Security Act Bond Fund, and Parks and Recreation Bond Projects Fund. All G.O. Bond proceeds have already been issued for the Parks and Recreation Bond Projects Fund; however, $5.9 million remain to be issued for the Branch Library Bond Projects Fund and $3.3 million remain to be issued for the Neighborhood Security Act Bond Fund. It is currently anticipated that the remaining G.O. Bond proceeds will be issued in 2012-2013. In 2011-2012, revenues totaled $2.1 million and were generated primarily from transfers ($1.1 million), arbitrage reimbursements ($643,000), and interest earnings ($267,000). The negative revenue variance of $222,000 (9.8%) primarily represents lower than estimated interest earnings ($112,000) and grant funding ($109,000). The 2011-2012 Modified Budget assumed the Parks and Recreation Bond Projects Fund would receive grant funding of $109,000; however, this funding was ultimately recognized in the Parks City-Wide Construction and Conveyance Tax Fund instead.

The 2011-2012 revenue of $2.1 million was $600,000 above the 2010-2011 total of $1.5 million. This increase is primarily due to the arbitrage reimbursements received in 2011-2012, partially offset by lower interest earnings.

Expenditure Performance

The expenditure variance of $8.3 million (38.6%) is primarily the result of unexpended capital project funds. Of the $8.3 million expenditure variance, $5.2 million was attributable to the Southeast Branch ($2.6 million) and Branch Efficiency Projects ($2.6 million) appropriations. The Southeast Branch project experienced a delay in the purchase of land for this new branch, which extended the timeline for the design phase of the project. The Branch Efficiency Projects appropriation generated savings due to a delay in awarding the contract for the purchase and installation of automated check-in and sorting machines. The majority of the savings in the Bond Funds were anticipated and either rebudgeted to 2012-2013 as part of the 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 2012-2013 to allow for completion of projects. After the rebudget adjustments that were included in the 2012-2013 Adopted Capital Budget and the rebudgets as recommended in this report are considered, the expenditure variance will be $5.0 million (23.1%).

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## GENERAL OBLIGATION BOND FUNDS

Expenditures in the G.O. Bond Funds in 2011-2012 were $19.5 million lower than expenditures in 2010-2011. This decrease in expenditures is primarily the result of several projects having significant expenditures in 2010-2011 including Happy Hollow Park and Zoo Renovations and Improvements, Calabazas Branch Library, and Fire Station 24 - Silver Creek/Yerba Buena.

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $65,877 | $52,975 | $52,527 | ($448) | $1,456 | $1,008 | 1.5% |

The 2011-2012 Ending Fund Balance of $52.5 million was $448,000 below the estimate used to develop the 2012-2013 Adopted Capital Budget. This variance was primarily due to higher than anticipated project expenditures ($226,000) and lower than anticipated interest earnings/miscellaneous revenue ($222,000).

In addition to other budget adjustment actions, this report also recommends establishing a new Fire Station 5 Remediation project totaling $1.2 million with appropriations in the Fire Construction and Conveyance (C&C) Tax Fund ($1.1 million) and the Public Safety Bond Fund ($89,000) to fund urgent facility maintenance needs at Fire Station 5. Due to recently-identified mold issues, Fire Station 5 has become uninhabitable until abatement actions are taken. The station crew has moved out of the station and is being deployed from Fire Station 34 until a temporary site closer to Fire Station 5 can be determined. Savings of $51,000 in the Fire Station 37 - Willow Glen project is recommended to be transferred to the Reserve: Fire Station 37 (Willow Glen) to consolidate all remaining funds for this project. An allocation of $36,000 to Fire Station Upgrades is also recommended to complete required upgrades at several fire stations including the completion of upgrades to the generator at Fire Station 17 and repairs to the sound system in the apparatus bay at Fire Station 2. Finally, technical adjustments are recommended to reimburse expenditures, incurred through June 30, 2012, that are ineligible to be charged to the Public Safety Bond Fund. These adjustments will align expenditures with the appropriate funding source by transferring funds in the amount of $440,000 to and from the General Fund ($374,000) and the Fire C&C Tax Fund ($66,000) with the Public Safety Bond Fund.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## GENERAL PURPOSE PARKING FUND

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $10,611 | $11,771 | $1,160 | 10.9% |
| Expenditures | $9,952 | $8,346 | ($1,606) | (16.1%) |

Revenue Performance

In 2011-2012, revenues totaled approximately $11.8 million generated from parking garages and lots ($9.2 million), parking meters ($2.3 million), a transfer from the Parking Capital Development Revenue Fund ($153,000), miscellaneous revenue ($65,000), and interest earnings ($33,000). The 2011-2012 revenues exceeded the budget estimate by $1.2 million (10.9%) primarily due to higher than budgeted revenues from parking garages and lots ($1.2 million).

The revenue generated from parking activity in 2011-2012 was $2.2 million (22.5%) above the 2010-2011 revenues of $9.6 million primarily due to higher revenue from garages and lots. The increase is partially attributable to additional revenue generated at the Convention Center Garage ($600,000) and nearby surface lots ($400,000), which were impacted less by the Convention Center Renovation and Expansion project than originally anticipated. Additionally, revenue due to the transfer of the South Hall Surface Lot and Fairmont Garage ($800,000) from the Redevelopment Agency to the City also contributed to the increase. Finally, revenues increased by $200,000 as a result of business parking leases and rate increases at the core downtown garages.

