

**2010-2011**

**ANNUAL**

**REPORT**

---

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

**2010-2011  
ANNUAL REPORT**

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

This section provides financial information on the 2010-2011 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.

Included in this report are a set of universal adjustments in most all of the funds that reconcile retirement contributions and unemployment insurance as directed in the City Council-approved Mayor's June Budget Message for 2011-2012 and another set of adjustments to set aside additional potential Annual Required Contribution to the Federated Retirement System.

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

Expenditure Performance: This discussion identifies the amount of expenditures and the major expenditure categories; provides context regarding the variance of the year-end expenditure performance from the budget; lists related 2011-2012 budget actions (such as rebudgets); calculates the revised expenditure variance due to rebudgets approved as part of the 2011-2012 Adopted Budget or as recommended in this report; and compares expenditures to the prior year performance.

Ending Fund Balance Performance: This discussion provides the actual Ending Fund Balance and the estimated Ending Fund Balance used in the development of the 2011-2012 Adopted Budget; discusses variances between these two amounts; and identifies any impact on the 2011-2012 budget as it relates to recommended actions included in this report.

**PAGE IS INTENTIONALLY LEFT BLANK**

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**AIRPORT CAPITAL FUNDS**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$53,736	\$44,890	(\$8,846)	(16.5%)
Expenditures	\$250,850	\$113,727	\$137,123	54.7%

Revenue Performance

In 2010-2011, capital revenues totaled \$44.9 million, a shortfall of \$8.9 million or 16.5% below the budgeted estimate. Receipt of Commercial Paper proceeds of \$5.0 million is not included in the total revenue amount since these proceeds are unbudgeted and are reflected in the Beginning Fund Balance. Commercial Paper resources are drawn to finance projects in the Airport Revenue Bond Improvement Fund.

Actual revenues received in 2010-2011 consist of the following (excluding the Commercial Paper proceeds noted above): Grant income (\$10.8 million), Passenger Facility Charges (PFCs) (\$17.3 million), Interest (\$1.4 million), Transfers from other Airport funds (\$10.3 million), and other miscellaneous revenue (\$175,000). Interest income, PFCs and tenant improvement reimbursements all ended the year above the modified budget estimate, offset by grant income and interest earnings ending the year below the budgeted estimate.

Expenditure Performance

In 2010-2011, expenditures and commitments of \$113.7 million were primarily attributed to transfers to other funds for debt service (\$26.5 million); Terminal Area Development, Phase I (\$48.0 million); Public Parking Improvements (\$11.0 million); Taxiway W Improvements (\$8.8 million); Consolidated Rental Car Garage (\$8.3 million); and the North Concourse Building (\$4.0 million). The remaining balance of \$137.1 million primarily reflects the anticipated close out of Terminal Area Improvement Program projects and project reserves, as well as project savings. A total of \$123.5 million in Airport capital project funding was approved for rebudget as part of the 2011-2012 Adopted Capital Budget, and a net amount of \$424,000 is recommended for rebudget as part of this document to continue projects already underway.

**2010-2011  
ANNUAL REPORT**

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**AIRPORT CAPITAL FUNDS (CONT'D.)**

Expenditure Performance (Cont'd.)

The expenditure variance (\$137.1 million) was due to lower than budgeted project expenditures. The following is a list of the major unexpended projects totaling \$132.2 million:

- The Terminal Area Improvement, Phase I project variance (\$73.2 million) results primarily from project reserves and savings associated with the design-bid-build projects that were mostly completed in 2010-2011. Funding of \$66.3 million was rebudgeted into 2011-2012 as part of the Adopted Capital Budget. The final close-out of this project is anticipated to occur in 2011-2012. At this time a determination of any use or application of unspent bond proceeds will be finalized.
- The Consolidated Rental Car Facility project variance (\$19.5 million) also reflects project reserves and savings. A large portion of the project's savings (\$18.9 million) was rebudgeted in the 2011-2012 Adopted Capital Budget. The remaining project funds will be reviewed as part of the final close-out of the project. Project savings are held in the appropriation until such time as a review of unspent proceeds is completed.
- The Taxiway W Improvements project variance (\$13.1 million) reflects the timing of the project phasing. All phases of the project (I-VII) are scheduled to be completed by 2016 contingent on continued Federal Aviation Administration grant funding. A portion of the remaining funds (\$11.8 million) was rebudgeted as part of the 2011-2012 Adopted Capital Budget and an additional \$797,000 is recommended to be rebudgeted as part of this report with the remainder available to complete the improvement through Phase VII. The Taxiway W Improvements project provides infrastructure to support future development on the Airport's westside.
- The Public Parking Improvements project budget was entirely funded in its first year, with the intent to rebudget funds until the project's completion, scheduled for 2012. Funding of \$11.4 million was rebudgeted as part of the 2011-2012 Adopted Capital Budget to continue work. The project includes the recent construction of the "Green Island" economy parking lot and surface lots located south of the Consolidated Rental Car Garage and Terminal B, as well as design of taxi and shuttle bus staging areas. Because anticipated savings were not achieved, a decrease of \$483,000 is recommended in this appropriation as part of this report.
- The North Concourse Building project variance (\$6.4 million) reflects the timing of the establishment of the project's budget. Since funding for this project was programmed entirely in the first year, funds have been rebudgeted until the project's completion. Funding of \$4.0 million was rebudgeted into 2011-2012 as part of the 2011-2012 Adopted Capital Budget. As with other Terminal Area Improvement Program design-bid-build projects, project savings have been held in the appropriation until such time as a full project close out occurs and a determination is made with regard to unspent proceeds.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**AIRPORT CAPITAL FUNDS (CONT'D.)**

Expenditure Performance (Cont'd.)

- The Clean-Up of Existing Fuel Farm project variance (\$5.3 million) was rebudgeted as part of the 2011-2012 Adopted Capital Budget to complete demolition and contamination clean-up of pipelines and equipment that remain on the City-owned portion of the old aviation fuel facility. Funding of \$5.7 million was rebudgeted to the project in the 2011-2012 Adopted Capital Budget. However, anticipated savings were not achieved and a decrease of \$388,000 is recommended in this appropriation elsewhere in this document.
- Three other appropriations had savings over \$1 million: Renewal and Replacement Projects (\$1.7 million), Non-Terminal Area Projects (\$1.2 million) and Advanced Planning (\$1.0 million). The Renewal and Replacement Projects appropriation provides funds for improvements and repairs on the Airport campus on an as-needed-basis. Savings in this appropriation falls to fund balance and is made available for future as-needed improvements and repairs. Remaining funds (\$2.1 million) in the Non-Terminal Area Projects and Advanced Planning appropriations have been rebudgeted as part of the 2011-2012 Adopted Capital Budget process to provide funding for necessary studies and the design of a Fuel Truck Maintenance Facility.

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$475,833	\$344,136	\$313,117	(\$31,019)	(\$424)	(\$31,443)	6.6%

The 2010-2011 Ending Fund Balance of \$313.1 million was \$31.0 million below the estimate used to develop the 2011-2012 Adopted Budget. The primary reason for this negative variance is a \$67 million reduction in commercial paper capacity offset by lower than budgeted expenditures.

It is recommended that \$424,000 of the remaining fund balance be allocated for rebudgets to complete various capital projects.

In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$85,964 for this fund is set aside in a Transfer appropriation to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balance. If, however, it is determined that this additional contribution is not necessary, it will be the Administration’s intention to return to the City Council with recommendations to allocate the set aside fund to the 2011-2012 Ending Fund Balance.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**AIRPORT OPERATING FUNDS - AIRPORT REVENUE FUND**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$114,236	\$118,355	\$4,119	3.6%
Expenditures	\$139,151	\$119,278	\$19,873	14.3%

Revenue Performance

Overall revenue performance in the Airport Revenue Fund ended the year above the budgeted level. Operating revenue categories at the Airport include: Airfield Area, Landing Fees, Parking and Roadway, Petroleum Products, Terminal Building, Terminal Rental, and Miscellaneous Revenue. Operating revenue ended the year \$4.1 million above the budgeted level primarily due to greater than budgeted Parking and Roadway revenue which includes Parking Revenue and Rental Car Privilege Fees. Additional categories with higher than budgeted levels of revenue were the Airfield, Terminal Rental, and Other Space Rents in the Terminal Building category offset with lower than estimated interest earnings. Transfers from other Airport funds, also a significant revenue source for the Airport Revenue Fund, were slightly below budgeted levels by \$255,000 due to reduced interest earnings from the Airport Fiscal Agent Fund. In total, both of these revenue categories reflect a revenue variance in 2010-2011 of \$4.1 million above budgeted levels.

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 2010-2011, the transfer to the Airport Maintenance and Operation Fund was \$19.9 million less than budgeted due to lower than anticipated expenditures in the Airport Maintenance and Operation Fund as described elsewhere in this report, resulting in an expenditure variance of 14.3%.

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$10,284	\$24,347	\$34,811	\$10,464	\$0	\$10,464	101.8%

The 2010-2011 fund balance variance of \$10.5 resulted from greater than estimated Airport revenues and expenditure savings due to a reduced transfer to the Airport Maintenance and Operation Fund in addition to a prior year Other Post Employment Benefit related audit adjustment of \$533,903.

**2010-2011  
ANNUAL REPORT**

**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)**

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$111,793	\$93,578	(\$18,215)	(16.3%)
Expenditures	\$101,190	\$90,707	(\$10,483)	(10.4%)

Revenue Performance

Airport Operating funds include the Airport Customer Facility and Transportation Fee Fund (Fund 519), which includes the Rental Car Customer Facility Charge Fees and the Rental Car Contributions; and the Airport Maintenance and Operation Fund (Fund 523) that provides for all general Airport operating expenses including Police, Fire and interdepartmental services. Revenues in these two funds ended the year significantly less than budgeted (\$18.2 million), however that was in large part due to a lower than anticipated transfer from the Airport Revenue Fund. The lower transfer from the Airport Revenue Fund (\$19.1 million) was possible due to savings in the various Airport operating expenses partially offset by higher than budgeted Customer Transport Fees (\$831,000) as the result of increased car rental activities in the Customer Facility and Transportation Fee Fund.

Expenditure Performance

Consistent with the performance of the Airport operating fund revenues, Airport operating expenses also ended the year below budgeted levels. For 2010-2011, expenditures in these two funds totaled \$90.7 million, which were \$10.5 million below budgeted levels primarily due to savings in personal services (\$1.8 million) and non-personal/equipment appropriations (\$7.2 million). Personal services savings were the result of an increase in the number of retirements; efficiencies associated with consolidation of staff at the Airport; and reduced compensated absence liability and workers' compensation costs associated with decreased Airport staffing levels. Non-personal/equipment savings were realized due to lower than budgeted utility expenditures for operation of both Terminal B and the Consolidated Rental Car Facility; lower shuttle bus program expenses due to reduced frequency of service and delay of surface lot transportation until June 2011; maintenance cost savings associated with the Parking Revenue Control System as testing and acceptance of the new system has not occurred; and lower than estimated Commercial Paper Program and Lines of Credit fees. Although most of the savings are one-time, the savings contributed to a higher 2010-2011 ending fund balance/2011-2012 beginning fund balance and are available for future use.



<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**AIRPORT OPERATING FUNDS - AIRPORT CUSTOMER FACILITY AND  
TRANSPORTATION FEE FUND & AIRPORT MAINTENANCE AND OPERATION FUND  
(CONT'D.)**

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$20,954	\$20,420	\$21,980	\$1,560	\$0	\$1,560	7.4%

The 2010-2011 combined Ending Fund Balance of \$22.0 million was \$1.6 million above the estimate used to develop the 2011-2012 Adopted Budget. This variance was due to lower than budgeted revenues offset by lower than budgeted expenditures in addition to a prior year Other Post Employment Benefit related audit adjustment of \$533,903.

