2010-2011 ANNUAL REPORT

DISCUSSION OF SIGNIFICANT VARIANCES BY FUND
(Revenue and/or Expenditure Variances of 5% or greater)

GENERAL FUND

General Fund – Revenues totaled $876.2 million which fell below the 2010-2011 Modified Budget level by $12.0 million, or 1.3%, primarily due to lower grants and reimbursements. After adjusting for $12.9 million of grant and reimbursement revenue that was rebudgeted to 2011-2012, the revenue variance resulted in a surplus of $873,000 (0.1%). General Fund expenditures and encumbrances of $901.0 million were $144.3 million below (13.8%) the modified budget total of $1.0 billion. Approximately 61.1% of this savings was generated from unspent reserves ($88.1 million), 25.6% was from City-Wide Expenses and Capital Contributions ($37.0 million), and 13.3% was a result of departmental expenditure savings ($19.2 million). Total expenditures were approximately $27.9 million below (3.0%) the estimate used in the development of the 2011-2012 Adopted Budget. After adjusting for rebudgets and clean-ups approved in the 2011-2012 Adopted Budget ($12.9 million) or as recommended in this document ($6.0 million), the total General Fund expenditure savings figure totals $9.1 million or 1% of the estimate. When combined with net variances with the General Fund revenues (-$1.2 million) and liquidation of prior year encumbrances ($200,000), $8.1 million in additional beginning fund balance is available and recommended to be allocated in this document. Detailed information on the General Fund is found in *Section II. General Fund Performance.*

SPECIAL REVENUE FUNDS

Airport Customer Facility and Transportation Fee Fund – As a result of slightly higher than anticipated rental car activity, revenues in the Airport Customer Facility and Transportation Fee Fund ($16.9 million) ended 2010-2011 above the modified budget amount by 5.2%. Expenditure savings ($1.2 million or 7.3%) were primarily associated with shuttle bus operations. Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

Airport Fiscal Agent Fund – Expenditures in this fund ended the year $3.7 million (5.3%) below budgeted levels due to lower than anticipated interest expenses.

Airport Maintenance and Operation Fund – Revenues in the Airport Maintenance and Operation Fund are the result of a single transfer from the Airport Revenue Fund. The funds from this transfer are used to operate and maintain the Airport. This transfer, which is based on the funding demands of the airport, was $19.1 million (19.9%) below the budgeted estimate. This lower transfer amount was primarily the result of cost containment measures in the non-personal/equipment cost category. These savings were achieved in spite of the opening of the new terminal space. Expenditures in this fund ended the year $17.9 million (19.5%) below the modified budget as a result of these cost containment measures as well as position vacancies. The position reductions also resulted in lower workers' compensation costs. Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

DISCUSSION OF SIGNIFICANT VARIANCES BY FUND

SPECIAL REVENUE FUNDS (CONT'D.)

Airport Revenue Fund – Airport revenues were slightly higher than the modified budget by 3.6% or $4.1 million, primarily due to slightly higher passenger-related activity. Expenditures in the Airport Revenue Fund, transfers to other Airport funds, ended the year $19.9 million or 14.3% below budgeted levels. These savings primarily resulted from expenditure savings in the Airport Maintenance and Operation Fund in 2010-2011. Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

Anti-Tobacco Master Settlement Agreement Revenue Fund – This fund accounts for the distribution of funds received by the City related to the national tobacco settlement. The positive revenue variance of $23,000 is the result of higher than budgeted interest earnings ($14,000) as well as higher than budgeted miscellaneous revenue ($9,000).

Business Improvement District Fund – Total revenues of $2.49 million were higher than budgeted by $30,000 (1.2%). The variance is primarily the result of higher than estimated collections in Hotel assessments. Expenditures of $2.38 million were lower than budgeted by $209,000 (8.1%). The majority of the 8.1% expenditure variance reflects the methodology of quarterly payments of total cash balance. As a result, the payments for receipts to the BIDs during the 4th Quarter of 2010-2011 will be disbursed in the 1st Quarter of 2011-2012. Since quarterly disbursements are paid based on available cash balances, the expenditure variance is mostly likely the direct result of the timing of the incoming cash during the 4th Quarter.