Expenditure Performance

In 2011-2012, expenditures of $8.3 million were primarily attributed to non-personal/equipment ($4.6 million) and personal services ($1.7 million) expenditures for the Department of Transportation, transfers to the General Fund ($506,000), and Parking Capital Program expenditures ($425,000). Expenditures were $1.6 million (16.1%) below the modified budget, with the variance primarily due to savings in various capital projects ($855,000), non-personal/equipment ($518,000), and personal services ($119,000). Savings in the Parking Capital Program were due to various timing delays, with any savings rebudgeted to 2012-2013 as part of the 2012-2013 Adopted Capital Budget ($736,000) or recommended for rebudget ($173,000) as part of this report. Savings in the Non-Personal/Equipment appropriation were attributable to lower costs for contractual services, electricity, and insurance, and savings in the Personal Services appropriation were generated through 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)

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $20,443 | $11,524 | $13,289 | $1,765 | ($173) | $1,592 | 7.8% |

The 2011-2012 Ending Fund Balance of $13.3 million was $1.8 million above the estimate used to develop the 2012-2013 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 recommended increase to the revenue estimate for parking garages and lots of $650,000. When the budget was developed, it was assumed that parking activity at the Convention Center Garage would decline by approximately 40% due to temporary negative effects from the Convention Center Expansion and Renovation project. Upon further analysis and consultation with Team San José, it is now anticipated that overall parking activity will decline by only 17%, representing an increase of $650,000 from the revenue estimate included in the 2012-2013 Adopted Budget. Not recommended at this time, as the analysis is still under development, are expenditure adjustments related to costs of operating the garage at the Convention Center. As part of the Team San José performance measures memorandum, approved by the City Council on September 25, 2012, a reference was made to the General Purpose Parking Fund assuming some costs that are being paid in the Convention and Cultural Affairs Fund. These costs, currently estimated at approximately $270,000, are still being refined. Once these costs can be more accurately estimated, it is anticipated an expenditure adjustment in this fund will be brought forward for City Council consideration. The additional operating revenues from the Convention Center garage operation will support a concurrent increase to the Reserve for Debt Service, necessary for future debt service payments for the Fourth and San Fernando Street Garage.

Also included in this report is a recommendation to rebudget $173,000 for the Minor Parking Facility Improvements ($88,000) and Downtown Event Parking Dynamic Message Signs ($85,000) appropriations, as these projects experienced unforeseen delays in 2011-2012. Finally, a recommendation to transfer $19,000 into this fund from the Parking Capital Development Fund is included in this report. This transfer will effectively close out the Parking Capital Development Fund, as originally approved by the City Council as part of the 2012-2013 Adopted Budget.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## INTEGRATED WASTE MANAGEMENT FUND

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $147,012 | $137,740 | ($9,272) | (6.3%) |
| Expenditures | $160,270 | $154,407 | ($5,863) | (3.7%) |

Revenue Performance

In 2011-2012, revenues totaled $137.7 million and were generated from the following: Recycle Plus Collection Charges ($104.8 million), a one-time payment for the EIC - Ground Lease ($8.0 million), a one-time payment for the New Market Tax Credit (NMTC) Transaction – One Day Loan ($8.0 million), Lien-Related Charges ($6.7 million), a one-time payment for the NMTC Proceeds – First Draw ($4.7 million), AB939 Fees ($3.3 million), Construction and Demolition Diversion Deposit (CDDD) Ineligible Refunds ($1.5 million), and other sources of revenue ($700,000). The 2011-2012 revenues fell short of the budget by $9.3 million (6.3%) primarily due to lower NMTC Proceeds – First Draw ($5.9 million), the United States Department of Commerce Economic Administration Assistance (EDA) Grant ($2.3 million), and lower than expected Recycle Plus Collection Charges ($1.2 million). The delay of the Environmental Innovation Center (EIC) project has delayed NMTC proceeds. Due to the delay in the EIC project completion, the photovoltaic project has been deferred to 2012-2013, which will be partially funded by the EDA grant. Therefore, it is anticipated that EDA revenue will be received in 2012-2013. Recycle Plus Charges came in lower primarily due to Multi-Family Dwelling customers reducing cart sizes.

The various one-time New Market Tax Credit transactions, which occurred in November 2011, resulted in an additional $4.5 million in funding for the Environmental Innovation Center (EIC) located on Las Plumas Avenue. 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 2011-2012 revenue collection level was $24.9 million (22.1%) above the 2010-2011 level of $112.8 million primarily due to an increase in Recycle Plus Collection Charges ($8.9 million), a one-time payment for the EIC-Ground Lease ($8.0 million), a one-time payment for the NMTC Transaction – One Day Loan ($8.0 million), and a one-time payment for the NMTC Proceeds – First Draw ($4.7 million). After adjusting for the one-time revenues associated with the NMTC transactions, the 2011-2012 revenue variance to 2010-2011 revenue collection levels is only $4.2 million (3.7%).

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## INTEGRATED WASTE MANAGEMENT FUND

Expenditure Performance

In 2011-2012, expenditures of $154.4 million were primarily attributed to the Single Family Dwelling Recycle Plus contracts ($48.4 million), Yard Trimmings/Street Sweeping contract ($21.9 million), NMTC Transaction Leverage Loan ($19.6 million), Multi-Family Dwelling Recycle Plus contracts ($17.2 million), Household Hazardous Waste Las Plumas Facility ($9.8 million), IDC Disposal Agreement ($8.4 million), NMTC Transaction One-Day Loan repayment ($8.0 million), and Environmental Services Department (ESD) Personal Services ($6.4 million) and Non-Personal/Equipment ($3.8 million) appropriations.

In 2011-2012, expenditures were $5.9 million (3.7%) below the modified budget. The most significant savings were in Household Hazardous Waste Las Plumas ($3.4 million) due to project delays, ESD non-personal/equipment ($1.1 million), and personal services savings in various departments ($603,000) due to vacancies. Of the $3.4 million savings in the Household Hazardous Waste Las Plumas appropriation, $3.2 million was rebudgeted as part of the 2012-2013 Adopted Operating Budget.