Per direction from the City Council-approved Mayor's June Budget Message for Fiscal Year 2011-2012, a complete retirement contributions and unemployment insurance reconciliation was to be performed based on final actions approved as part of the 2011-2012 Adopted Budget as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document. Based on these reconciliations, actions to decrease personal services appropriations totaling \$307,800 in the Airport Maintenance and Operations Fund and increase the Contingency Reserve are recommended elsewhere in this document. In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$485,149 for the Airport Maintenance and Operations Fund is set aside in a Transfer appropriation to the Federated Retirement System with an offset from the Contingency Reserve. If, however, it is determined that this additional contribution is not necessary, it will be the Administration's intention to return to the City Council with recommendations to allocate the set aside fund to the Contingency Reserve.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**BENEFIT FUNDS**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$82,916	\$82,897	(\$19)	(0.0%)
Expenditures	\$80,880	\$78,456	\$2,424	3.0%

Revenue Performance

Revenues in the benefit funds are primarily generated from benefit rates applied to City funds to cover the costs related to providing employee benefits, which are driven by premiums and enrollment and vary year-over-year. Benefit rates are set to produce the necessary revenues to cover the projected costs.

Aggregate revenue collections in 2010-2011 were at budgeted levels, however, revenue performance varied widely by fund. Descriptions of the revenue performance for each fund are summarized below.

- Dental Insurance Fund: Revenues ended the year above budgeted levels by \$560,000 (4.6%) primarily due to higher than estimated reimbursements from retirement funds (\$363,000), City funds (\$129,000), and participant contributions (\$54,000) for dental insurance coverage. Revenues in 2010-2011 were \$344,000 (2.8%) above the 2009-2010 revenues of \$12.5 million due to a higher reimbursement from the retirement funds (\$625,000), partially offset by a lower reimbursement from City funds (\$231,000) and lower interest earnings (\$33,000).
- Life Insurance Fund: Revenues were slightly below budgeted levels (\$22,000) mostly due to lower than estimated participant contributions (\$12,000) and reimbursements from City funds (\$9,000). Revenues in 2010-2011 were \$146,000 (11.9%) below the 2009-2010 revenues of \$1.2 million primarily due to lower reimbursements from City funds (\$93,000) and participant contributions (\$48,000).
- Unemployment Insurance Fund: Revenue collections in 2010-2011 ended the year at budgeted levels. Compared to 2009-2010, however, revenues increased significantly by \$4.6 million or 277.8% due to the increase in contributions from City funds to account for an anticipated spike in unemployment claims in 2010-2011 and subsequent years due to unprecedented lay-offs of City employees. Due to the higher anticipated number of unemployment claims, the reserve for claims was increased accordingly.

# 2010-2011 ANNUAL REPORT

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### BENEFIT FUNDS (CONT'D.)

#### Revenue Performance (Cont'd.)

- Benefit Fund: Revenues in this fund ended the year below the modified budget level by \$575,000, or 0.9%. The revenue variance is primarily due to lower than budgeted collections from City funds for Health Plans (\$1.2 million); FICA – Medicare payments (\$459,000); and PTC 457 for part-time, temporary, and contractual employee contributions for retirement (\$154,000); offset by a \$1.3 million grant for the Early Retirement Reinsurance Program (ERRP). The ERRP program provides reimbursements of up to 80% of the costs of medical plan claims between \$15,000 and \$90,000 for retirees who are under the age of 65 (“early retirees”) as part of the federal Health Care Reform. As approved by the City Council on June 21, 2011, the City accepted a reimbursement in the amount of \$1.3 million from the federal government for eligible early retiree medical claims in 2010-2011 and placed the funds into an earmarked reserve. During 2011-2012, the Administration will work with the federal Department of Health and Human Services to understand how these funds can be utilized.

#### Expenditure Performance

Expenditures in the benefit funds cover administrative costs, anticipated claims, premiums, and other expenditures related to the provision of employee benefits. Expenditures ended the year \$2.4 million, or 3.0% below budgeted levels. The expenditure variances are explained by fund below.

- Dental Insurance Fund: Expenditures ended the year slightly below budgeted levels by \$165,000 (1.3%) primarily due to lower than estimated payment of dental insurance claims (\$92,000), lower than anticipated dental plan premiums (\$43,000), and Non-Personal/Equipment savings (\$19,000). Expenditures in 2010-2011 were \$169,000 (1.4%) below the 2009-2010 level of \$12.5 million primarily due to lower payment of dental insurance claims (\$106,000) and lower than anticipated dental plan premiums (\$67,000).
- Life Insurance Fund: Expenditures in 2010-2011 ended the year at budgeted levels. Compared to 2009-2010, however, expenditures in 2010-2011 were \$149,000 (11.2%) lower primarily due to lower life insurance premium costs (\$147,000).
- Unemployment Insurance Fund: Expenditures ended the year below budgeted levels by \$647,000 (15.6%) primarily due to lower than budgeted payment of unemployment claims (\$638,000). Expenditures in 2010-2011 (\$3.5 million) were almost double the 2009-2010 level of \$1.8 million due to the significant increase in the payment of unemployment claims (\$1.7 million) resulting from a high number of employee lay-offs and federal extension of unemployment benefits.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**BENEFIT FUNDS (CONT'D.)**

Expenditure Performance (Cont'd.)

- **Benefit Fund:** Expenditures ended the year below budgeted levels by \$1.6 million (2.5%) primarily due to lower than budgeted expenditures for health plan payments (\$798,000); FICA – Medicare payments (\$456,000); PTC 457 for part-time, temporary, and contractual employee contributions for retirement (\$154,000); and COBRA health coverage for employees separating from the City (\$140,000). Expenditures in 2010-2011 were \$2.5 million (4.0%) below the 2009-2010 level of \$64.0 million due to lower expenditures for health plan payments (\$1.8 million); FICA – Medicare payments (\$463,000); PTC 457 (\$235,000); employee assistant program costs (\$60,000); and COBRA health coverage for employees separating from the City (\$50,000), partially offset by a higher than budgeted consultant fees (\$120,000).

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$87,619	\$6,963	\$9,144	\$2,181	0	\$2,181	2.5%

The 2010-2011 Ending Fund Balance of \$9.1 million was \$2.2 million above the estimate used to develop the 2011-2012 Adopted Budget. The variance in ending fund balances in the benefit funds is the result of the combined impact of the lower than estimated expenditures and higher than estimated revenues.

The Ending Fund Balance in the Benefit Fund of \$1.4 million was \$1.0 million above the estimate used to develop the 2011-2012 Adopted Budget primarily due to the receipt of grant funds for ERRP, partially offset by an under collection of health premiums from City funds. The imbalance between estimated expenditures for health plan premiums and corresponding revenue collections from City funds for the City's share of health plan premium costs resulted in a variance of \$406,000. Human Resources staff is currently working on a complete reconciliation to determine health premiums owed by City funds. Staff is committed to regularly monitoring the collection of health premiums from City funds to avoid this problem moving forward.

As directed by the City Council through the approval of the Mayor's June Budget Message for Fiscal Year 2011-2012, included in this report are reductions to Transfers for Reimbursements from City Funds for unemployment contributions by \$3.4 million as a result of a complete unemployment contributions reconciliation based on the final actions approved in the 2011-2012 Adopted Budget. These reconciliations as described in detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions of this report, adjust for current projected unemployment insurance claims, and account for the employee placement process that occurred at the end of June 2011. The benefit funds are not designed to carry significant unrestricted fund balances, though some of the funds do carry

**2010-2011  
ANNUAL REPORT**

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**BENEFIT FUNDS (CONT'D.)**

adequate claims reserves. Therefore, when unrestricted fund balances increase beyond reasonable levels as a result of higher revenues than expenditures in a particular year, the budgets for the following year are developed with the intention of reducing those balances through rate adjustments. Conversely, rates are increased to augment claims reserves or unrestricted fund balances as needed.

In addition, this report recommends technical adjustments related to service restorations resulting in a net revenue increase of \$21,000 in the Benefit Fund as well as adjustments to retirement contributions (\$5,000) and unemployment contributions (\$7,000) that reduce the Human Resources Department's Personal Services allocation. The remaining fund balance is recommended to be allocated to the respective funds' 2011-2012 Ending Fund Balance and would be available for future use.

Per direction from the City Council-approved Mayor's June Budget Message for Fiscal Year 2011-2012, a complete retirement contributions and unemployment insurance reconciliation was to be performed based on final actions approved as part of the 2011-2012 Adopted Budget as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document. Based on these reconciliations, actions to decrease personal services appropriations totaling \$11,519 in these funds and increase Ending Fund Balances are recommended elsewhere in this document. In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$17,335 for these funds are set aside in Transfer appropriations to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balances. If, however, it is determined that this additional contribution is not necessary, it will be the Administration's intention to return to the City Council with recommendations to allocate the set aside funds to the 2011-2012 Ending Fund Balances.

<b>2010 - 2011 ANNUAL REPORT</b>
--------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**BUILDING AND STRUCTURE TAX FUND**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$25,517	\$18,920	(\$6,597)	-25.9%
Expenditures	\$38,578	\$20,997	\$17,581	45.6%

Revenue Performance

In 2010-2011, revenues totaled \$18.9 million and were generated from Building and Structure Construction Tax (\$9.4 million); receipts from State grants (\$7.1 million) for projects including traffic signal communications/synchronization, signal retiming, and couplet conversion; and receipts from federal grants (\$2.3 million) for various Intelligent Transportation Systems (ITS) projects, a pedestrian corridor improvement project, and the Branham Lane/Monterey Highway Rail project. The 2010-2011 revenues were below the budget estimate by \$6.6 million primarily due to lower than budgeted receipts of federal grants (\$6.3 million) and State grants (\$4.9 million) as a result of project delays, which were offset by higher than budgeted receipts of Building and Structure Construction Tax (\$4.9 million) due to residential permits pulled in December 2010 for two new housing developments in North San José in order to take advantage of temporary exemptions of affordable housing requirements and lower fees. It should be noted that a recommendation to rebudget a total of \$2.8 million in grant reimbursements is included as part of this report in order to account for lags in reimbursement or project delays.

The 2010-2011 collection level was \$642,000 lower (3.3%) than the 2009-2010 level of \$19.6 million primarily as a result of the elimination of a transfer from the Sewer Service and Use Charge Capital Improvement Fund (\$6.0 million) and a reduced level of federal grant receipts (\$209,000), partially offset by higher receipts of Building and Structure Construction Tax (\$3.3 million) and revenue from the State (\$2.5 million). At \$9.4 million, Building and Structure Construction Tax receipts in 2010-2011 were 53.3% higher than 2009-2010 collections (\$6.1 million), however, far from the 2001-2002 peak level of \$17.5 million. While a strong 2<sup>nd</sup> quarter performance for construction valuation activity caused a significant, short term spike in the collection levels for Building and Structure Construction Tax, this level of activity is unsustainable and activity is expected to return to 2009-2010 levels.

Expenditure Performance

In 2010-2011, expenditures of \$21.0 million were primarily attributed to: Traffic Signal Communications and Synchronization project (\$6.4 million), Julian and St. James Couplet Conversion project (\$3.1 million), Route 101/Mabury Acquisition Project (\$2.2 million), ITS: Transportation Incident Management Center (\$1.9 million), ITS Enhancements (\$1.7 million), Underground Utilities-City Conversions (\$485,000), a transfer to the City Hall Debt Service Fund (\$463,000), Lighting and Signal Program (\$394,000), North San José Regional Improvements (\$348,000), City-wide and Public Works Capital Support Costs (\$340,000), and Santa Clara/Alum Rock Bus Rapid Transit (\$322,000).

# 2010-2011 ANNUAL REPORT

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### BUILDING AND STRUCTURE TAX FUND (CONT'D.)

#### Expenditure Performance (Cont'd.)

This expenditure level was \$17.6 million or 45.6% below the modified budget. \$13.0 million of this variance was anticipated and rebudgeted as part of the 2011-2012 Adopted Capital Budget. A total of \$3.6 million is recommended for rebudget as part of this report to ensure sufficient funding for projects in 2011-2012. These rebudgets, combined with the rebudgets approved as part of the 2011-2012 Adopted Capital Budget, bring the expenditure variance down to \$973,000 or 2.5% below modified budget levels.