Cash Reserve Fund – The negative revenue variance of $5 (16.7%) is the result of lower than budgeted interest earnings.

Community Development Block Grant Fund – Positive expenditure variance of $4.0 million (24.2%) is primarily due to lower than budgeted expenditures in Capital Projects ($1.2 million), Fire Engines ($1.1 million), Housing Rehabilitation Loans and Grants ($442,000), and Recovery Act - Community Development Block Grant ($415,000). The majority of these savings was anticipated in the development of the 2011-2012 Adopted Operating Budget and programmed into the 2011-2012 Beginning Fund Balance or rebudgeted.

Community Facilities Revenue Fund – This fund accounts for rental revenues received from Hayes Mansion operations and provides for payment of debt related to the facility. The expenditure variance of $673,000 is primarily due to lower than budgeted debts service costs ($562,000) as a result of lower than anticipated interest rates for variable rate debt and fewer than expected capital projects undertaken by Dolce, the operator of the Hayes Mansion, resulting in savings of $99,000 in capital costs. Dolce has continued to improve efficiency through cost-containment measures that limit operating expenditures and prioritize repairs and improvements.

DISCUSSION OF SIGNIFICANT VARIANCES BY FUND

SPECIAL REVENUE FUNDS (CONT'D.)

Convention and Cultural Affairs Fund – This fund accounts for the deposit of revenues and payment of expenses related to the activities of the San José McEnery Convention Center and cultural facilities. The positive expenditure variance of $1.5 million is due to lower than budgeted expenditures in the Center for Performing Arts Improvements ($697,000), Non-Personal/Equipment ($424,000), and Personal Services ($112,000) appropriations. Additional detail on this Fund found in *Section III. Performance of Selected Special and Capital Funds.*

Convention Center Facilities District Revenue Fund – The positive revenue variance of $11.4 million is due to the sale of bonds for the Convention Center Expansion and Renovation project ($9.6 million), and higher than anticipated special tax collections ($1.9 million). Proceeds from the bond sale will be used to finance the construction project. The special tax collections of $6.1 exceeded the budgeted estimate of $4.2 million due to higher than anticipated hotel occupancy and increased average room rates.

Economic Development Administration Loan Fund – Total revenues of $15,033 were lower than the budgeted revenue by $12,467 (45.3%). This variance is primarily the result of lower than anticipated revenues from principal and interest loan repayments ($11,487). Positive expenditure variance of $119,775 (99.8%) is due to no small business loans having been awarded in 2010-2011. The savings were anticipated in the development of the 2011-2012 Adopted Operating Budget and were programmed into the 2011-2012 Beginning Fund Balance.

Economic Development Enhancement Fund – Total revenues of $6,343 were lower than the budgeted revenue by $21,157 (76.9%). This variance is primarily the result of lower than anticipated revenues from Small Business Loan principal and interest repayments ($16,000) and interest earnings ($5,157). Expenditures were at $691,000 for a transfer to the General Fund. The Economic Development Catalyst Program targets high growth companies with the goal of creating quality jobs and enhancing the local tax base. Due to the economic downturn, no new investments were undertaken, though a number of companies are currently under consideration.

Emergency Reserve Fund – A negative revenue variance of 7.8% ($1,326) is due to lower than anticipated interest earnings. The expenditure variance of $1,326 (7.8%) is due to lower than anticipated transfers to the General Fund for interest earnings.

Federal Drug Forfeiture Fund – The positive revenue variance of $24,000 (6.1%) is the result of higher than budgeted Federal Asset Forfeiture Revenue ($48,000) partially offset by lower than budgeted interest earnings ($24,000). The expenditure savings of $83,000 (70.9%) reflects unexpended funding for the Parcel Post Interdiction Program. During the development of the 2011-2012 Adopted Budget, savings of $78,000 was anticipated at the end of 2010-2011 and was rebudgeted to 2011-2012. The remaining $5,000 is no longer needed for the program and will be recorded in the Ending Fund Balance.