Expenditures in this fund, including transfers, were $36.1 million (30.5%) above the 2010-2011 level of $118.4 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 ($9.3 million), partially offset by the one-time payment for Land Purchase – Las Plumas ($2.3 million) in 2010-2011, a one-time payment for the Union Pacific Settlement ($953,000), and ESD Non-Personal/Equipment appropriation ($964,000). After adjusting for the one-time expenditures associated with the NMTC transactions, the 2011-2012 expenditure variance to 2010-2011 expenditure levels is only $8.2 million or 7.2%.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### INTEGRATED WASTE MANAGEMENT FUND

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance from Estimate | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $167,173 | $7,295 | $4,484 | ($2,811) | ($200) | ($3,011) | (1.8%) |

The 2011-2012 Ending Fund Balance of $4.5 million was $2.8 million below the estimate used to develop the 2012-2013 Adopted Budget. This variance was due to lower than estimated revenues ($3.8 million), partially offset by lower than estimated expenditures ($1.0 million). In 2011-2012, revenues fell short primarily due to reimbursements that were not received from the EDA grant ($2.4 million), recycle plus collection reimbursements ($1.2 million), California Energy Commission (CEC) reimbursements ($272,000), and AB 939 fees ($256,000). Expenditures in 2011-2012 generated savings primarily in the Yard Trimming/Street Sweeping ($497,000), Single-Family Dwelling Recycle Plus ($264,000), CEC Grant: Biomass to Energy Technology Project ($146,000), and Environmental Compliance and Monitoring ($43,000) appropriations.

It is recommended that a portion of the additional fund balance be allocated to rebudget savings in the California Energy Commission (CEC) Grant: Biomass to Energy Technology Project ($145,000), Household Hazardous Waste Las Plumas Facility ($209,000), and Clean Creeks Healthy Communities ($9,000) appropriations. The remaining fund balance of $3.0 million, including the Contingency Reserve of $1.6 million, is recommended to be allocated to the 2012-2013 Reserve for Operations and Maintenance bringing the reserve to $4.4 million in 2012-2013. The goal of the Reserve for Operations and Maintenance is one month of expenditures or approximately $10.5 million in 2012-2013. The Administration will evaluate any future revenue or expenditure adjustments as well as the funding for the Reserve for Operations and Maintenance as part of the 2013-2014 budget process.

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 Public Works Department Non-Personal/Equipment appropriation by $6,300 to align with the Public Works Program Support rate of 6.4%. Inadvertently, as part of the development of the 2012-2013 Adopted Budget, a slightly lower rate was applied in this fund. In addition, this report includes a recommendation to decrease the Reserve for Operations and Maintenance to increase the Delinquent Lien Releases appropriation in the Finance Department by $26,000 to provide for higher payments to the County of Santa Clara for processing garbage lien releases. The City pays the County a fee for processing the release of each garbage lien. Because of an increase in the number of lien cycles, from four cycles to six cycles per year, more liens are now being placed on properties and thus released.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## LIBRARY PARCEL TAX FUND

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $7,251 | $7,476 | $225 | 3.1% |
| Expenditures | $8,918 | $6,746 | ($2,172) | (24.4%) |

Revenue Performance

In 2011-2012, revenues totaled $7.5 million and were generated primarily from parcel tax revenue ($7.5 million) and interest earnings ($13,000). The 2011-2012 revenues exceeded the budget estimate by $225,000, or 3.1%, due to both higher than budgeted parcel tax revenue ($223,000) and higher than budgeted interest earnings ($2,000).

Revenues in 2011-2012 were $135,000 (1.8%) above the 2010-2011 level of approximately $7.3 million due to higher Library Parcel Tax collections ($179,000), partially offset by lower interest earnings ($20,000) and the loss of one-time miscellaneous revenue ($24,000). The increase in Library Parcel Tax collections is attributable to the 2011-2012 rate increase of 1.7% based on the Consumer Price Index (CPI) as approved by the City Council in June 2012 for an effective date of July 1, 2012.

Expenditure Performance

In 2011-2012, expenditures of $6.7 million were primarily generated from Library Department Personal Services ($4.4 million), Acquisition of Materials ($1.3 million), Automation Projects ($678,000), and Non-Personal/Equipment ($240,000) appropriations. This expenditure level was $2.2 million or 24.4% below the modified budget primarily due to savings in various appropriations such as the non-personal/equipment expenditures ($733,000) due to project delays and a lower than anticipated need for supplies and materials, personal services ($606,000) given a high number of vacancies, acquisition of materials ($580,000) given staff transitions that delayed the purchase of new materials, and automation projects ($238,000) due to procurement delays. This document includes a recommendation to rebudget $310,000 for acquisition of materials to purchase popular and new materials for existing library branch collections, and $225,000 for automation projects to upgrade the Library's Active Directory infrastructure and complete other technology improvements. These rebudgets bring the expenditure variance to $1.6 million, or 18.4% in savings.

Expenditures in this fund were 18.3% below the 2010-2011 level of $8.3 million due primarily to a one-time shift of the Library Department's personal services and non-personal/equipment expenditures ($1.5 million) from the General Fund to the Library Parcel Tax Fund in 2010-2011 as a budget rebalancing action at mid-year.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### LIBRARY PARCEL TAX FUND

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $13,446 | $5,896 | $6,975 | $1,079 | ($535) | $544 | 4.0% |

The 2011-2012 Ending Fund Balance of $7.0 million was $1.1 million above the estimate used to develop the 2012-2013 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 ($310,000) and Automation Projects ($225,000) appropriations. The remaining fund balance of $544,000 is recommended to be allocated to the 2012-2013 Ending Fund Balance and would be available for future use.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## PUBLIC WORKS PROGRAM SUPPORT FUND

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $9,733 | $9,750 | $17 | 0.2% |
| Expenditures | $13,431 | $12,799 | ($632) | (4.7%) |

Revenue Performance

In 2011-2012, revenues totaling $9.7 million were primarily generated through transfers from Capital Projects for Compensated Absences ($5.6 million), Public Works Program Support ($2.6 million), and Capital Program Support ($1.4 million). The 2011-2012 revenues exceeded the budget estimate by $17,000 due to higher than budgeted transfers for Public Works Program Support ($159,000), partially offset by lower than anticipated interest earnings ($59,000), transfers for Capital Program Support ($47,000), Valley Transportation Authority revenues ($24,000), and transfers for Compensated Absences ($11,000).

The 2011-2012 collection level was $1.7 million (15.2%) below the 2010-2011 level of $11.5 million due in part to a decrease in the Public Works Program Support rates applied to each capital program ($1.2 million) and a decrease in the Compensated Absence rates ($420,000) based on estimated absence and direct labor costs.