The \$17.6 million variance between budgeted and actual expenditures was caused primarily by the following projects:

- Delays in the Traffic Signal Communications and Synchronization project were primarily the result of staff vacancies. Of the \$4.2 million variance, \$3.2 million was rebudgeted as part of the 2011-2012 Adopted Capital Budget for the design and construction of the project. The remaining unexpended funds (\$968,000) are recommended for rebudget in this report.
- The ITS: Transportation Incident Management Center (TiMC) project generated savings due to longer than expected proposal evaluation/agreement negotiations, as well as staffing issues. Unexpended funds totaling \$3.0 million were rebudgeted as part of the 2011-2012 Adopted Capital Budget for the construction of the project. The remaining unexpended funds (\$87,000) are recommended for rebudget in this report.
- Delays were experienced in the San Carlos Street Multimodal Streetscape Improvement project due to timing issues with the Valley Transportation Authority and California Transportation Commission. Authorization to proceed with this project was approved by Caltrans in September 2011. Savings realized in this appropriation were anticipated and rebudgeted in the 2011-2012 Adopted Capital Budget.
- The Underground Utilities - City Conversions project generated savings of \$1.2 million due to PG&E schedule delays. A recommendation to rebudget these savings is included in this report.
- Savings of \$1.0 million were realized in the Route 101/Tully Interchange Upgrade project. Savings of \$500,000 were assumed and rebudgeted as part of the 2011-2012 Adopted Capital Budget, leaving a balance of \$500,000 available to rebudget. In August 2011, an increase of \$500,000 to this appropriation was approved by the City Council to further this project, therefore, no additional rebudgets are recommended as part of this report.

**2010-2011  
ANNUAL REPORT**

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**BUILDING AND STRUCTURE TAX FUND (CONT'D.)**

Expenditure Performance (Cont'd.)

- Savings of \$997,000 were generated in the Julian and St. James Street Couplet Conversion project due to weather-related construction delays. In the 2011-2012 Adopted Capital Budget, \$1.1 million in savings were assumed and rebudgeted to 2011-2012, therefore, this document includes a recommended downward adjustment of \$53,000 to account for the higher than anticipated 2010-2011 expenditure level.
- Savings of \$902,000 were realized in the Jackson Street: LRT to Japantown Pedestrian Corridor project. \$860,000 was assumed in the development of the 2011-2012 Adopted Capital Budget, with the remaining savings of \$42,000 recommended for rebudget as part of this report.
- Savings of \$735,000 were generated in The Alameda - A Plan for the Beautiful Way project due to unforeseen delays in the design process. A portion of these savings (\$565,000) were anticipated and rebudgeted as part of the 2011-2012 Adopted Capital Budget, with the remaining savings of \$170,000 recommended for rebudget in this report.
- Savings of \$546,000 were generated in the Branham Lane/Monterey Highway Rail Grade Separation project due to timing issues with Caltrans in issuing the authorization to proceed. Unexpended funds of \$528,000 were rebudgeted as part of the 2011-2012 Adopted Capital Budget, with the remaining savings (\$18,000) recommended for rebudget as part of this report.
- Savings were realized in the San José State University to Japantown Pedestrian Corridor project due to unforeseen construction delays. The majority of savings in this appropriation were anticipated and rebudgeted in the 2011-2012 Adopted Capital Budget, with a recommendation to rebudget the remaining savings of \$32,000 as included in this report.
- Savings of \$435,000 were generated in the High Speed Rail project due to a delay on the Environmental Impact Report, and City Council's direction requiring staff to explore the best underground and aerial alternatives and to develop Visual Design Guidelines. A portion of the unexpended funds (\$290,000) were rebudgeted as part of the 2011-2012 Adopted Capital Budget. Also included in this report is a recommendation to decrease this project and the corresponding revenue estimate by \$200,000, as the California High Speed Rail Authority is currently unable to commit to a reimbursement schedule for City design work.

The remaining variance (\$4.6 million) reflects unexpended funds in a number of projects with balances of less than \$400,000.



<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**BUILDING AND STRUCTURE TAX FUND (CONT'D.)**

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Less Additional Rebudgets Recommended	Revised Variance	Revised Variance as % Of Budget
\$41,026	\$11,195	\$13,869	\$2,674	(\$795)	\$1,879	4.6%

The 2010-2011 Ending Fund Balance of \$13.9 million was \$2.7 million above the estimate used to develop the 2011-2012 Adopted Capital Budget. This variance was due to lower than estimated revenues (\$1.9 million) offset by lower than estimated expenditures (\$4.6 million).

It is recommended that a portion of the additional fund balance be allocated for rebudgets for various capital projects (\$3.6 million) to ensure sufficient funding for these projects to continue in 2011-2012. In addition, recommendations to rebudget \$2.8 million in revenues are included in this report to reflect revenue that was anticipated in 2010-2011 but is now anticipated in 2011-2012. Also included is a recommendation to provide \$60,000 in funding for the Lyndale Sidewalk Project, as described elsewhere. In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$107,040 for this fund is set aside in a Transfer appropriation to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balance. If, however, it is determined that this additional contribution is not necessary, it will be the Administration’s intention to return to the City Council with recommendations to allocate the set aside fund to the 2011-2012 Ending Fund Balance. Lastly, an increase of \$120,000 to the Lighting and Signal Program is recommended for staff to perform traffic signal/streetlight plan review and design work for projects generated by development activities, regional projects, and grant sources. These projects require conceptual engineering work to determine the ultimate scope of the project. After accounting for the recommended revenue and expenditure rebudgets as well as the adjustments for Lyndale Sidewalk, High Speed Rail, Lighting and Signal Program, and Retirement Transfer, \$1.8 million will be added to the Ending Fund Balance to be available for future use.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**CONSTRUCTION AND CONVEYANCE TAX FUNDS**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$32,079	\$33,229	\$1,150	3.6%
Expenditures	\$80,397	\$48,134	\$32,263	40.1%

Revenue Performance

Construction and Conveyance Tax Fund revenues in 2010-2011 totaled \$33.2 million and were generated from Construction and Conveyance tax receipts, transfers between funds, State and federal grants, interest earnings, developer contributions, and miscellaneous revenues.

The elements of the positive \$1,150,000 net revenue variance were as follows: **(\$000s)**

Grants	\$ (609)
Developer Contributions and Miscellaneous Revenues	(546)
Interest Earnings	(126)
Construction and Conveyance Tax Revenue	1,384
Transfers of Construction and Conveyance Revenue between funds	<u>1,047</u>
<b>Total</b>	<b>\$ 1,150</b>

Construction and Conveyance Tax revenue collections in 2010-2011, which are almost entirely generated from property transfers, dropped slightly compared to receipts in 2009-2010. Actual collections for 2010-2011 totaled \$21.4 million, which is \$1.1 million less than \$22.5 million received in 2009-2010. This drop is consistent with the 11% decrease in property transfers for all types of residences between 2009-2010 and 2010-2011. Numerous tax incentive programs, foreclosures, and short sales occurred in 2009-2010, which was reflected in the higher Construction and Conveyance Tax receipts. However, as the credit market tightened and tax incentive programs expired, less home sales occurred in 2010-2011, which resulted in slightly lower Construction and Conveyance Tax revenue. This slight difference in revenue collections is also reflected in the median home price for single family homes within the City between June 2010 and June 2011. The median home price for single family homes decreased slightly in value, with a median home price in June 2011 of \$520,000, down less than 1% from the June 2010 price of \$523,500. However, the amount of time it takes to sell a home (single-family and multi-family dwelling units) has grown slightly in the past year from 71 days in June 2010 to 76 days in June 2011.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**CONSTRUCTION AND CONVEYANCE TAX FUNDS (CONT'D.)**

Revenue Performance (Cont'd.)

Collections in 2010-2011, however, are still slightly above the \$20.3 million received in 2008-2009, which was the lowest level of collections received since 1996-1997. When the 2010-2011 budget was developed, due to the state of the economy, it was assumed that receipts would fall to \$20.0 million, a 11% decline from the 2009-2010 collection level. While collections did drop compared to 2009-2010 levels, the decline was less than anticipated, therefore, revenues exceeded budgeted levels. As part of this document, adjustments are recommended in each Construction and Conveyance Tax fund Ending Fund Balance as a result of 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.

The negative variance for the interest earnings and developer contributions/miscellaneous revenues categories resulted from lower than expected average cash balances. Grant revenue fell below anticipated levels by \$609,000 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. Most of these grant revenues are expected to be received in 2011-2012 and are recommended to be rebudgeted as part of this report.

Expenditure Performance

The expenditure variance of \$32.3 million, or 40.1%, is primarily the result of unexpended capital project funds. A portion of these expenditure savings were anticipated and the funds were rebudgeted to 2011-2012 in the Adopted Capital Budget to complete these projects. Additional rebudgets are recommended in this report to provide sufficient funding to complete projects.

The following is a list of projects in which unexpended balances exceeded \$300,000:

		<u>(\$000s)</u>
Council District 1:	Misc. Park Sports Field Development	\$ 1,563
	Strategic Capital Replacement and Maintenance Needs	527
	Calabazas Park Playground Improvements	300
Council District 2:	Strategic Capital Replacement and Maintenance Needs	367
	Watson Site Clean-Up and Restoration	438
Council District 3:	TRAIL: Bay Trail Reach 9 Design (Gold Street to San Tomas Aquino)	550
	Strategic Capital Replacement and Maintenance Needs	394

<b>2010 - 2011 ANNUAL REPORT</b>
--------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**CONSTRUCTION AND CONVEYANCE TAX FUNDS (CONT'D.)**

Expenditure Performance (Cont'd.)

		<u>(\$000s)</u>
Council District 5:	TRAIL: Lower Silver Creek Reach 4/5A (Alum Rock Avenue to Highway 680)	\$ 1,369
	Strategic Capital Replacement and Maintenance Needs	629
Council District 6:	TRAIL: Three Creeks Land Acquisition	1,260
	Strategic Capital Replacement and Maintenance Needs	643
	Bascom Community Center – Multi-Service	570
	Bascom Community Center FF&E	501
Council District 7:	Strategic Capital Replacement and Maintenance Needs	707
	Solari Park Sports Field Conversion	562
	Seven Trees Community Center FF&E	311
Council District 9:	Strategic Capital Replacement and Maintenance Needs	745
Council District 10:	Council District 10 Sports Field Development	2,000
	Strategic Capital Replacement and Maintenance Needs	622
	Almaden Winery Irrigation Automation	476
City-Wide:	TRAIL: Three Creeks Land Acquisition	1,165
	Happy Hollow Park and Zoo Phase II Renovations and Improvements	962
	Happy Hollow East Side Improvements	625
	TRAIL: Albertson Parkway	601
Communications:	City-Wide Trunking Radio System	750
	Communication Equipment Replacement	538
Fire:	Fire Station 21 – Relocation (White Road)	391
Library:	Branch Libraries FF&E	2,382
	New Branch Opening Day Collections	448
<b>Total</b>		<b>\$22,396</b>

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 Arch Bishop Mitty High School. This project is anticipated to begin in 2011-2012 and be completed in 2012-2013.

# 2010-2011 ANNUAL REPORT

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### CONSTRUCTION AND CONVEYANCE TAX FUNDS (CONT'D.)