DISCUSSION OF SIGNIFICANT VARIANCES BY FUND

SPECIAL REVENUE FUNDS (CONT'D.)

Gas Tax Maintenance and Construction Funds – The $957,000 revenue and expenditure variance is the result of lower than budgeted Gas Tax receipts from the State. The revenue collected in this fund is transferred to the General Fund to support the acquisition, construction, improvement, and maintenance of public streets and to provide for traffic capital improvements.

General Purpose Parking Fund – The positive revenue variance (12.2%) is due primarily to higher than budgeted revenues from parking garages and lots. The positive expenditure variance of $863,000 (8.3%) primarily reflects savings in the Transportation Department Non-Personal/Equipment ($276,000) and Capital Program ($414,000) appropriations. Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

Gift Trust Fund – Revenue variance of $105,000 (10.3%) is due to the accumulation of unbudgeted interest earnings and the receipt of unanticipated gifts. The expenditure variance of $2.3 million (73.7%) is due to restrictions on gifts and need to pool small and medium gifts to provide for sufficient funding for expenditures. As is often the case with this fund, revenue and expenditure variances are high given that, in this fund, revenue is not budgeted until a gift has been received and expenditures are assumed to be fully spent each year. As this fund is appropriated according to the available cash balance, all savings are recommended to be rebudgeted to 2011-2012 in this report.

Home Investment Partnership Program Trust Fund – The negative revenue variance of $1.4 million (23.9%) is primarily due to lower than anticipated federal grant reimbursements and the positive expenditure variance of $1.1 million (18.0%) is due to lower than budgeted project expenditures primarily in the Tenant Based Rental Assistance Program. Generally, variances in revenues and expenditures are due to delays in capital projects that qualified for federal grants and the timing of receiving reimbursements. These savings were anticipated in the development of the 2011-2012 Adopted Operating Budget and were programmed into the 2011-2012 Beginning Fund Balance.

Housing Trust Fund – The positive revenue variance of $66,000 (6.6%) is primarily the result of higher than budgeted collections of Bond Administration Fees ($81,000), which is offset by lower than budgeted revenues from the Job Training Grant Program ($17,000). The positive expenditure variance of $379,000 (12.6%) is primarily the result of a Transfer to the Home Investment Partnership Program Fund that did not occur ($115,000) and lower than budgeted expenditures in the Emergency Assistance Program ($98,000), Destination: Home Program ($66,000), Lifeline Transportation Grant Program ($50,000), and Job Training Grant Program ($40,000).

DISCUSSION OF SIGNIFICANT VARIANCES BY FUND

SPECIAL REVENUE FUNDS (CONT'D.)

Ice Centre Revenue Fund – The expenditure variance of approximately $2.6 million (62%) reflects a delay in the purchase of fuel cell equipment ($2.0 million), lower than expected expenditures for repairs and replacements, and a reduced Debt Service payment resulting from lower than budgeted interest rates for variable rate debt.

Integrated Waste Management Fund – Positive expenditure variance is due primarily to the timing of construction of the Las Plumas Household Hazardous Waste Facility. Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

Library Parcel Tax Fund – The positive expenditure variance of $1.4 million, or 14.1% reflects unexpended project funds including Library Department Non-Personal/Equipment ($478,000), Personal Services ($453,000), Acquisition of Materials ($368,000), and Automation projects ($40,000). A portion of these unexpended funds is recommended to be rebudgeted as part of this report for personal services costs associated with the California Room digitizing project ($35,000) and non-personal/equipment costs associated with automated materials handling technology at the Martin Luther King, Jr. Library ($100,000). Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

Local Law Enforcement Block Grant Fund – The negative revenue variance of $39 (78.0%) is the result of lower than budgeted interest earnings.