Expenditure Performance

In 2011-2012, expenditures of $12.8 million were primarily due to compensated time off ($6.4 million), personal services ($3.9 million), overhead ($917,000), compensated absences liability ($700,000), non-personal/equipment ($427,000), and transfers to other funds ($299,000). The expenditure savings of $632,000 (4.7%) were in personal services ($592,000) mostly due to vacancy savings, non-personal/equipment ($346,000) due to a decreased need in training, supplies, and software, compensated time off ($286,000), and overhead reimbursements ($110,000). These savings were partially offset by unbudgeted expenses for the compensated absences liability ($700,000) which is discussed below in the Ending Fund Balance Performance section.

The expenditures in this fund were $1.3 million (11.3%) above the 2010-2011 level of $11.5 million due primarily to higher overhead charges ($1.0 million), personal services ($831,000) and compensated absences liability ($700,000) costs, partially offset by lower non-personal/equipment ($732,000) and compensated time off ($540,000) costs.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### PUBLIC WORKS PROGRAM SUPPORT FUND

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $13,830 | $1,581 | $1,092 | ($489) | $0 | ($489) | (3.5%) |

The 2011-2012 Ending Fund Balance of $1.1 million was $489,000 (3.5%) below the estimate of $1.6 million used to develop the 2012-2013 Adopted Budget. This variance was primarily due to the unbudgeted expense for compensated absences liability ($700,000), partially offset by expenditure savings in compensated time off ($286,000). Due to the implementation of GASB 54 as part of the 2011-2012 Comprehensive Annual Financial Report, the Public Works Program Support Fund was reclassified as an Internal Service Fund. For Internal Service Funds, the long-term liability of compensated absences is required to be fully funded; however, the 2011-2012 unrestricted ending fund balance of $1.1 million was insufficient to fully fund the $2.8 million in compensated absences liability for this fund. Therefore, it is recommended to fully fund this liability over a four year period, starting in 2011-2012, with $700,000 expended for the compensated absences liability.

It is recommended in this report that another $700,000 from the additional 2011-2012 Ending Fund Balance of $1.1 million be allocated to fund the second phase of the compensated absences liability for 2012-2013. It is estimated that the fund will have a remaining unrestricted fund balance of $1.4 million by the end of 2012-2013. Therefore, the remaining $1.4 million of compensated absences liability will be programmed over the next two budget cycles.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## SAN JOSE/SANTA CLARA TREATMENT PLANT CAPITAL FUND

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $52,992 | $43,178 | ($9,814) | (18.5%) |
| Expenditures | $101,378 | $48,783 | ($52,595) | (51.9%) |

Revenue Performance

In 2011-2012, revenues totaled $43.2 million and were generated primarily from Transfers from the Sewer Service and Use Charge Fund ($27.8 million) and the Sewage Treatment Plant Connection Fee ($3.1 million), contributions from the tributary agencies for equipment projects and debt service payments ($9.4 million), federal grants ($1.1 million), Santa Clara Valley Water District contributions ($1.0 million), Calpine MEC repayments ($445,000), and interest earnings ($337,000). This revenue level was $9.8 million (18.5%) below the budgeted estimate, mainly due to lower than budgeted contributions from the Tributary Agencies ($6.8 million) and delays in the receipt of grants from the U.S. Bureau of Reclamation ($3.0 million). It is anticipated that grant funding of $2.5 million will be received in fall 2012. 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 2011-2012 collection level was $6.1 million (12.4%) below the 2010-2011 level of $49.3 million due primarily to lower contributions from the tributary agencies for equipment projects ($2.8 million) and a lower transfer from the Sewer Service and Use Charge Fund ($900,000). In addition, major construction work on Recovery Act Phase 1C projects was completed in 2010-2011 and related grant revenue decreased by $3.1 million from $4.2 million in 2010-2011 to $1.1 million in 2011-2012.

Expenditure Performance

In 2011-2012, expenditures of $48.8 million were attributed to capital improvement projects ($37.3 million) and debt service payments ($11.5 million). This expenditure level was $52.6 million (51.9%) below budget. The largest projects included South Bay Water Recycling (SBWR) Extension ($9.5 million), Plant Electrical Reliability ($7.2 million), Plant Infrastructure Improvements ($3.9 million), SBWR Reservoir Facility ($3.0 million), Equipment Replacement ($2.2 million), Plant Master Plan ($2.1 million), Urgent and Unscheduled Treatment Plant Rehabilitation ($1.5 million), Fuel Cell ($1.1 million), and Treatment Plant Fire Main Replacement ($1.1 million). Projects with the largest amounts of unused funding at the end of 2011-2012 included the Digester Rehabilitation ($12.5 million), Plant Infrastructure Improvements ($7.4 million), Headworks Enhancement ($4.6 million), SBWR Extension ($3.8 million), Secondary and Nitrification Clarifier Rehabilitation ($3.2 million), Iron Salt Feed Station ($2.3 million), SBWR Master Plan ($2.3 million), Plant Electrical Reliability ($2.2 million), SBWR

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### SAN JOSE/SANTA CLARA TREATMENT PLANT CAPITAL FUND

Backup Water Supply ($2.2 million), East Primary Concrete Tank Repair ($1.7 million), Dissolved Air Flotation Dissolution Improvements ($1.2 million), Advanced Process Control and Automation ($1.1 million), and SBWR Custom Connection Program ($1.0 million) projects. These projects were mainly delayed due to staffing shortages and some procurement issues. Of the $52.6 million in savings, approximately $42.6 million was rebudgeted for use in 2012-2013 as part of the 2012-2013 Adopted Capital Budget. It should be noted that SBWR extension projects are on hold until the SBWR Master Plan is completed which is scheduled for June 2013. In addition, the SBWR Customer Connection Program project ($1 million) has been eliminated. After accounting for the 2012-2013 rebudgets and project eliminations, approximately $10.0 million in savings remained at the end of 2011-2012. Since several projects did not achieve the 2011-2012 assumed savings, rebudget true-up adjustments totaling $415,000 are recommended as part of this document, thereby increasing the expenditure variance to $10.1 million, or 5.9%.