#### Expenditure Performance (Cont'd.)

- The Strategic Capital Replacement and Maintenance Needs allocations for all Council Districts (with the exception of Council Districts 3 and 8) had a project expenditure variance exceeding \$300,000. The Capital Infrastructure Team had issued work orders for the implementation of numerous infrastructure projects in all the Council Districts; however, reduced staffing at the Department of Public Works significantly affected 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 C&C 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 Calabazas Park Playground Improvements project had an expenditure variance due to a delay in the bid process. The project is currently under construction with expected completion in spring 2012.
- The Watson Site Clean-Up and Restoration project had an expenditure variance due to the continuation of remediation and restoration efforts. This renovation project was completed in August 2011; however, mitigation and monitoring along the river will continue for the next five years.
- The TRAIL: Bay Trail Reach 9 Design (Gold Street to San Tomas Aquino) had an expenditure variance due to additional studies required to complete with the National Environmental Policy Act (NEPA) that are mandated due to use of federal funds (Federal Transportation Bill).
- The TRAIL: Lower Silver Creek Reach 4/5A (Alum Rock Avenue to Highway 680) had an expenditure variance due to a substantial change in the project's planned design. The master plan was developed in consultation with the Santa Clara Valley Water District. Guidance was provided to develop a permeable pavement surface created by base rock retained within a geo-grid retaining structure. Since the plan was adopted, the Santa Clara Valley Water District has changed its guidance due to frequency and weight of vehicles required for frequent maintenance of the channel. The change in design will lead to a more traditional paved trail but is likely to be more costly, therefore, additional grant funding to address a possible funding shortfall is currently being pursued.

# 2010-2011 ANNUAL REPORT

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### CONSTRUCTION AND CONVEYANCE TAX FUNDS (CONT'D.)

#### Expenditure Performance (Cont'd.)

- The TRAIL: Three Creeks Land Acquisition project (funded by the Council District 6 Construction and Conveyance Tax Fund and the Parks City-Wide Construction and Conveyance Tax Fund) seeks to acquire 0.92 miles of linear parcels from Union Pacific Railroad (UPRR). The parcels account for the western alignment of the trail system, from Lonus Street to Minnesota Avenue. The negotiation process has been impacted by development of a California-mandated Remedial Action Work Plan and a disagreement on the valuation of property. Negotiations with UPRR are anticipated to be completed by late 2011.
- The Bascom Community Center – Multi-Service project had an expenditure variance due to project schedule delays as a result of additions and changes in the project scope and negotiations of change orders taking longer than originally anticipated. Construction on this project is now complete, however, due to the significant impact the operating and maintenance costs will have on the General Fund, the opening of the facility was deferred to fall 2012.
- The Bascom Community Center FF&E project had an expenditure variance due to Council action which deferred the opening of the facility as part of the 2011-2012 Adopted Budget. The purchase of fixtures, furnishings and equipment was limited to critical items, while the disposition of the building was determined.
- The Solari Park Sports Field Conversion project had an expenditure variance due to a delay in the project start date. Staffing reductions in the Department of Public Works has 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 Seven Trees Community Center FF&E project had an expenditure variance due to staffing reductions in the Finance Department which led to a backlog of purchase requisitions. Purchases are continuing to be made, and are anticipated to be completed in 2011-2012.
- The Council District 10 Sports Field Development project had an expenditure variance due to an extended site selection process and establishing a collaborative partnership with the San José Unified School District. The partnership is anticipated to be accomplished in 2011-2012 and delivery of the project is anticipated to occur in 2012-2013.
- The Almaden Winery Irrigation Automation project had an expenditure variance due to a delay in the project schedule. The project is currently under design development and is anticipated to be completed in 2012-2013.

**2010-2011  
ANNUAL REPORT**

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**CONSTRUCTION AND CONVEYANCE TAX FUNDS (CONT'D.)**

Expenditure Performance (Cont'd.)

- 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 2011-2012.
- The TRAIL: Albertson Parkway project was completed in 2009-2010, however, several elements of the project were not constructed per specifications including signage and an interpretive element; neither element prevents public access to the trail. Final payment to the contractor is anticipated to occur in 2011-2012 pending the issues being resolved.
- The City-Wide Trunking Radio System allocation provides matching grant funds to the County of Santa Clara for the expansion of Emergency Communication Microwave (ECOMM) system. The expenditure variance was due to a delay in the ECOMM project, however, it is anticipated the funds will be provided to the County of Santa Clara in 2012-2013.
- The Communications Equipment Replacement project funds the replacement of communications equipment based upon useful life expectancy. The project was delayed due to unanticipated vacancies and the need to focus on higher priority needs such as the County-wide coordinated effort to reprogram every radio in the Fire fleet for a new channel plan. The project is anticipated to be completed in 2011-2012.
- The Fire Station 21 – Relocation (White Road) project had an expenditure variance due to a delay in the project start date. Once the other fire stations funded by the Neighborhood Security Act Bond Fund are completed, the Fire Station 21 – Relocation (White Road) project will begin.
- The Branch Libraries Fixtures, Furnishings and Equipment (FF&E) allocation provides funding to outfit the General Obligation Bond-funded libraries. All unexpended funds are carried over to the following year to purchase the necessary furniture, fixtures and equipment for the new and remodeled libraries as these facilities come on-line.
- 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. All unexpended funds are carried over to the following year to purchase the necessary materials for the new libraries as they come on-line.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**CONSTRUCTION AND CONVEYANCE TAX FUNDS (CONT'D.)**

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Additional Rebudgets Recommended	Revised Variance	Revised Variance as % Of Budget
\$116,808	\$50,734	\$70,785	\$20,051	(\$11,255)	\$8,796	7.5%

The 2010-2011 Ending Fund Balance of \$70.8 million was \$20.1 million above the estimate used to develop the 2011-2012 Adopted Capital Budget. This variance was due primarily to lower than anticipated project expenditures (\$16.9 million) and higher than anticipated tax revenues (\$1.4 million), grant revenue (\$836,000), and transfers (\$752,000). A portion of these expenditure savings were anticipated and the funds were rebudgeted as part of the 2011-2012 Adopted Budget process (\$6.9 million).

Included in this report is a recommendation to reduce the 2011-2012 Earned Revenue estimate by \$382,000 primarily to reflect the receipt of grant funding in 2010-2011 that were anticipated to be received in 2011-2012. In addition, this report includes a recommendation to rebudget a portion of the additional fund balance to allow projects to continue in 2011-2012. This report also includes recommended adjustments totaling \$701,000 in several Construction and Conveyance Tax funds to allocate new funding to various projects. The new or increased projects include Plaza de Cesar Chavez Fountain Repair and Improvement (Parks City-Wide Construction and Conveyance Tax Fund - \$350,000), Facilities Improvements (Public Safety Construction and Conveyance Tax Fund - \$336,000), and Watson Park Soccer Field Fixtures, Furnishings and Equipment (Council District 3 Construction and Conveyance Tax Fund - \$15,000). In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$117,383 for these funds are set aside in Transfer appropriations to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balances. If, however, it is determined that this additional contribution is not necessary, it will be the Administration’s intention to return to the City Council with recommendations to allocate the set aside funds to the 2011-2012 Ending Fund Balances. 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 funds 2011-2012 Ending Fund Balance and would be available for future use.



<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**CONSTRUCTION EXCISE TAX FUND**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$48,494	\$46,091	(\$2,403)	(5.0%)
Expenditures	\$57,827	\$44,314	\$13,513	23.4%

Revenue Performance

In 2010-2011, revenues totaled \$46.1 million and were generated primarily from the following: Construction Excise Tax (\$13.3 million), Revenue from the Federal Government (\$11.6 million), Revenue from the State (\$10.6 million), Miscellaneous Revenue (including Traffic Impact Fees) (\$7.7 million), Valley Transportation Authority (\$1.5 million), and Developer Contributions (\$1.2 million). The 2010-2011 revenues were below the budgeted estimate by \$2.4 million primarily due to 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 lower than budgeted revenues of \$2.4 million or 5.0% are primarily due to lower than estimated receipts from the Federal Government offset by higher than estimated Construction Excise Tax collections and Miscellaneous Revenue related to the Traffic Impact Fee collections in the North San José area. While Revenue from the Federal Government came in lower than budgeted, this variance was largely assumed in the development of the 2011-2012 Adopted Capital Budget. A significant portion of the budget to actual variance (\$7.4 million) was due to a delay in Federal Transportation Bill funding. The total amount of funding anticipated from this bill is unchanged, however it is now assumed this revenue will be collected beginning in 2011-2012. A total of \$718,000 in several other federal grants is recommended to be rebudgeted to 2011-2012 as part of this report. The other major factor for the negative variance in this category is lower than budgeted revenue (\$2.2 million) associated with the American Recovery and Reinvestment Act (ARRA). Of the \$2.2 million variance, \$1.8 million was rebudgeted in the 2011-2012 Adopted Capital Budget, with the remainder recommended for rebudget in this report.

Construction Excise Tax collections exceeded the budgeted level by \$5.7 million largely due to residential permits pulled in December 2010 for two new housing developments in the North San José area, in order to take advantage of temporary exemptions of affordable housing requirements and lower fees. Miscellaneous Revenue came in at higher than budgeted levels (\$3.5 million) primarily due to Traffic Impact Fee collections in the North San José area. These fees, which are only budgeted after they are received, are only available for usage in the North San José area and are therefore recommended to be placed into the reserve for this purpose as part of this report.

# 2010-2011 ANNUAL REPORT

## PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

### CONSTRUCTION EXCISE TAX FUND (CONT'D.)

#### Revenue Performance (Cont'd.)

The 2010-2011 collection level of \$46.1 million in this fund was \$20.8 million (82.2%) above the 2009-2010 level of \$25.3 million primarily due to higher American Recovery and Reimbursement Act reimbursements of \$8.3 million, Miscellaneous Revenue of \$7.6 million, and higher Construction Excise Tax collections (\$4.9 million). At \$13.3 million, 2010-2011 Construction Excise Tax receipts were 57.8% higher than 2009-2010 collections (\$8.4 million). While a strong second quarter performance for construction valuation activity caused a dramatic, short term spike in the collection levels for Construction Excise Tax, this level of activity is unsustainable and activity is expected to return to 2009-2010 levels.

#### Expenditure Performance

In 2010-2011, expenditures of \$44.3 million were primarily attributed to Gas Tax – Pavement Maintenance activities (\$8.2 million), transfers to the General Fund for general purpose and pavement maintenance activities (\$8.0 million), Prop 1B - Pavement Maintenance activities (\$7.6 million), ARRA – Street Resurfacing and Rehabilitation (\$7.1 million), Automated Transit Network (\$1.8 million), and Capitol Expressway- Story and Aborn Road Improvements (\$1.3 million).

This expenditure level was \$13.5 million or 23.4% below the modified budget. The majority of these savings (\$9.7 million) were anticipated and rebudgeted or redistributed as part of the 2011-2012 Adopted Capital Budget. A total of \$1.3 million is recommended for rebudget in this report to ensure sufficient funding for projects in 2011-2012.

The variance between budgeted and actual expenditures was caused primarily by the following projects (totaling \$10.6 million) with expenditure variances greater than \$300,000:

- The Gas Tax – Pavement Maintenance project uses State grant funding to provide maintenance for the City, such as surface sealing and street resurfacing. Savings totaling \$2,584,000 remained at the end of the year. Of this amount, \$461,000 was anticipated and rebudgeted as part of the 2011-2012 Adopted Capital Budget. After accounting for the planned savings, \$2.1 million was available to rebudget, however due to lower than anticipated revenue collections from the state, only \$506,000 is recommended for rebudget as part of this report.
- The Prop 1B – Pavement Maintenance project uses State grant funding to perform street sealing and resurfacing of various City streets, thereby improving the overall condition of the City's street network. Savings of \$3.9 million were anticipated and rebudgeted as part of the 2011-2012 Adopted Budget, however at the conclusion of the fiscal year only \$2.3 million was available. As a result, a downward adjustment of \$1.6 million is recommended in this report.

**2010-2011  
ANNUAL REPORT**

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**CONSTRUCTION EXCISE TAX FUND (CONT'D.)**

Expenditure Performance (Cont'd.)