Low and Moderate Income Housing Fund – Positive expenditure variance of $3.6 million (3.3%) is due primarily to savings in Debt Service payments ($1.2 million), the Housing Department's Personal Services ($376,000), Commercial Paper Debt Service payments ($352,000), Multi-Family Loans and Grants ($311,000), Second Mortgage Loan Commitment Program ($250,000), Loan Management ($220,000), and Housing Predevelopment Activity ($200,000). Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

Multi-Source Housing Fund – The revenue for this fund is derived from State and federal reimbursements for expenditures incurred for qualifying projects. Negative revenue variance of $4.7 million (22.3%) is primarily due to lower than budgeted revenue collections in Recovery Act - Neighborhood Stabilization Program 2 ($2.5 million), Grant Revenues ($1.5 million), and Recovery Act - Homeless Prevention and Rapid Re-housing Program ($886,000). Since grant reimbursements are received in this fund as expenditures are incurred, a related positive expenditure variance of $3.4 million (13.0%) was realized. The majority of these savings was anticipated in the development of the 2011-2012 Adopted Operating Budget and programmed into the 2011-2012 Beginning Fund Balance.

DISCUSSION OF SIGNIFICANT VARIANCES BY FUND

SPECIAL REVENUE FUNDS (CONT'D.)

Public Works Program Support Fund – The negative expenditure variance of $796,000 (6.5%) is due to savings in Compensated Time-Off ($246,000), Public Works' Personal Services ($147,000) and Non-Personal/Equipment ($354,000) appropriations. These savings are due to lower than budgeted staffing costs due to position vacancies and employee compensation reductions in Compensation Time-Off. The non-personal/equipment savings are primarily due to lower than budgeted costs for supplies, phone bills, and vehicle maintenance and operations.

San Jose Municipal Stadium Capital Fund – The revenue and expenditure variances of 100% ($12,000) reflect no activity in this fund. The agreement with the Baseball Acquisition Company (BAC) for the use, operation, and management of the Municipal Stadium stipulates that the company will provide funds for capital repairs and replacements as well as net revenues from the Enhanced Video Board. Revenues from the Enhanced Video Board were not received as the agreement stipulates that revenues will not be transferred until revenues exceed the current debt due for the purchase of the Enhanced Video Board. No revenue from the Enhanced Video Board was expected in 2010-2011.

Special Assessment Maintenance Districts Funds – The combined positive expenditure variance of $922,000 (16.2%) primarily reflects lower than budgeted expenditures in Maintenance District #15 (Silver Creek Valley) of $214,000, Maintenance District #1 (Los Paseos) of $181,000, Community Facilities District #8 (Communications Hill) of $139,000, and Community Facilities District #2 (Aborn-Murillo) and #3 (Silverland-Capriana) of $103,000. The remaining savings of $276,000 were generated in the other Special Assessment Maintenance District Fund, all with positive variances of less than $50,000. These savings were generated due to favorable bid prices, delays in completion of planned renovation projects, and a delay in reimbursing the General Fund for the 2010-2011 cost of administering these funds. This report includes a recommendation to rebudget $142,000 across these funds to account for these costs, and a corresponding revenue rebudget in the General Fund is also included.

State Drug Forfeiture Fund – The negative revenue variance of $7,000 (6.9%) is the result of lower than budgeted interest earnings ($14,000) partially offset by higher than budgeted State Asset Forfeiture Revenue ($7,000). The expenditure savings of $186,000 (100.0%) reflect unexpended funding for Furnishings, Fixtures and Equipment (FF&E) at the South San José Police Substation. As part of the 2011-2012 Adopted Budget, the opening of the Substation was approved to be deferred until September 2012. In order to use the funding to purchase FF&E for the Substation closer to the opening date, this funding is recommended for rebudget as part of this document.

DISCUSSION OF SIGNIFICANT VARIANCES BY FUND

SPECIAL REVENUE FUNDS (CONT'D.)