Expenditures in this fund were $21.6 million or 30.7% lower than the 2010-2011 level of $70.4 million, primarily due to staffing shortages, procurement issues, and completion of major construction work on the Recovery Act Phase 1C project in the prior year. Further, the delay on the SBWR extensions resulted in lower expenditures in 2011-2012.

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustment) |
|---|---|---|---|---|---|---|
| $171,758 | $104,635 | $114,314 | $9,679 | $415 | $10,094 | 5.9% |

The 2011-2012 Ending Fund Balance of $114.3 million was $9.7 million above the estimate used to develop the 2012-2013 Adopted Budget. Of this Ending Fund Balance, downward adjustments of $415,000 are recommended since several projects did not achieve the 2011-2012 assumed savings. The revised fund balance of $10.1 million is recommended to be allocated to the 2012-2013 Ending Fund Balance and available for future use.

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 SBWR master plan ($97,000) appropriation to replenish the appropriation for funds spent earlier on preliminary strategic planning prior to the execution of a cost sharing agreement with the Santa Clara Valley Water District. In addition, this report includes a recommendation to increase the ARRA – SBWR recycling phase 1C appropriation ($9,034) to correct a system error.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### SAN JOSE/SANTA CLARA TREATMENT PLANT OPERATING FUNDS

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $195,977 | $197,362 | $1,385 | 0.7% |
| Expenditures | $209,694 | $203,170 | ($6,524) | (3.1%) |

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 2011-2012, gross revenues in these funds totaled $197.4 million and were generated primarily from sewer service and use charges for residential ($104.0 million), commercial ($18.9 million), and industrial ($4.2 million) users; a transfer from the Sewer Service and Use Charge (SSUC) Fund ($40.0 million) to the San José/Santa Clara Treatment Plant Operating Fund; contributions from tributary agencies ($13.9 million); contributions from the City of Santa Clara ($9.0 million); and Connection Fees ($2.3 million).

Revenue collections ended the year slightly above budget (0.7%) primarily due to higher Connection Fees ($782,000) and higher sales of recycled water ($423,000). The 2011-2012 combined revenue level was also $9.2 million (4.4%) below the 2010-2011 level of $206.6 million, primarily due to lower SSUC fund transfers ($11.0 million) and lower contributions from the tributary agencies ($2.97 million), partially offset by higher residential revenues ($4.2 million).

Expenditure Performance

In 2011-2012, gross expenditures of $203.2 million were primarily attributed to Transfers from the Sewer Service and Use Charge Fund to the Treatment Plant Operating Fund ($40.0 million), Sewer Service and Use Charge Capital Fund ($31.0 million), and Treatment Plant Capital Fund ($27.8 million), Environmental Services Department (ESD) personal services ($38.8 million), ESD non-personal/equipment ($29.5 million), overhead reimbursements ($9.9 million), and Transportation Department personal services ($9.8 million) and non-personal/equipment ($4.7 million).

In 2011-2012, expenditures were $2.9 million (1.4%) above the 2010-2011 level of $200.3 million, primarily due to lower transfers from the Sewer Service and Use Charge Fund to the Treatment Plant Operating Fund ($11 million), lower transfers to the Integrated Waste Management Fund ($1.5 million), partially offset by higher ESD personal services ($1.6 million) and non-personal/equipment ($1.4 million) expenditures, and higher transfers to the Sewer Service and Use Charge Capital Improvement Fund ($15.0 million).

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## SAN JOSE/SANTA CLARA TREATMENT PLANT OPERATING FUNDS

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $272,419 | $66,592 | $72,251 | $5,659 | $0 | $5,659 | 2.1% |

The 2011-2012 Ending Fund Balance of $72.3 million was $5.7 million above the estimate used to develop the 2012-2013 Adopted Budget, primarily due to staff vacancies.

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 a one-time increase in the ESD non-personal/equipment appropriation ($1.0 million) offset by a reduction in the 2012-2013 Reserve for Operations and Maintenance be included to address deferred maintenance projects. The projects include heat-loop pipe joint repairs, replacement of meter pipe and valves, nitrification hot water heat exchangers, nitrification sump wells, east primary scum section pumps, and procurements of servers, chlorine analyzers, and mechanical blower vain actuators.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## SANITARY SEWER CAPITAL PROGRAM

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $33,053 | $32,736 | ($317) | (1.0%) |
| Expenditures | $78,528 | $30,579 | ($47,949) | (61.1%) |

Revenue Performance

The Sanitary Sewer Capital Program includes the Sewer Service and Use Charge Capital Fund and the Sanitary Sewer Connection Fee Fund. In 2011-2012, revenues totalling $32.7 million were generated primarily due to a Transfer from the Sewer Service and Use Charge Fund ($31.0 million), Connection Fees ($865,000), miscellaneous revenue ($399,000), interest earnings ($265,000), and Joint Participation revenue ($207,000).

In total, 2011-2012 revenues ended the year $317,000 below the budgeted estimate primarily due to lower Joint Participation revenue ($703,000), partially offset by higher Connection Fees ($340,000) and interest earnings ($245,000). 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 2011-2012 collection level was $14.9 million above the 2010-2011 level of $17.9 million due primarily to a higher transfer from the Sewer Service and Use Charge Fund ($15.4 million), partially offset by lower miscellaneous revenue ($844,000).