- The ARRA – Street Resurfacing and Rehabilitation project had \$1.8 million in savings at the end of 2010-2011, of which \$1.76 million was anticipated and rebudgeted as part of the 2011-2012 Adopted Capital Budget. This report includes a recommendation to rebudget the remaining savings of \$44,000.
- The Montague Expressway Improvements project had \$1.1 million remaining at the conclusion of 2011-2012. The majority of this savings (\$1.1 million), which were anticipated and rebudgeted as part of the 2011-2012 Adopted Capital Budget, were the result of project delays due to right-of-way issues. This report includes a recommendation to rebudget the remaining savings of \$14,000 to 2011-2012. Also recommended in this report is a \$200,000 reallocation from the North San José Traffic Impact Fee Reserve to this project, as described elsewhere.
- The Route 101/Mabury Acquisition Project had savings of \$1.0 million due to an unforeseen timing issue. These funds will be required for completion of this project, and therefore are recommended to be rebudgeted as part of this report.
- Capitol Expressway – Story Road and Aborn Road Improvements project provides funding for improvements including the construction of left-turn lanes, roadway widening, traffic signal and median island modifications, and pavement restriping. Savings of \$818,000 were available at the end of 2010-2011, however \$205,000 of this amount was anticipated and rebudgeted in the 2011-2012 Adopted Capital Budget, leaving a balance of \$613,000 available for rebudget. This report includes a recommendation to rebudget the remaining savings for project completion.
- The 2010 Federal Surface Transportation Program (STP) Resurfacing and Rehabilitation had savings of \$614,000 at the end of 2010-2011. \$600,000 of these savings were anticipated and rebudgeted as part of the 2011-2012 Adopted Capital Budget, with the remaining savings of \$14,000 recommended for rebudget as part of this report.
- The Highway 237 Bikeway project had savings of \$350,000 at the end of 2010-2011. These savings were anticipated and rebudgeted as part of the 2011-2012 Adopted Capital Budget.

The remaining variance (\$2.9 million) reflects unexpended funds in a number of projects with balances of less than \$300,000.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**CONSTRUCTION EXCISE TAX FUND (CONT'D.)**

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$74,532	\$19,959	\$27,924	\$7,965	(\$1,326)	\$6,553	8.7%

The 2010-2011 Ending Fund Balance of \$28.0 million was \$8.0 million above the estimate used to develop the 2011-2012 Adopted Capital Budget. This variance was due to the following: higher than estimated revenues (\$4.6 million) and lower than estimated expenditures (\$3.4 million). It should be noted that the 2010-2011 Ending Fund Balance includes the impact of a reduction to the 2010-2011 Beginning Fund Balance (\$34,000) required as a result of a recalculation of the 2010-2011 Beginning Fund Balance.

It is recommended that a portion of the additional fund balance be allocated to rebudget funds for various capital projects (\$1.7 million) to ensure sufficient funding for project continuation in 2011-2012. Also recommended is a rebudget to the North San José Traffic Impact Fee Reserve (\$1.4 million). Recommendations to rebudget \$1.8 million in revenues are also included in this report to reflect revenue that was anticipated in 2010-2011, but is now expected in 2011-2012.

The following appropriation adjustments are also included and described elsewhere in this report: the establishment of appropriations for the Walkn' Roll San José (\$325,000), Geometric Design Standards Manual Update (\$180,000), Safe Access San José (\$97,000), St. John Street Pedestrian/Bike Improvements (\$90,000), Lyndale Avenue Sidewalk (\$60,000), Maintenance District 15 Feasibility Assessment (\$20,000), and Maintenance District 19 Feasibility Assessment (\$20,000). These increases are partially offset by the recognition of grants and Developer Contributions totaling \$631,000.

Increases to the North San José Traffic Impact Fees Reserve (\$3.5 million), Route 101/Oakland/Mabury Traffic Impact Fees Reserve (\$122,000), and Evergreen Traffic Impact Fees Reserve (\$208) are recommended in order to preserve traffic impact fees collected in those areas for future use. An increase to the Federal Pavement Maintenance project (\$495,000) is recommended based upon higher than anticipated federal collections. Other adjustments recommended in this report and described elsewhere are the establishment of the Lyndale Avenue Sidewalk project (\$60,000); increases to the Montague Expressway Improvements (\$200,000) and Bridge Maintenance and Repair projects (\$50,000); and decreases to the Congestion Management Program Dues (\$29,000) project and the Reserve for Transportation Grants (\$101,000). After accounting for all recommended rebudgets and other adjustments, approximately \$2.2 million will be added to the Ending Fund Balance to be available for future use.

**2010-2011  
ANNUAL REPORT**

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**CONSTRUCTION EXCISE TAX FUND (CONT'D.)**

In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$115,501 for this fund is set aside in a Transfer appropriation to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balance. If, however, it is determined that this additional contribution is not necessary, it will be the Administration’s intention to return to the City Council with recommendations to allocate the set aside fund to the 2011-2012 Ending Fund Balance.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**CONVENTION AND CULTURAL AFFAIRS FUND**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$23,336	\$24,189	\$853	3.7%
Expenditures	\$24,059	\$22,605	\$1,454	6.0%

Revenue Performance

In 2010-2011, revenues totaling \$24.2 million were generated from operating revenues from the City's convention facilities (\$18.7 million), transfers from the Transient Occupancy Tax (TOT) Fund (\$5.0 million), General Purpose Parking Fund (\$450,000), and General Fund (\$48,000), and interest earnings (\$13,000). The 2010-2011 revenues exceeded the budget estimate by \$853,000 due to higher than budgeted operating revenues associated with building rental, food and beverage, and contractual labor (\$860,000), partially offset by lower than anticipated interest earnings (\$7,000). The 2010-2011 collection level was also \$1.8 million (7.9%) above the 2009-2010 level of \$22.4 million due to increases in the transfer levels from the TOT Fund (\$1.1 million) and operating revenues from the City's convention facilities (\$882,000), partially offset by a decreased transfer from the General Fund (\$202,000) and reduced interest earnings (\$38,000).

TOT receipts 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 2010-2011 higher than budgeted, a recommendation is included in this document to increase the 2011-2012 Transfer from the TOT Fund to the Convention and Cultural Affairs Fund by \$436,000. A portion of the increased TOT receipts were anticipated in the development of the 2011-2012 Adopted Budget and placed into a Reserve for Future Distribution in the TOT Fund, while the remaining portion represents the variance between estimated and actual collections. Both the Reserve for Future Distribution and the incremental increase between estimated and actual collections are recommended to be distributed as part of this report. For more information on the 2010-2011 performance of the TOT Fund, please refer to the TOT Fund section of this document.

Expenditure Performance

In 2010-2011, expenditures of \$22.6 million were primarily attributed to non-personal/equipment (\$18.1 million) and personal services (\$1.9 million) costs associated with operating the convention and cultural facilities. This expenditure level was \$1.5 million or 6.0% below the modified budget due primarily 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. Expenditures in this fund were 14.5% below the 2009-2010 level of \$26.4 million due primarily to lower personal services (\$3.8 million) costs and associated overhead costs. Expenditures in this appropriation were much lower

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**CONVENTION AND CULTURAL AFFAIRS FUND (CONT'D.)**

Expenditure Performance (Cont'd.)

than the prior year due to the elimination of 42 positions as part of the 2010-2011 Adopted Budget.

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$30,173	\$5,792	\$8,422	\$2,630	(\$747)	\$1,883	6.2%

The 2010-2011 Ending Fund Balance of \$8.4 million was \$2.6 million above the estimate used to develop the 2011-2012 Adopted Budget. This variance was due to higher than estimated facility revenues (\$2.5 million) and lower than anticipated expenditures (\$77,000).

It is recommended that a portion of the additional fund balance be allocated to rebudget a total of \$747,000 in unexpended funds for Center for Performing Arts Improvements (\$697,000), Team San Jose Executive Management Fees (\$27,500), and Convention Facilities Industry Advisor (\$23,000). The Center for Performing Arts Improvements allocation will fund an overhaul of the fire monitoring system at that facility. The rebudget in the Team San Jose Executive Management Fee appropriation will allow for the full payment of management fees earned by Team San José. Funding for the Convention Facilities Industry Advisor is necessary to provide industry-specific knowledge on convention and cultural facilities financials, marketing, and operations.

After the recommended rebudgets, a portion of the remaining additional fund balance of \$1.9 million is recommended to be allocated to fund urgent needs in this fund such as the establishment of a new Convention and Visitor's Bureau (CVB) Services appropriation (\$600,000) to support sales efforts associated with the Convention Center expansion/renovation and an increase of \$450,000 to the Miscellaneous Improvements allocation. The establishment of CVB Services would provide funding for additional Convention and Visitor's Bureau staff to secure advance business for the expanded and renovated convention center once it opens in 2012-2013. The increase in the Miscellaneous Improvements allocation would ensure funding is in place to address any sudden and unanticipated building repairs at the Convention Center or cultural facilities. The 2011-2012 Adopted allocation of \$500,000 for this purpose is anticipated to be fully used to complete elevator repairs and upgrades at the San José Civic Auditorium. The remaining excess fund balance in the amount of \$1.3 million (after accounting for the increased Transfer from the TOT Fund) is recommended to be allocated to the 2011-2012 Ending Fund Balance for future use.

Per direction from the City Council-approved Mayor's June Budget Message for Fiscal Year 2011-2012, a complete retirement contributions and unemployment insurance reconciliation was to be performed based on final actions approved as part of the 2011-2012 Adopted Budget as described in further detail

**2010-2011  
ANNUAL REPORT**

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**CONVENTION AND CULTURAL AFFAIRS FUND (CONT'D.)**

in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document. Based on these reconciliations, actions to decrease personal services appropriations totaling \$12,431 in this fund and increase Ending Fund Balance are recommended elsewhere in this document. In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$33,528 for this fund is set aside in a Transfer appropriation to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balance. If, however, it is determined that this additional contribution is not necessary, it will be the Administration's intention to return to the City Council with recommendations to allocate the set aside fund to the 2011-2012 Ending Fund Balance.



<b>2010 - 2011 ANNUAL REPORT</b>
--------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**GENERAL OBLIGATION BOND FUNDS**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$9,697	\$1,530	(\$8,167)	(84.2%)
Expenditures	\$59,459	\$32,718	\$26,741	45.0%

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 2011-2012. In 2010-2011, revenues totaled \$1.5 million and were generated primarily from transfers from the Council District 3 Construction and Conveyance Tax Fund and the Fire Construction and Conveyance Tax Fund (\$1.0 million), interest earnings (\$466,000), and revenue from the Santa Clara Valley Water District (\$55,000). The negative revenue variance of \$8.2 million, or 84.2%, primarily represents lower than anticipated bond proceeds (\$5.9 million), a delay in the sale of land (\$2.0 million), and interest earnings (\$317,000) partially offset by higher than anticipated revenue from the Santa Clara Valley Water District (\$55,000).

Expenditure Performance

The expenditure variance of \$26.7 million, or 45.0%, is primarily the result of unexpended capital project funds. Projects with significant variances include the following:

- The Southeast Branch project had an expenditure variance of \$8.6 million due to a delay in awarding the design agreement as the purchase of the land for this new branch has yet to be completed. These savings were anticipated and rebudgeted as part of the 2011-2012 Adopted Capital Budget.
- The Fire Station 37 (Willow Glen) project had an expenditure variance of \$4.0 million due to an extension to the project schedule. It is currently anticipated that this project will be completed in 2012-2013. This funding was anticipated and rebudgeted as part of the 2011-2012 Adopted Capital Budget.
- The Branch Efficiency Projects allocation had an expenditure variance of \$3.1 million due to a delay with the issuance of the Request for Proposals. These savings were anticipated and rebudgeted as part of the 2011-2012 Adopted Capital Budget.

**2010-2011  
ANNUAL REPORT**

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**GENERAL OBLIGATION BOND FUNDS (CONT'D.)**

Expenditure Performance (Cont'd.)