Stores Fund – Revenues were 29% ($846,000) below budgeted levels, reflecting lower than budgeted transfers from departments for the issuance of supplies, materials, and postage. Expenditures were 27% ($803,000) below budgeted levels due primarily to savings in the following appropriations: Inventory Purchases ($573,000), Postage ($135,000), and Non-Personal/Equipment ($70,000). Demand for warehouse services continues to decline with the implementation of a vendor-direct service delivery model and increasing use of Procurement Card (P-Card) processing for purchases of supplies at retail stores.

Storm Sewer Operating Fund – Positive expenditure variance of $3.7 million is primarily due to Environmental Services Department non-personal/equipment savings ($2.7 million), and Transportation Department non-personal/equipment savings ($530,000). Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

Supplemental Law Enforcement Services Fund – The positive revenue variance of $62,000 (7.0%) is due to a payment for the 2010-2012 SLES Grant ($66,000) being received in 2010-2011 instead of 2011-2012 as previously anticipated, partially offset by lower than budgeted interest earnings ($4,000). The expenditure savings of $239,000 (14.8%) reflect unexpended grant funding. During the development of the 2011-2012 Adopted Budget, savings of $228,000 were anticipated in the 2010-2012 SLES Grant and rebudgeted to 2011-2012. Additional savings in the 2007-2009 SLES and 2009-2011 SLES Grant appropriations ($11,000) are recommended for rebudget as part of this document.

Transient Occupancy Tax Fund – Positive revenue variance of $885,000 (is due to higher than budgeted Transient Occupancy Tax Receipts. The positive expenditure variance of $1.5 million (12.5%) is due to savings in the Cultural Development appropriations. The majority of these savings were anticipated and rebudgeted as part of the 2011-2012 Adopted Budget. Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

Water Utility Fund – Negative revenue variance of $1.4 million is due primarily to lower than expected sales of potable and recycled water. Positive expenditure variance of $2.2 million is due primarily to lower than expected wholesale water and energy purchases. Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

DISCUSSION OF SIGNIFICANT VARIANCES BY FUND

SPECIAL REVENUE FUNDS (CONT'D.)

Workforce Investment Act Fund – Negative revenue and positive expenditure variances of $6.6 million (27.5%) and $6.4 million (26.5%), respectively, primarily reflect the timing difference in expense and revenue recognition for grants from the State and federal governments. Each annual grant allocation is available for a two-year period after which unspent allocations are forfeited. A positive expenditure variance of $6.4 million is due primarily to lower than budgeted expenditures related to the Youth Workers Program ($1.3 million), ARRA – Temporary Assistance to Needy Families ($887,000), ARRA Dislocated Workers Program ($838,000), Adult Workers program ($787,000), and Public Sector Career Transition Program ($797,000). Under the current Workforce Investment Act contract with the State, expenses will only be reimbursed when funds are actually spent; therefore, a negative variance in revenues is expected as anticipated expenditures have not been reported to the State for reimbursement. A full reconciliation of the 2010-2011 formula grant allocations and the ARRA grant allocations was completed and, budget actions are recommended to allocate remaining funding in this document.

CAPITAL FUNDS

Airport Capital Funds – The actual expenditures of $113.7 million were $137.1 million or 54.7%, below the modified budget. Several projects had unexpended funds remaining at year-end, including the Terminal Area Development, Phase I project, North Concourse Building, Consolidated Rental Car Facility, and Public Parking Garage projects. The majority of the unexpended funds was rebudgeted as part of the 2011-2012 Adopted Budget ($117.8 million) or is recommended to be rebudgeted in this document ($424,000) to complete the Airport capital projects. The final close-out of these projects is anticipated to occur in 2011-2012. At that time a determination of any use or application of unspent bond proceeds will be finalized. Additional detail on the Airport Capital funds is included in *Section III. Status of Selected Special/Capital Funds.*

Branch Libraries Bond Projects Fund – The negative revenue variance of $8 million is due to the delay in the planned bond issuance ($5.9 million), a delay in the sale of land ($2.0 million), and lower than anticipated interest earnings ($113,000). The positive expenditure variance ($17.0 million) primarily reflects unexpended project funds for the Southeast Branch ($8.6 million), Branch Efficiency ($3.1 million), Educational Park Branch ($2.7 million) and Land Acquisition ($1.2 million) projects. Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds, General Obligation Bond Funds.*

DISCUSSION OF SIGNIFICANT VARIANCES BY FUND

CAPITAL FUNDS (CONT'D.)