Expenditure Performance

In 2011-2012, expenditures totaled $30.6 million. The largest projects in this program with over $1.0 million in expenditures were the Miscellaneous Projects ($5.3 million), Miscellaneous Rehabilitation Projects ($4.1 million), Sanitary Sewer Condition Assessment Phase II ($4.0 million), Condition Assessment Sewer Repairs ($3.1 million), 60" Brick Interceptor Rehabilitation ($2.0 million), Morrill Avenue/Sierra Road Sanitary Sewer ($1.2 million), Flow Monitoring Project ($1.1 million), and Cropley Avenue Sanitary Sewer Improvement ($1.0 million) appropriations. The 2011-2012 expenditures ended the year 61.1% ($47.9 million) below the budgeted level of $78.5 million. This variance was primarily due to project delays as a result of staff vacancies and procurement processes. Projects with the largest savings include the Spreckles Sanitary Sewer Force Main Supplement ($4.3 million), 30" Old Bayshore Supplement ($4.0 million), Coleman Road Sanitary Sewer Supplement ($3.5 million), Almaden Expressway Sanitary Sewer ($3.3 million), Husted-Richland Sanitary Sewer Improvements ($3.2 million), Rehabilitation of Sanitary Sewer Pump Station ($2.7 million), Miscellaneous Rehabilitation Projects ($2.7 million), Almaden Road Supplement Sewer Rehabilitation ($2.2 million), Reinforcement

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### SANITARY SEWER CAPITAL PROGRAM

Concrete Pipe Rehabilitation ($2.2 million), Fourth Major Interceptor Phase IIB ($2.0 million), Condition Assessment Sewer Repair ($1.9 million), Minnesota Avenue Sanitary Sewer Improvements ($1.8 million), Myrtle Avenue Sanitary Sewer Improvements ($1.6 million), Miscellaneous Projects ($1.2 million), Mackey Avenue Sanitary Sewer Replacement ($1.1 million), and Public Art ($1.1 million) appropriations. Of the $47.9 million expenditure variance, $23.7 million was rebudgeted and $6.7 million was reprogrammed for other purposes as part of the 2012-2013 Adopted Capital Budget. An additional $8.5 million is recommended to be rebudgeted as part of this document, thereby reducing the expenditure variance to $9.0 million or 11.5%.

Expenditures in this fund were $3.2 million (11.6%) above the 2010-2011 level of $27.4 million, primarily due to the Sanitary Sewer Condition Assessment Phase II ($2.9 million) and Moorpark-Meridian Trunk Sewer Rehabilitation ($907,000) projects.

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $122,856 | $75,134 | $92,755 | $17,621 | ($8,473) | $9,148 | 7.4% |

The 2011-2012 Ending Fund Balance of $92.8 million was $17.6 million above the estimate used to develop the 2012-2013 Adopted Budget. This variance was due to lower than expected expenditures partially offset by lower than expected revenues. This document recommends rebudgets of $8.5 million for a number of projects, including the Spreckles Sanitary Sewer Force Main Supplement ($3.4 million), Mackey Avenue Sanitary Sewer Rehabilitation ($1.1 million), Condition Assessment Sewer Repairs ($900,000), Reinforced Concrete Pipe Rehabilitation Program ($700,000), Flow Monitoring Program ($435,000), Urgent Rehabilitation and Repair ($350,000) projects, and various other capital projects. The remaining fund balance of $9.1 million is recommended to be allocated to the 2012-2013 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 Public Works Department non-personal/equipment appropriation ($600,000) to correct an administrative error.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## STORM SEWER CAPITAL PROGRAM

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $6,111 | $6,227 | $116 | 1.9% |
| Expenditures | $18,233 | $7,015 | ($11,218) | (61.5%) |

Revenue Performance

In 2011-2012, revenues total approximately $6.2 million and were generated primarily from a transfer from the Storm Sewer Operating Fund ($6.0 million), Storm Drainage Fees ($183,000), interest earnings ($40,000), and joint participation revenue ($4,000). The 2011-2012 revenues came in slightly above the budget estimate of $6.1 million (1.9%) mainly due to increased revenue in Storm Drainage Fees ($44,000) and interest earnings ($8,000).

The 2011-2012 collection level was $4.3 million (40.9%) below the 2010-2011 level of $10.5 million primarily due to a lower planned transfer from the Storm Sewer Operating Fund ($4.3 million) offset by a Storm drainage fee revenue increase of $46,000 (33.6%) to $183,000.

Expenditure Performance

In 2011-2012, expenditures totaled $7.0 million. Major projects contributing to this expenditure level were Storm Pump Station Rehabilitation and Replacement ($2.1 million), Urgent Flood Prevention and Repair Projects ($933,000), Storm Sewer Master Plan – City-wide ($928,000), Storm/Sanitary Sewer Separation ($334,000), Outfall Rehabilitation ($310,000), and Creek Channel Stabilization ($303,000).

The expenditure level was $11.2 million (61.5%) below the modified budget due primarily to unexpended funds associated with the Storm Sewer Improvements – Special Corridors ($1.5 million), Storm Sewer Master Plan – City-wide ($1.42 million), Storm Pump Station Rehabilitation and Replacement ($1.4 million), Alviso Storm Network Infiltration Control ($1.2 million), and Lower Bird Avenue Storm Sewer Improvements ($659,000) projects. Expenditures related to these projects were delayed due to staff vacancies and the focus on the selection process and contracting for master planning consultants. Of the $11.2 million expenditure variance, $7.6 million was rebudgeted and $775,000 was reprogrammed for other purposes as part of the 2012-2013 Adopted Capital Budget. An additional $2.1 million is recommended to be rebudgeted as part of this document, thereby reducing the expenditure variance to approximately $725,000 or 4%.

Expenditures in this program were $725,000 (11.5%) above the 2010-2011 level of $6.3 million primarily due to higher spending on Urgent Flood Prevention and Repair Projects ($748,000), Storm Sewer Master Plan City-wide ($572,000), Storm/Sanitary Sewer Separation ($324,000), partially offset

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### STORM SEWER CAPITAL PROGRAM

by lower expenditures in the Creek Channel Stabilization ($235,000), and Minor Neighborhood Storm Sewer Improvements ($204,000) projects.

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $19,131 | $9,405 | $12,298 | $2,893 | ($2,064) | $829 | 4.3% |

The 2011-2012 Ending Fund Balance of $12.3 million was $2.9 million above the estimate used to develop the 2012-2013 Adopted Budget. This variance was mainly due to the lower than expected expenditures in Storm Sewer Master Plan – City-wide ($418,000), Gold Street Storm Drainage Improvements ($359,000), Capital Program and Public Works Department Support Service Costs ($356,000), and Outfall Rehabilitation ($343,000).