- The Educational Park Branch project had an expenditure variance of \$2.7 million due to the need to finish punch list items and finalize several construction elements. This funding was anticipated and rebudgeted as part of the 2011-2012 Adopted Capital Budget.
- The Happy Hollow Park and Zoo Renovations and Improvements project had an expenditure variance of \$1.5 million. This project was completed in 2010-2011; however, final invoices to the contractors have not been made, but are anticipated to occur in 2011-2012.
- The Fire Station 24 Relocation (Silver Creek/Yerba Buena) project had an expenditure variance of \$1.2 million due to delays in construction that moved the completion date from June 2011 to December 2011. This funding was anticipated and rebudgeted as part of the 2011-2012 Adopted Capital Budget.
- The Land Acquisition allocation had an expenditure variance of \$1.2 million due to delays in negotiating a final agreement for the purchase of land being acquired for the Southeast Branch. These savings were anticipated and rebudgeted as part of the 2011-2012 Adopted Capital Budget.
- The South San José Police Substation project had an expenditure variance of \$1.0 million due to the need to finish punch list items and to finalize several construction elements closer to the anticipated opening of the Substation in September 2012. This funding was anticipated and rebudgeted as part of the 2011-2012 Adopted Capital Budget.

A large portion of these expenditure savings were anticipated and the funds were rebudgeted in the 2011-2012 Adopted Capital Budget (\$17.9 million). This document, however, includes reductions in over-expended 2010-2011 rebudgets, partially offset by rebudgets for projects that ended the year with expenditure variances (\$664,000).

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**GENERAL OBLIGATION BOND FUNDS (CONT'D.)**

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$98,881	\$57,923	\$58,639	\$716	\$664	\$1,380	1.4%

The 2010-2011 Ending Fund Balance of \$58.6 million was \$716,000 above the estimate used to develop the 2011-2012 Adopted Capital Budget. This variance was primarily due to lower than anticipated project expenditures (\$630,000) and higher than anticipated interest earnings/miscellaneous revenue (\$85,000).

As discussed previously, included in this report is a recommendation to rebudget a portion of the additional fund balance offset by the reduction in some over-expended 2010-2011 rebudgets. In addition, this report recommends allocating an additional \$20,000 from the Neighborhood Security Act Bond Fund Contingency Reserve for the Fire Station 2 project. The remaining fund balance of \$1.4 million is recommended to be allocated to the respective funds' Contingency Reserves and would be 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 recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$69,004 for these funds are set aside in Transfer appropriations to the Federated Retirement System with offsets from the 2011-2012 Ending Fund Balances. If, however, it is determined that this additional contribution is not necessary, it will be the Administration's intention to return to the City Council with recommendations to allocate the set aside funds to the 2011-2012 Ending Fund Balances or the respective funds' Contingency Reserves.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**GENERAL PURPOSE PARKING FUND**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$8,568	\$9,611	\$1,043	12.2%
Expenditures	\$10,417	\$9,554	\$863	8.3%

Revenue Performance

In 2010-2011, \$9.6 million in revenues were primarily generated from parking garages and lots (\$7.1 million), parking meters (\$2.3 million), interest earnings (\$61,000), and miscellaneous revenues (\$47,000). The 2010-2011 revenues exceeded the budget estimate by \$1,043,000 or 12.2% primarily due to higher than budgeted revenues from parking garages and lots (\$1.0 million).

This 2010-2011 collection level was actually \$1.1 million (10.3%) below the 2009-2010 level of \$10.7 million due to lower revenue collections in parking garages and lots and lower interest earnings. Revenues generated in this fund have declined primarily due to the sale of two surface lots owned by the Redevelopment Agency to a private owner.

Expenditure Performance

In 2010-2011, expenditures of \$9.6 million were primarily attributed to the non-personal/equipment (\$5.5 million) and personal services expenditures (\$1.7 million) for the Transportation Department, the Parking Capital Program (\$1.0 million), and transfers to the General Fund (\$462,000), Convention and Cultural Affairs Fund (\$450,000), and City Hall Debt Service Fund (\$182,000).

This expenditure level was \$863,000 or 8.3% below the modified budget. The variance between budgeted and actual expenditures was caused primarily by the following projects with significant expenditure variances:

- The Transportation Department's Non-Personal/Equipment appropriation generated savings of \$276,000 primarily due to lower costs for contractual services, electricity, rent, and insurance.
- The Market Street Garage Railing Improvements project generated savings of \$232,000 as a result of a reduced scope of work that focused on the specific area in need of repair and additional structural support rather than a full replacement.
- The Parking Guidance System project generated savings of \$98,000 as a result of eliminating future warranty payment options for years 4-5 of the contract period. This project is now done and will be closed out. The possibility of purchasing payment options for these future years is currently being explored and, if a decision is made to continue the warranty, these costs will likely be assumed in the Non-Personal/Equipment appropriation.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**GENERAL PURPOSE PARKING FUND (CONT'D.)**

Expenditure Performance (Cont'd.)

- The Revenue Control Equipment project generated savings of \$84,000 as a result of wiring and data archiving work which will be completed in 2011-2012. A downward adjustment (\$67,000) is recommended in this report since the actual year-end expenditure savings were insufficient to cover the \$151,000 rebudgeted amount assumed in the development of the 2011-2012 Adopted Budget.

The remaining variance (\$173,000) reflects unexpended funds in a number of appropriations with balances of less than \$60,000.

Of the total savings of \$863,000, \$202,000 was anticipated and rebudgeted as part of the 2011-2012 Adopted Budget. An additional \$36,000 is recommended for rebudget as part of this report to ensure sufficient funding for Minor Parking Facility Improvements in 2011-2012, while a reduction of \$67,000 to the Revenue Control Upgrades appropriation is recommended to account for higher than anticipated 2010-2011 expenditure levels. These adjustments, combined with the rebudgets approved as part of the 2011-2012 Adopted Budget, bring the expenditure variance to \$692,000, or 6.6%.

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$17,165	\$8,021	\$8,859	\$838	(\$31)	\$869	5.1%

The 2010-2011 Ending Fund Balance of \$8.9 million was \$838,000 above the estimate used to develop the 2011-2012 Adopted Budget. This variance was primarily due to higher than anticipated revenues from parking garages, lots, and meters and expenditure savings in the Transportation Department's Non-Personal/Equipment appropriation. This additional funding of \$838,000 is recommended to be placed in the Reserve for Debt Service to support future debt service needs for the 4<sup>th</sup> Street Garage. It should be noted that the 2010-2011 Ending Fund Balance includes the impact of a reduction to the 2010-2011 Beginning Fund Balance (\$14,000) required as a result of an audit adjustment processed after the release of the 2009-2010 Annual Report. Additional funding of \$31,000 is available for the Reserve for Debt Service due to the net effect of rebudgets recommended in this report for the Minor Parking Facilities and Revenue Control Equipment appropriations, as described above.

Also recommended in this report is a downward adjustment of \$35,000 to the revenue estimate for Parking Lots and Garages and the Non-Personal/Equipment allocation as a result of reduced staffing needs on weekend days due to the preservation of free parking until July 2012 during certain weekend hours at the following City parking garages: Market and San Pedro Square, 3<sup>rd</sup> Street,

**2010-2011  
ANNUAL REPORT**

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**GENERAL PURPOSE PARKING FUND (CONT'D.)**

2<sup>nd</sup> and San Carlos, and Fourth Street. These parking changes were approved by the City Council on June 21, 2011 as part of the Master Parking Rate Schedule.

Per direction from the City Council-approved Mayor's June Budget Message for Fiscal Year 2011-2012, a complete retirement contributions and unemployment insurance reconciliation was to be performed based on final actions approved as part of the 2011-2012 Adopted Budget as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document. Based on these reconciliations, actions to decrease personal services appropriations totaling \$22,114 in this fund and increase Reserve for Debt Service are recommended elsewhere in this document. In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$34,676 for this fund is set aside in a Transfer appropriation to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balance. If, however, it is determined that this additional contribution is not necessary, it will be the Administration's intention to return to the City Council with recommendations to allocate the set aside fund to the 2011-2012 Ending Fund Balance.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**INTEGRATED WASTE MANAGEMENT FUND**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$113,597	\$112,826	(\$771)	(0.7%)
Expenditures	\$131,708	\$118,357	\$13,351	10.1%

Revenue Performance

In 2010-2011, revenues totaled \$112.8 million and were generated from the following: Recycle Plus Collection Charges (\$95.8 million), Lien-Related Charges (\$7.1 million), AB939 Fees (\$3.7 million), a one-time payment from the Recycle Plus Haulers in connection with Recycle Plus contract negotiations (\$2.6 million), a one-time transfer from the Sewer Service and Use Charge Fund for construction of the Household Hazardous Waste Facility on Las Plumas Avenue (\$1.5 million), Construction and Demolition Diversion Deposit (CDDD) Ineligible Refunds (\$800,000), and other sources of revenue (\$1.3 million). The 2010-2011 revenues fell short of the budget estimate by \$771,000 due primarily to lower than expected Recycle Plus Collection Charge revenues, partially offset by higher than expected Lien Related Charges. The shortfall in the Recycle Plus Collection Charge revenue stream was driven by the deferral of annexations from 2010-2011 to 2011-2012, the downsizing of garbage containers, requests for reduction in collection frequency by landlords due to lower occupancy rates, and slower than expected growth in the number of residential customers. Lien Related Charges ended the year \$1.2 million over the budgeted estimate due to higher instances of delinquent payments.

The 2010-2011 revenue collection level was \$3.3 million (3.0%) above the 2009-2010 level of \$109.5 million. The positive variance was due to a one-time payment from the Recycle Plus Haulers in connection with Recycle Plus contract negotiations (\$2.6 million), a one-time transfer from the Sewer Service and Use Charge Fund for construction of the Household Hazardous Waste facility at Las Plumas (\$1.5 million), additional Household Hazardous Waste revenue from the County (\$504,000), additional Lien Related Charges (\$442,000), and a net positive impact of variances in other revenues (\$438,000), partially offset by lower 2010-2011 Recycle Plus Collection Charges (\$1.0 million), CDDD Ineligible Refunds (\$700,000), and interest earnings (\$472,000). Household Hazardous Waste program revenue is given to San José by the County based on a reconciliation of costs for this County-run program. If the San José share of landfill AB939 fee revenues received by the County exceeds the expenditures incurred by the County for providing services to San José residents, San José receives a rebate from the County. In 2009-2010, a large number of residential participants in the program led to greater than expected program expenditures, and hence, no savings were returned to San José. In 2010-2011, savings were returned to the City because fewer appointments were made than had been anticipated. Lien Related Charges reflect the receipt of past due revenues collected through the property lien process by the City. Lien Related Charges were higher in 2010-2011 due to increased instances of delinquent payments. CDDD Ineligible Refunds, which reflect deposits ineligible to be returned to developers,

**2010-2011  
ANNUAL REPORT**

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**INTEGRATED WASTE MANAGEMENT FUND (CONT'D.)**

Revenue Performance (Cont'd.)

were lower due to reduced construction activity. It should also be noted that 2010-2011 was the last year of a four-year period of intense reconciliation of the CDDD program. Going forward, CDDD revenue levels are expected to be lower than during the last four years, since reconciliations will only pertain to the current year. Interest earnings were lower due to reduced interest rates.

Expenditure Performance

In 2010-2011, expenditures of \$118.4 million were primarily attributed to the Recycle Plus Single Family Dwelling (\$46.6 million), Yard Trimmings/Street Sweeping (\$21.3 million), and Multi-Family Dwelling (\$16.1 million) contracts, as well as the IDC Disposal Agreement (\$8.4 million). In addition, the Environmental Services Personal Services (\$6.0 million) and Non-Personal/Equipment (\$4.8 million) appropriations, the Information Technology Personal Services (\$2.9 million) appropriation, as well as the Land Purchase – Las Plumas (\$2.3 million) accounted for significant expenditures. This expenditure level was \$13.4 million (10.1%) below the modified budget due primarily to unexpended funds associated with the Household Hazardous Waste Las Plumas Facility construction (\$11.6 million), Environmental Services Personal Services (\$348,000), and Information Technology Personal Services (\$260,000). The unspent funding for the Household Hazardous Waste Las Plumas Facility was rebudgeted for use in 2011-2012 as part of the 2011-2012 Adopted Operating Budget. Savings in the personal services appropriations reflect higher than expected vacancies.