Building and Structure Construction Tax Fund – The negative revenue variance of $6.6 million (25.9%) is primarily the result of lower than budgeted receipts of federal grants ($6.3 million) and State grants ($5.0 million), which are partially offset by higher than budgeted Building and Structure Construction Tax receipts of $4.9 million. The positive expenditure variance of $17.6 million (45.6%) is due primarily to savings in the Traffic Signal Communications and Synchronization ($4.2 million), ITS: Transportation Incident Management Center ($3.1 million), and San Carlos Street Multimodal Streetscape Improvement ($1.4 million) appropriations. Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

Civic Center Construction Fund – The positive expenditure variance of $72,000 (11.3%) reflects unexpended project funds including the City Hall Garage Waterproofing ($69,000) and Capital Enhancements ($3,000) projects.

Civic Center Improvement Fund – The negative revenue variance of $439,000 (56.0%) reflects lower than anticipated commercial paper proceeds. The positive expenditure variance of $11,000 (76.7%) reflects unexpended project funds for the Technology, Furniture and Equipment allocation.

Construction and Conveyance Tax Fund – The positive revenue variance of $1.2 million is a result of higher than anticipated tax revenue ($1.4 million) and transfers ($1.1 million) partially offset by lower than anticipated Grant revenue ($609,000), interest earnings ($126,000), and miscellaneous revenue ($546,000). The positive expenditure variance of $32.3 million reflects unexpended project funds including Branch Libraries Fixtures, Furnishings and Equipment ($2.4 million), Council District 10 Sports Field Development ($2.0 million), Mise Park Sports Field Development ($1.6 million), TRAIL: Lower Silver Creek Reach 4/5A (Alum Rock Avenue to Highway 680), and TRAIL: Three Creeks Land Acquisition (Council District 6 and Parks City-Wide) ($2.4 million). Additional detail on these Funds can be found in *Section III. Performance of Selected Special and Capital Funds.*

Construction Excise Tax Fund – The negative revenue variance of $2.4 million (5.0%) is the result of lower than budgeted receipts of federal grants ($9.9 million), revenue from the State ($835,000), Valley Transportation Authority ($862,000), and other sources ($110,000), partially offset by higher receipts of Construction Excise Tax ($5.7 million), Miscellaneous Revenue ($3.5 million), and Developer Contributions ($94,000). The positive expenditure variance of $13.5 million (23.4%) is due to savings in nearly every appropriation, with the largest savings found in the Gas Tax - Pavement Maintenance ($2.6 million), Proposition 1B - Pavement Maintenance ($2.3 million), and ARRA - Street Resurfacing and Rehabilitation ($1.8 million) appropriations. Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

DISCUSSION OF SIGNIFICANT VARIANCES BY FUND

CAPITAL FUNDS (CONT'D.)

Convention Center Facilities District Project Fund – The positive expenditure variance of $16.1 million (80.3%) reflects unexpended project funds primarily for the Convention Center Expansion and Renovation project ($16.1 million).

Emma Prusch Memorial Park Fund – The positive expenditure variance of $80,000 (61.3%) reflects unexpended project funds. Projects with significant variances include Emma Prusch Park Capital Renovations and Maintenance ($37,000), LeFevre House Improvements ($22,000), and Emma Prusch Park Service Yard Fixtures, Furnishings and Equipment ($21,000). A significant portion of these unexpended funds ($80,000) are recommended to be rebudgeted into 2011-2012 as part of this report.

Interim City Facilities Improvements Fund – The negative revenue variance of $840,000 (100.0%) and the positive expenditure variance of $840,000 (100.0%) are both attributed to no activity occurring in the fund in 2010-2011.