It is recommended that $2.1 million of the ending fund balance be allocated to rebudget funds for the continuation of several projects, including the Storm Sewer Master Plan – City-wide ($418,000), Gold Street Storm Drainage Improvements ($359,000), Storm Sewer Master Plan – North San José ($227,000), El Dorado Street Storm Sewer Improvements ($265,000), and Outfall Rehabilitation ($250,000). The remaining balance of $829,000 is recommended to be allocated to the 2012-2013 Ending Fund Balance and available for future use.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## STORM SEWER OPERATING FUND

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $31,827 | $32,095 | $268 | 0.8% |
| Expenditures | $32,990 | $30,121 | ($2,869) | (8.7%) |

Revenue Performance

In 2011-2012, revenues totaled $32.1 million and were generated primarily by Storm Sewer Service Fee assessments ($32.0 million), other non-operating revenues ($46,000), and interest earnings ($35,000). The slightly favorable variance to budget of $268,000 or 0.8% was mainly due to higher than expected assessments of Storm Sewer Service Charges ($215,000) and miscellaneous revenues ($46,000).

The 2011-2012 revenue level was $1.2 million (4.0%) above the 2010-2011 level of $30.9 million primarily due to higher assessments ($1.3 million), and miscellaneous revenues ($40,000), partially offset by lower interest earnings ($43,000).

Expenditure Performance

Expenditures in this fund are focused primarily on maintenance and operation of the Storm Sewer System and stormwater pollution reduction. In 2011-2012, expenditures of $30.1 million consisted primarily of a Transfer to the Storm Sewer Capital Fund ($6.0 million), Environmental Services Department (ESD) personal services ($5.6 million), Transportation Department (Transportation) personal services ($5.3 million), Transportation non-personal/equipment ($2.6 million), overhead reimbursements ($2.2 million), and yard trimmings/street sweeping contract ($1.7 million) costs.

This spending level was $2.9 million (8.7%) below the modified budget. The most significant savings were in the ESD ($1.6 million) and Transportation ($672,000) non-personal/equipment expenditures primarily due to project delays and ESD personal services expenditures ($301,000) due to vacancy savings. Of the $2.9 million expenditure variance, savings in the Transportation ($500,000) and ESD ($500,000) Non-Personal/Equipment appropriations were rebudgeted as part of the 2012-2013 Adopted Budget.

Expenditures in this fund were $3.1 million (9.2%) below the 2010-2011 level of $33.2 million due primarily to a decrease in the Transfer to the Storm Sewer Capital Fund ($4.4 million), completion of IBS Commercial Paper debt service payments in 2010-2011 ($1.0 million), partially offset by higher spending in ESD non-personal/equipment ($1.0 million), ESD personal services ($531,000), Transportation personal services ($521,000), and Transportation non-personal/equipment ($508,000).

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## STORM SEWER OPERATING FUND

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impacts | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $48,104 | $17,328 | $18,722 | $1,394 | $0 | $1,394 | 2.9% |

The 2011-2012 Ending Fund Balance of $18.7 million was $1.4 million above the estimate used to develop the 2012-2013 Adopted Budget. This variance was due almost entirely to lower than estimated expenditure levels. The remaining fund balance of $1.4 million is recommended to be allocated to the 2012-2013 Ending Fund Balance for future use and to offset future rate increases needed to maintain the storm sewer infrastructure.

In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions of this document, this report includes a recommendation to increase the ESD non-personal/equipment appropriation by $12,000 to align with the Public Works Program Support rate of 6.38%. Inadvertently, as part of the development of the 2012-2013 Adopted Budget a slightly lower rate was applied in this fund.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### TRANSIENT OCCUPANCY TAX FUND

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $12,455 | $13,679 | $1,224 | 9.8% |
| Expenditures | $15,017 | $13,396 | $1,621 | 10.8% |

Revenue Performance

In 2011-2012, revenues generated from Transient Occupancy Tax (TOT) receipts totaled $13.7 million. Of this amount, $13.0 million was for 2011-2012 activity, with the remaining $700,000 comprising of taxes that should have been paid in prior years ($500,000) and associated penalties ($200,000) due to a biennial TOT compliance audit. Actual TOT revenues of $13.7 million ended the year 25.3% above 2010-2011 revenue collections, and 9.8% above the modified budget. Total 2011-2012 revenues exceeded the modified budget estimate by $1.2 million due to a combination of additional 2011-2012 tax revenue ($500,000) and the aforementioned revenue due to the compliance audit ($700,000). Excluding the revenue from the compliance audit, TOT receipts of $13.0 million were 19.5% higher than 2010-2011 actual receipts and 4.4% higher than the 2011-2012 estimate used in the development of the 2012-2013 Adopted Budget.

The 2011-2012 Modified Budget assumed an increase of approximately 14.4% from the 2010-2011 level. The higher than budgeted 2011-2012 revenue is primarily due to the average occupancy rate for the City's 14 largest hotels climbing from 58.5% to 61.6% and a $11 increase in the average room rate for the same set of hotels (from $118 to $129).

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). The Cultural Development category includes the Cultural Grants and Cultural Grants Administration appropriations. When compared to the modified budget, savings in the Cultural Development category of approximately $1.6 million were realized, with approximately half of the savings ($750,000) rebudgeted to 2012-2013 as part of the adopted budget. At year-end, after accounting for funds previously rebudgeted, additional savings of $871,000 in the Cultural Development category were realized in the Cultural Grants ($716,000) and Cultural Grants Administration ($155,000) 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)

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $16,470 | $2,206 | $4,299 | $2,093 | ($871) | $1,222 | 7.4% |

The 2011-2012 Ending Fund Balance of $4.3 million was $2.1 million above the estimate used to develop the 2012-2013 Adopted Budget. This variance was primarily due to higher than anticipated TOT receipts ($1.2 million), and lower than anticipated expenditures ($871,000) in the Cultural Development category. Recommendations are included elsewhere in this report to rebudget the savings in the Cultural Development category ($871,000) and distribute the higher than anticipated 2011-2012 TOT receipts ($1.2 million) among the three categories according to the City Council approved distribution formula as follows: Cultural Development ($305,000), Convention and Visitor's Bureau ($305,000), and Transfer to the Convention and Cultural Affairs Fund ($610,000).