Expenditures in this fund, including transfers, were \$893,000 (0.7%) below the 2009-2010 level of \$119.2 million due to lower spending on the Household Hazardous Waste Las Plumas Facility (\$3.4 million), Environmental Services Department Non-Personal/Equipment (\$2.1 million), and the Yard Trimmings/Street Sweeping contract (\$2.0 million), and the Single-Family Dwelling Recycle Plus Contract (\$866,000), partially offset by increased expenditures in other areas, as described below. The lower spending on the Household Hazardous Waste Las Plumas Facility is only due to project scheduling, and is expected to increase in 2011-2012 with the start of Phase II construction. Environmental Services Department Non-Personal/Equipment spending was lower than in 2009-2010 primarily because a portion of the funding was used on a one-time basis in 2010-2011 toward the purchase of land on Las Plumas Avenue. Both the Yard Trimmings/Street Sweeping and Single Family Dwelling 2009-2010 spending levels included additional encumbrances, which carried over into the following year.

These reduced expenditures were partially offset by higher 2010-2011 expenditures in the following appropriations: a transfer of CDDD revenue to the General Fund (\$2.5 million), a purchase of land on Las Plumas Avenue (\$2.3 million), Multi-Family Dwelling Recycle Plus Contract expenditures (\$1.5 million), and the net increase in other appropriations (\$1.3 million).



<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**INTEGRATED WASTE MANAGEMENT FUND (CONT'D.)**

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance from Estimate	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$134,452	\$14,503	\$18,165	\$3,662	\$0	\$3,662	2.7%

The 2010-2011 Ending Fund Balance of \$18.2 million was \$3.7 million above the estimate used to develop the 2010-2011 Adopted Budget. This variance was due to lower than estimated expenditures and higher than estimated revenues as described above. The remaining balance of \$3.7 million is recommended to be allocated to the 2011-2012 Ending Fund Balance for future use, and to offset future Recycle Plus rate increases.

Per direction from the City Council-approved Mayor's June Budget Message for Fiscal Year 2011-2012, a complete retirement contributions and unemployment insurance reconciliation was to be performed based on final actions approved as part of the 2011-2012 Adopted Budget as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document. Based on these reconciliations, actions to decrease personal services appropriations totaling \$133,308 in this fund and increase the Ending Fund Balance are recommended elsewhere in this document. In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$205,729 for this fund is set aside in a Transfer appropriation to the Federated Retirement System with an offset from the Reserve for Operations and Maintenance. If, however, it is determined that this additional contribution is not necessary, it will be the Administration's intention to return to the City Council with recommendations to allocate the set aside fund to the Reserve for Operations and Maintenance.

**2010-2011  
ANNUAL REPORT**

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**LIBRARY PARCEL TAX FUND**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$7,124	\$7,341	\$217	3.1%
Expenditures	\$9,610	\$8,257	\$1,352	14.1%

Revenue Performance

In 2010-2011, revenues totaled \$7.3 million and were generated primarily from parcel tax revenue (\$7.3 million) and interest earnings (\$34,000). The 2010-2011 revenues exceeded the budget estimate by \$217,000, or 3.1%, due to higher than budgeted parcel tax revenue (\$209,000) and higher than budgeted interest earnings (\$8,000).

The 2010-2011 collection level was 153,000 (2.1%) above the 2009-2010 level of \$7.2 million due to higher Library Parcel Tax collections (\$158,000) and a one-time transfer from the General Fund for retiree healthcare funding previously set aside in a reserve (\$24,000), partially offset by lower interest earnings (\$29,000). The increase in the Library Parcel Tax collections is attributable to the 2010-2011 rate increase of 1.79%. An increase to the Library Parcel Tax rate based on the Consumer Price Index (CPI) is annually approved by the City Council.

Expenditure Performance

In 2010-2011, expenditures of \$8.3 million were primarily comprised of Library Department Personal Services (\$4.9 million), Acquisition of Materials (\$1.9 million), Automation Projects (\$1 million), and Non-Personal/Equipment (\$208,000). This expenditure level was \$1.4 million or 14.1% below the modified budget primarily due to savings in various appropriations such as the Library Department Non-Personal/Equipment (\$478,000) for supplies and materials, Personal Services (\$453,000) given a high number of vacancies, Acquisition of Materials (\$368,000) given a lower than anticipated need to acquire new materials in 2010-2011, and Automation projects (\$40,000) due to project delays. This document includes a recommendation to rebudget \$35,000 in Library Department Personal Services to help complete the California Room digitizing project and \$100,000 in Library Non-Personal/Equipment to implement automated materials handling technology at the Martin Luther King, Jr. Library. These rebudgets bring the expenditure variance to \$1.2 million, or 12.7%.

Expenditures in this fund were 36.3% above the 2009-2010 level of \$6.1 million due primarily to a 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 as part of the General Fund budget rebalancing plan as approved by the City Council as part of the 2010-2011 Mid-Year Budget Review. Increases in

<b>2010 - 2011 ANNUAL REPORT</b>
--------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**LIBRARY PARCEL TAX FUND (CONT'D.)**

Expenditure Performance (Cont'd.)

the Library's Capital Program for Automation Projects (\$400,000) and Acquisition of Materials (\$282,000) also contributed to the year-over-year increase in expenditures.

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$14,253	\$4,656	\$6,213	\$1,557	(\$135)	\$1,422	10.0%

The 2010-2011 Ending Fund Balance of \$6.2 million was \$1.6 million above the estimate used to develop the 2011-2012 Adopted Budget. This variance is 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 the Library Department Personal Services (\$35,000) and Library Non-Personal/Equipment (\$100,000) appropriations. The remaining fund balance of \$1.4 million is recommended to be allocated to the 2011-2012 Ending Fund Balance and would be available for future use.

In addition, per direction from the City Council-approved Mayor's June Budget Message for Fiscal Year 2011-2012, a complete retirement contributions and unemployment insurance reconciliation was to be performed based on final actions approved as part of the 2011-2012 Adopted Budget as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document. Based on these reconciliations, actions to decrease personal services appropriations totaling \$38,980 and increase Ending Fund Balance in this fund are recommended elsewhere in this document. In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$49,138 for this fund is set aside in a Transfer appropriation to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balance. If, however, it is determined that this additional contribution is not necessary, it will be the Administration's intention to return to the City Council with recommendations to allocate the set aside fund to the 2011-2012 Ending Fund Balance.

<b>2010 - 2011 ANNUAL REPORT</b>
--------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**LOW AND MODERATE INCOME HOUSING FUND**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$53,407	\$56,196	\$2,789	5.2%
Expenditures	\$109,328	\$105,700	\$3,628	3.3%

Revenue Performance

In 2010-2011, revenues totaled \$56.2 million and were primarily generated from the following sources: 20% tax increment revenues (\$36.7 million), loan repayments (\$17.7 million), commercial paper proceeds (\$1.2 million), repayments from the Teacher Housing Program (\$304,000), and interest earnings (\$170,000). The 2010-2011 revenues exceeded the budgeted estimate by \$2.8 million, or 5.2%, primarily due to higher than budgeted loan repayments (\$3.5 million) primarily from the Julian Housing Development project (\$189,000), Lucretia Housing Development project (\$1.1 million), and the Fairgrounds Housing Development project (\$1.7 million). This higher than budgeted collection is offset by lower than budgeted collection from 20% tax increment revenues (\$822,000) as a result of decreased property tax collections due to the continued downturn in the housing market.

The 2010-2011 revenues of \$56.2 million were \$108.1 million below the 2009-2010 level of \$164.3 million. This lower collection is primarily due to the one-time sale of bonds (\$92.5 million) and commercial paper proceeds (\$11.7 million) that occurred in 2009-2010. The bond sale and commercial paper proceeds were used to fund a loan to the San Jose Redevelopment Agency (SJRA) for the Supplemental Education Revenue Augmentation Fund (SERAF) payment and to repay the Department's Line of Credit. With the possible dissolution of redevelopment agencies throughout the State as a result of Assembly Bills XI 26 & 27 that were signed by the Governor, 20% tax increment revenues may be pledged to existing obligations. If the redevelopment agencies do dissolve, the Department will need to rebalance the fund by potentially eliminating positions, shifting program costs to other Housing funds, and reducing non-personal/equipment funding for projects. The Department is not recommending making any adjustments to the fund at this time because the California Supreme Court granted a Stay pending the Court's ruling on the dissolution of redevelopment agencies throughout the State. In compliance with the Stay, the Department has suspended all new activities. The Court is expected to make a decision on the dissolution of redevelopment agencies by January 15, 2012.

Expenditure Performance

In 2010-2011, total expenditures of \$105.7 million were \$3.6 million or 3.3% below the modified budget. The expenditures were primarily attributed to the Multi-Family Loans and Grants appropriation (\$51.6 million), debt service payment (\$25.4 million), loan to the SJRA for the SERAF payment (\$12.8 million), Housing Department Personal Services (\$7.0 million), and the Rehabilitation Loan Program (\$2.7 million).

**2010-2011  
ANNUAL REPORT**

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**LOW AND MODERATE INCOME HOUSING FUND (CONT'D.)**

Expenditure Performance (Cont'd.)

It should be noted that expenditures in this fund were 45.9% below the 2009-2010 level of \$195.4 million primarily due to the decreased loan to SJRA (\$39.2 million), a line of credit payment (\$47.5 million) that occurred in 2009-2010, and decreased expenditures in the Multi-Family Loans and Grants appropriation (\$5.6 million).

In January 2011, Governor Brown announced his plan to balance the State's 2011-2012 budget, which included the dissolution of redevelopment agencies throughout the State. The news raised concerns about the overall health and the future of this fund; therefore, activities in many affordable housing programs were delayed halfway through the fiscal year in an effort to pace spending in this fund.

The variance between budgeted and actual expenditures was caused primarily by the following projects with significant expenditure savings:

- The Debt Service Payment appropriation generated savings of \$1.2 million as a result of a reduction in debt service owed due to the refinancing of the bonds in the fund.
- The Housing Department's Personal Services appropriation generated savings of \$376,000 as a result of position vacancies. The expenditure savings will revert to the Ending Fund Balance.
- The Commercial Paper Debt Service Payment appropriation generated savings of \$352,000 due to lower interest payments which resulted from a lower than projected principal amount of commercial paper debt. Additional commercial paper to fund the SERAF loan was not issued because the fund had savings from various housing projects to support the loan, therefore, creating a lower principal amount. The savings in this appropriation were anticipated during the development of the 2011-2012 Adopted Budget and were programmed into the 2011-2012 Beginning Fund Balance.
- The Multi-Family Loans and Grants appropriation generated savings of \$311,000 as a result of limitations on spending for affordable housing projects during the year. The savings in this appropriation will revert to the Ending Fund Balance.
- The Second Mortgage Loan Commitment Program generated savings of \$250,000 as a result of shifting this program from the Low and Moderate Income Housing Fund to the Home Investment Partnership Program Fund in order to create savings in this fund. The expenditure savings in this appropriation were anticipated during the development of the 2011-2012 Adopted Budget and was programmed into the 2011-2012 Beginning Fund Balance.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**LOW AND MODERATE INCOME HOUSING FUND (CONT'D.)**

Expenditure Performance (Cont'd.)

- The Loan Management appropriation provides funding for the acquisition of properties that have loans that are at risk to default. Fortunately, these funds did not have to be used in 2010-2011. The unexpended funds of \$220,000 will revert to the Ending Fund Balance.
- The Housing Predevelopment Activity appropriation provides funding to assist housing developers with funds necessary to explore the feasibility of a proposed housing project. Since there was very limited redevelopment funds available for new project commitments, no new predevelopment loans were being approved. The savings of \$200,000 in this appropriation will revert to the Ending Fund Balance.