Lake Cunningham Fund – The negative revenue variance of $34,000 (5.2%) reflects lower than anticipated lease revenue ($17,000), engineering and inspection reimbursements ($20,000), and interest earnings ($7,000), partially offset by higher than anticipated parking revenue ($10,000). The positive expenditure variance of $126,000 (11.6%) reflects unexpended project funds. Projects with significant variances include Lake Cunningham Public Art ($63,000), Lake Water Management Plan ($60,000), Lake Cunningham Skate Park Trailer Installation ($1,000), and Lake Cunningham Perimeter Landscaping ($1,000). A majority of these unexpended funds were approved to be rebudgeted as part of the 2011-2012 Adopted Capital Budget ($123,000).

Major Collectors and Arterial Fund – The negative revenue variance of $21,000 (53.2%) is due to lower than budgeted developer collections ($12,000) and interest earnings ($9,000). The positive expenditure variance of $316,000 (63.5%) is primarily due to lower than budgeted savings in the Miscellaneous Street Improvements ($301,000) project. A portion of these savings ($110,000) were assumed and rebudgeted in the 2011-2012 Adopted Capital Budget. The remaining variance of $191,000 in this appropriation is recommended for rebudget in this report.

Major Facilities Fund – Positive expenditure variance of $389,000 (91%) is due primarily to savings in the Nortech Parkway East Loop Main project. Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds*.

DISCUSSION OF SIGNIFICANT VARIANCES BY FUND

CAPITAL FUNDS (CONT'D.)

Neighborhood Security Act Bond Fund – The negative revenue variance of $104,000 (41.3%) is a result of lower than budgeted interest earnings. The expenditure savings of $7.2 million (41.7%) reflects unexpended project funds. During the development of the 2011-2012 Adopted Budget, savings of $7.5 million was anticipated at the end of 2010-2011 and was rebudgeted to 2011-2012. In total, negative rebudgets of $359,000 are recommended as part of this document. Downward adjustments are recommended for the Fire Station 24 - Relocation (Silver Creek/Yerba Buena) ($224,000), Fire Station 37 (Willow Glen) ($51,000), the South San José Police Substation ($49,000), and Fire Station 21 - Relocation (White Road) ($46,000) appropriations, because the year-end savings were insufficient to cover the rebudget amounts assumed in the development of the 2011-2012 Adopted Budget. Rebudgets totaling $11,000 are recommended for Fire Station 19 - Relocation (Piedmont) ($9,000) and Fire Station 2 - Rebuild ($2,000) in order to complete construction and close-out items remaining for these projects. Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds, General Obligation Bond Funds.*

Parks and Recreation Bond Projects Fund – The positive expenditure variance of $2.4 million (27.1%) reflects unexpended project funds. Projects with significant variances include Happy Hollow Park and Zoo Renovations and Improvements project ($1.5 million), Soccer Complex project ($227,000), and Public Art - Parks and Recreation Bond Projects ($209,000). Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds, General Obligation Bond Funds.*

Residential Construction Tax Contribution Fund – The positive expenditure variance of $301,000 (87.7%) reflects unexpended project funds. Projects with significant variances include Reimbursement to Developers for Landscaping ($200,000), Reimbursement to Developers for Center Strip Paving ($50,000), and Street Improvements for New Development ($50,000).

San José/Santa Clara Treatment Plant Capital Fund – Positive expenditure variance of $31.6 million is due to lower expenditures in a number of projects. Projects with the largest savings include Plant Infrastructure Improvements ($7.0 million) and Headworks Enhancement ($3.9 million). Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

Sanitary Sewer Connection Fee Fund – Negative revenue variance of $156,000 is primarily due to lower than expected joint participation revenue ($362,000), partially offset by higher Connection Fee revenue ($196,000) and Interest income ($10,000). The positive expenditure variance of $4.6 million is due to savings in numerous projects. The largest savings were in the Mackey Avenue Sanitary Sewer Rehabilitation ($1.2 million), Miscellaneous Rehabilitation Projects ($1.0 million), and Flow Monitoring - Master Planning ($632,000) projects. Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

DISCUSSION OF SIGNIFICANT VARIANCES BY FUND

CAPITAL FUNDS (CONT'D.)