The 2012-2013 Adopted Budget assumed 5.0% growth in TOT from the 2011-2012 estimated level excluding the one-time revenue generated from the compliance audit. Because the actual 2011-2012 receipts were above this estimate, growth of only 0.6% of ongoing revenue is needed to meet the 2012-2013 Adopted Budget estimate . With no indications of activity slowing, a recommendation is included in this document to increase the 2012-2013 TOT estimate by $576,000, which would restore the projected 2012-2013 growth to 5%, consistent with the adopted budget levels. As a result, corresponding increases to the Cultural Development ($144,000), Convention and Visitor's Bureau ($144,000), and Transfer to the Convention and Cultural Affairs Fund ($288,000) are included in this report. The combined effect of the adjustments to the recipient organizations will result in additional funds for the Convention and Visitor's Bureau ($449,000), Cultural Development ($449,000), and Transfer to the Convention and Cultural Affairs Fund ($898,000).

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## WATER UTILITY CAPITAL PROGRAM

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $3,456 | $3,899 | $443 | 12.8% |
| Expenditures | $6,240 | $4,386 | ($1,854) | (29.7%) |

Revenue Performance

In 2011-2012, revenues totaled $3.9 million and were generated primarily from a Transfer from the Water Utility Fund ($3.3 million) and fees paid by developers for direct services ($542,000). The fees consist of Major Facilities Fees ($368,000), Meter Installation Fees ($70,000), Advanced System Design Fees ($66,000), and Service Connection Fees ($38,000). The 2011-2012 revenues came in above the budget estimate of $3.5 million, by $400,000 or 12.8%, mainly due to higher collections for major facilities fees ($369,000), advanced system design fees ($16,000), and interest earnings ($5,000).

The developer fee revenues ended the year $57,000 (9.5%) below the 2010-2011 levels. Major Facilities fees were $59,000 below the 2010-2011 level, and Service Connection Fees were $22,000 below the 2010-2011 level. However, the Advanced System Design Fees were $13,000 (24.5%) above the 2010-2011 level and the Meter Installation Fees were $11,000 (18.3%) above the 2010-2011 level.

Expenditure Performance

In 2011-2012, expenditures totaled $4.4 million. Major projects in this program included the Infrastructure Improvements ($793,000), System Maintenance/Repairs ($612,000), Service Installations ($587,000), Castelton Drive Main Replacement ($454,000), and Nortech Parkway East Loop Main ($434,000). Also contributing to this expenditure level was the repayment of a loan to the Sewage Treatment Plant Connection Fee Fund ($1.0 million).

Expenditures were $1.9 million (29.7%) below budget due primarily to savings or delays in the following projects: Bon Bon Drive Main Replacement ($957,000), Nortech Parkway East Loop Main ($240,000), North Coyote Valley Water System ($168,000), and Service Installation ($124,000). Expenditures for 2011-2012 in this fund were $654,000 or 17.5% above the 2010-2011 level of $3.7 million.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### WATER UTILITY CAPITAL PROGRAM

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustments) |
|---|---|---|---|---|---|---|
| $12,363 | $7,775 | $8,628 | $853 | $0 | $853 | 6.9% |

The 2011-2012 Ending Fund Balance of $8.6 million was $853,000 above the estimate used to develop the 2012-2013 Adopted Budget primarily due to higher than estimated revenues ($375,000) and higher than estimated expenditures ($478,000). The remaining fund balance of $853,000 is recommended to be allocated to the 2012-2013 Ending Fund Balance to be available for future use.

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 Infrastructure Improvements project ($163,000) for the Coyote Well 22 rehabilitation and Edenvale Well 13 rehabilitation projects that began in early June 2012 and continue into 2012-2013. Equipment lead times and scheduling have delayed the completion of these projects to October 2012.

# PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

## WATER UTILITY OPERATING FUND

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

| | 2011-2012 Budget | 2011-2012 Actuals | Variance | % Variance |
|---|---|---|---|---|
| Revenues | $27,261 | $28,019 | $758 | 2.8% |
| Expenditures | $28,766 | $28,559 | ($207) | (0.7%) |

Revenue Performance

In 2011-2012, revenues totaled $28.0 million and were generated from potable and recycled water sales ($27.7 million), late fees ($278,000), and interest earnings ($19,000). The slight favorable variance to the budget of $758,000 (2.8%) was mainly due to higher than estimated revenues from potable water sales ($676,000), late fees ($53,000), and interest ($5,000).

Expenditure Performance

In 2011-2012, expenditures of $28.6 million were primarily for Environmental Services Department (ESD) non-personal/equipment ($19.9 million), ESD personal services ($3.5 million), a transfer to the Water Utility Capital Fund ($3.3 million), and overhead expenses ($827,000). Expenditures ended the year $207,000 (0.7%) below budget, due primarily to vacancy savings in the Finance Department Personal Services ($92,000) and ESD Personal Services ($56,000) appropriations.

Expenditures in this fund were $3.6 million above the 2010-2011 level of $24.9 million due primarily to a higher ESD non-personal/equipment ($3.5 million) and ESD personal services costs ($135,000). 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. The higher ESD personal services costs can be attributed to vacancy savings.

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### WATER UTILITY OPERATING FUND

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

| 2011-2012 Modified Budget | 2011-2012 Estimated Ending Fund Balance | 2011-2012 Actual Ending Fund Balance | Variance | Recommended Rebudget Adjustments Impact | Revised Variance | Revised Variance % (incl. Rebudget Adjustment) |
|---|---|---|---|---|---|---|
| $34,822 | $5,770 | $7,257 | $1,487 | $0 | $1,487 | 4.3% |

The 2011-2012 Ending Fund Balance of $7.3 million was approximately $1.5 million above the estimate used to develop the 2012-2013 Adopted Budget. This variance was largely due to higher than estimated revenues from potable water sales ($1.3 million) used in the development of the 2012-2013 budget and late fees ($53,000). No rebudgets are recommended for this fund at this time. The remaining fund balance of $1.5 million is recommended to be allocated to the 2012-2013 Ending Fund Balance and available for future use.