Services for Redevelopment Capital Projects Fund – The positive revenue variance of $86,000 (52.7%) reflects project funds received in 2010-2011 but appropriated in 2011-2012 as part of the City Council-approved Mayor's June Budget Message. The positive expenditure variance of $1.0 million (17.0%) reflects unexpended project funds. Major unexpended projects include: Edenvale Community Center Public Art ($224,000); Pedestrian Safety Improvements ($108,000); 13th St SNI Couplet Conversion & Pedestrian Improvement - Hensley Historic District SJSU to Japantown Pedestrian Corridor (97,000); Project Facilitation Services ($78,000); and Spartan Keyes Public Art Project (73,000). Anticipated expenditure savings of $356,000 were rebudgeted as part of the 2011-2012 Adopted Budget to fund continuing project costs. Additional project savings in the amount of $595,000 are recommended for rebudget in this document, which are offset by a recommended decrease to the ending fund balance.

Sewer Service and Use Charge Capital Improvement Fund – Positive revenue variance of $856,000 is due to the receipt of settlement funds from the Highway 87 Detour II Sanitary Sewer Reconstruction Phase II project ($1.2 million), partially offset by lower than expected Interest Earnings ($330,000). The positive expenditure variance of $31.1 million is due to savings in numerous projects. Projects with the largest savings include 30" Old Bayshore Supplement ($4.0 million), Spreckles Sanitary Sewer Force Main Supplement ($3.9 million), Almaden Expressway Sanitary Sewer ($3.0 million), and Coleman Road Sanitary Sewer Supplement ($2.9 million). Of the $31.1 million expenditure variance, $24.6 million was rebudgeted as part of the 2011-2012 Adopted Capital Budget for future project expenditures. Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

Storm Drainage Fee Fund – Positive revenue variance of $36,000 (33%) is primarily due to higher than expected Storm Drainage Fees. Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

Storm Sewer Capital Fund – The positive expenditure variance of $8.1 million is due to lower expenditures in a number of projects. Projects with the largest savings include Alviso Storm Drain Rehabilitation (savings of $1.6 million), Storm Pump Station Rehab & Replacements (savings $1.0 million), and Storm Drainage Improvements - Special Corridors (savings of $842,000). Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

DISCUSSION OF SIGNIFICANT VARIANCES BY FUND

CAPITAL FUNDS (CONT'D.)

Subdivision Park Trust Fund – The positive revenue variance of $2.9 million (45.2%) is mainly attributed to higher than anticipated in-lieu fees ($2.6 million) and interest earnings ($324,000). The positive expenditure variance of $22.9 million (61.4%) reflects unexpended project funds. Projects with significant variances include Santana Park Development ($4.5 million), West Street Home Land Acquisition ($2.2 million), Solari Park Sports Field Conversion ($2.1 million), Mise Park Sports Field Development ($1.9 million), River Oaks Turnkey Park Design Review and Inspection ($1.2 million), Penitencia Creek Park Play Lot ($1.0 million), Dairy Hill Detention Basin ($896,000), Backesto Park Improvements ($780,000), and Calabazas Park Play Lot Renovation ($748,000).

Underground Utility Fund – The positive revenue variance of $124,000 (17.1%) is mainly attributed to higher than anticipated contributions from developers ($161,000) partially offset by lower than anticipated revenue from Pacific Gas and Electric ($29,000) and interest earnings ($8,000). The positive expenditure variance of $1.6 million (77.3%) reflects unexpended project funds including Underground Utility Program ($1.4 million) and Underground Utility Program (20A) ($165,000).

Water Utility Capital Fund – Positive expenditure variance of $1.6 million is due to lower expenditures in a number of projects including Castleton Drive Main Replacement ($332,000 in savings), Nortech Parkway East Loop Main ($285,000 in savings), and Service Installations ($245,000 in savings). Additional detail on this Fund can be found in *Section III. Performance of Selected Special and Capital Funds.*

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