The remaining variance (\$676,000) reflects unexpended funds in a number of projects with balances of less than \$200,000.

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$112,712	\$11,230	\$9,896	(\$1,334)	\$0	(\$1,334)	(1.2%)

The 2010-2011 Ending Fund Balance of \$9.9 million was \$1.3 million below the estimate used to develop the 2011-2012 Adopted Budget as a result of lower than estimated revenue levels, partially offset by lower than estimated expenditure levels. This lower ending fund balance would create a negative unrestricted ending fund balance in 2011-2012. In an effort to generate expenditure savings as a result of the possible dissolution of redevelopment agencies throughout the State and have a positive ending fund balance, a recommendation to reduce the budget for the Kings Crossing Housing project by \$1.8 million is included in this report. A corresponding recommendation to shift these project costs to the Home Investment Partnership Program Fund is also included. With this adjustment, the 2011-2012 ending fund balance will be \$1.7 million.

Per direction from the City Council-approved Mayor's June Budget Message for Fiscal Year 2011-2012, a complete retirement contributions and unemployment insurance reconciliation was to be performed based on final actions approved as part of the 2011-2012 Adopted Budget as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document. Based on these reconciliations, actions to decrease personal services appropriations totaling \$79,628 in this fund and increase Ending Fund Balance are recommended elsewhere in this document. In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$165,554

**2010-2011  
ANNUAL REPORT**

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**LOW AND MODERATE INCOME HOUSING FUND (CONT'D.)**

for this fund is set aside in a Transfer appropriation to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balance. If, however, it is determined that this additional contribution is not necessary, it will be the Administration's intention to return to the City Council with recommendations to allocate the set aside fund to the 2011-2012 Ending Fund Balance.

<b>2010 - 2011 ANNUAL REPORT</b>
--------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

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

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$51,858	\$49,293	(\$2,565)	(4.9%)
Expenditures	\$101,979	\$70,392	\$31,587	31.0%

Revenue Performance

In 2010-2011, revenues totaled \$49.3 million and were generated primarily from Transfers from the Sewer Service and Use Charge Fund (\$26.8 million) and the Sewage Treatment Plant Connection Fee Fund (\$3.1 million); Federal Government Grants (\$5.2 million); and contributions from the Tributary Agencies for Equipment and Projects (\$9.6 million) and debt service payments (\$2.6 million). This revenue level was \$2.6 million (4.9%) below the budgeted estimate, primarily due to lower than budgeted contributions from the Tributary Agencies (\$1.4 million), and delays in the receipt of grants from the U.S. Bureau of Reclamation (\$1.1 million). Contributions from the Tributary Agencies reflect the true cost of these Agencies' share of projects and equipment. Fluctuations in this revenue stream can be the result of billing cycles, project timing, and actual versus budgeted project costs.

The 2010-2011 collection level was \$2.4 million (4.6%) below the 2009-2010 level of \$51.7 million due primarily to the fact that 2009-2010 revenues included a one-time \$4.2 million transfer from the Sewer Revenue Bond Payment Fund. Excluding this one-time transfer, 2010-2011 revenues were \$1.8 million higher than 2009-2010, due primarily to the receipt of grants from the U.S. Bureau of Reclamation (\$4.2 million) and a contribution from the Santa Clara Valley Water District for the construction on the Advanced Water Treatment Facility (\$1.0 million), partially offset by a lower transfer from the Sewer Service and Use Charge Fund (\$1.9 million), lower interest earnings (\$1.0 million), and lower contributions from the Tributary Agencies for these Agencies' share of projects and debt service payments (\$419,000).

Expenditure Performance

In 2010-2011, expenditures of \$70.4 million were attributed to capital improvement projects (\$59.0 million) and debt payments (\$11.4 million). The largest projects included Plant Electrical Reliability (\$14.9 million), the Revised South Bay Action Plan – South Bay Water Recycling (SBWR) Extension (\$18.1 million), Plant Infrastructure Improvements (\$5.2 million), SBWR Reservoir Facility (\$5.1 million), Recovery Act – South Bay Water Recycling Phase IC (\$4.3 million), and Plant Master Plan (\$3.2 million). This expenditure level was \$31.6 million (31.0%) below budget. Projects with the largest amounts of unused funding at the end of 2010-2011 included Plant Infrastructure Improvements (\$6.9 million), Headworks Enhancement (\$3.9 million), Secondary and Nitrification Clarifier Rehabilitation (\$2.9 million), Digester Rehabilitation (\$2.5 million), and Equipment Replacement



<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**SAN JOSE/SANTA CLARA TREATMENT PLANT CAPITAL FUND (CONT'D.)**

Expenditure Performance (Cont'd.)

(\$2.5 million). Of the \$31.6 million in savings, \$17.1 million was rebudgeted for use in 2011-2012 as part of the 2011-2012 Adopted Capital Budget. In addition to this, this document recommends a rebudget of \$3.0 million dollars for the continuation of several projects as described elsewhere in this report. Expenditures in this fund were 0.6% (\$453,000) higher than the 2009-2010 level of \$69.9 million.

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$165,512	\$81,943	\$93,156	\$11,213	\$2,978	\$8,235	5.0%

The 2010-2011 Ending Fund Balance of \$93.2 million was \$11.2 million above the estimate used to develop the 2011-2012 Adopted Budget. This variance was due to lower than estimated project expenditures (\$12.1 million), partially offset by lower than estimated revenues (\$899,000). Of this Ending Fund Balance, \$3.0 million is recommended to be rebudgeted as part of this report for the continuation of projects. The remaining fund balance of \$8.2 million is recommended to be allocated to the 2011-2012 Ending Fund Balance and would 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 recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$58,311 for this fund is set aside in a Transfer appropriation to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balance. If, however, it is determined that this additional contribution is not necessary, it will be the Administration’s intention to return to the City Council with recommendations to allocate the set aside fund to the 2011-2012 Ending Fund Balance.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

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

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$203,402	\$206,552	\$3,150	1.5%
Expenditures	\$207,667	\$200,285	\$7,382	3.6%

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 2010-2011, gross revenues in these funds totaled \$206.6 million and were generated primarily from Sewer Service and Use Charges for Residential (\$99.8 million), Commercial (\$18.9 million), and Industrial (\$4.8 million) users; Contributions from Tributary Agencies (\$25.9 million); and sales of Recycled Water (\$2.5 million). Revenue collections ended the year slightly (1.5%) above budget, primarily due to higher than expected collections of Sewer Service and Use Charges from Industrial (\$1.5 million) and Residential (\$561,000) users, higher than budgeted contributions from the Tributary Agencies for their share of Plant operating costs (\$1.8 million), and Connection Fee revenues (\$771,000), partially offset by lower than budgeted revenues from Sewer Service and Use Charges (\$884,000) from Commercial users. The 2010-2011 combined revenue level was also \$12.4 million (6.4%) above the 2009-2010 level of \$194.2 million primarily due to a 6% rate increase that was approved for the Sewer Service and Use Charge in 2010-2011.

Expenditure Performance

In 2010-2011, gross expenditures of \$200.3 million were primarily attributed to Transfers from the Sewer Service and Use Charge Fund to the Treatment Plant Operating Fund (\$51.0 million), Treatment Plant Capital Fund (\$26.8 million), and Sewer Service and Use Charge Capital Fund (\$15.6 million); Environmental Services Department (ESD) personal services (\$37.7 million) and non-personal/equipment (\$31.7 million); General Fund Overhead reimbursements (\$11.1 million); and Transportation Department personal services (\$8.4 million) and non-personal/equipment (\$4.4 million) costs. Expenditures ended the year \$7.4 million (3.6%) below budget due primarily to lower than budgeted ESD personal services (\$2.9 million) and non-personal/equipment (\$1.2 million), Worker's Compensation (\$691,000), and Major Litigation (\$600,000) expenditures.

In 2010-2011, expenditures were 3.2% (\$6.6 million) below the 2009-2010 level of \$206.9 million due primarily to lower ESD personal services (\$3.6 million) and non-personal/equipment (\$1.4 million), and Transportation Department personal services (\$1.1 million) expenditures.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**SAN JOSE/SANTA CLARA TREATMENT PLANT OPERATING FUNDS  
(CONT'D.)**

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$262,672	\$62,682	\$69,864	\$7,182	\$0	\$7,182	2.7%

The 2010-2011 Ending Fund Balance of \$69.9 million was \$7.2 million above the estimate used to develop the 2011-2012 Adopted Budget. This variance was due to lower than anticipated expenditures. The remaining fund balance of \$7.2 million is recommended to be allocated to the 2011-2012 Ending Fund Balance to be available for future use. Per direction from the City Council-approved Mayor's June Budget Message for Fiscal Year 2011-2012, a complete retirement contributions and unemployment insurance reconciliation was to be performed based on final actions approved as part of the 2011-2012 Adopted Budget as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document. Based on these reconciliations, actions to decrease personal services appropriations totaling \$670,744 in these funds and increase Ending Fund Balances are recommended elsewhere in this document. In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$985,098 for these funds are set aside in Transfer appropriations to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balances. If, however, it is determined that this additional contribution is not necessary, it will be the Administration's intention to return to the City Council with recommendations to allocate the set aside funds to the 2011-2012 Ending Fund Balances.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**SANITARY SEWER CAPITAL PROGRAM**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$17,177	\$17,877	\$700	4.1%
Expenditures	\$63,146	\$27,408	\$35,738	56.6%

Revenue Performance

The Sanitary Sewer Capital Program includes the Sewer Service and Use Charge Capital Fund and the Sanitary Sewer Connection Fee Fund. In 2010-2011, revenues totaled \$17.9 million and were generated from a Transfer from the Sewer Service and Use Charge Fund (\$15.6 million), a settlement for the Highway 87 Detour II Sanitary Sewer Reconstruction Phase II project (\$1.2 million), Connection Fees (\$546,000), interest earnings (\$408,000), and joint participation (\$121,000).

In total, 2010-2011 revenues ended the year \$700,000 above the budgeted estimate due to unexpected revenues (\$1.2 million) from a settlement for the Highway 87 Detour II Sanitary Sewer Reconstruction Phase II project, as well as higher than expected Connection Fee Revenue (\$196,000), partially offset by lower than expected interest income (\$360,000) and Joint Participation revenue (\$362,000). Connection Fee revenue ended the year 56% above the budgeted estimate due to the conversion of a large facility in North San José from office space to mixed use commercial-residential requiring additional sewer facilities. However, the 2010-2011 Connection Fee collection revenue of \$546,000 still fell far short in comparison to historical levels. For the five years prior to 2008-2009, average collections were slightly above \$1.0 million per year. 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.

The 2010-2011 collection level was \$11.7 million (39.7%) below the 2009-2010 level of \$29.5 million due primarily to one-time transfers and payments that took place in 2009-2010. A transfer from the Building and Structure Construction Tax Fund (\$6.0 million) due to a short-term loan and revenue from Caltrans for portions of the Highway 87 and San José Sanitary Sewer Phase II projects (\$3.0 million) were both received in 2009-2010. In addition, the 2010-2011 transfer from the Sewer Service and Use Charge Fund was \$1.7 million below the 2009-2010 level, and interest earnings were also significantly lower (\$868,000) due to lower interest rates.

Expenditure Performance

In 2010-2011, expenditures totaled \$27.4 million. The largest projects in this program, with over \$1.0 million in expenditures each, included Miscellaneous Rehabilitation Projects (\$5.9 million) including the Balsa-Husted, Lariat Lane, Padres Drive, Perie Lane, Dorel Drive, Emory Street, and Ashburton Drive Sanitary Sewer Rehabilitation projects, the Spreckles Force Main Supplement, and the East San

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**SANITARY SEWER CAPITAL PROGRAM (CONT'D.)**

Expenditure Performance (Cont'd.)

José Miscellaneous Department of Transportation Sanitary Sewer Repairs; Inflow and Infiltration Reduction (\$3.3 million); Miscellaneous Projects (\$3.2 million) including projects located in Japan Town, on Husted Avenue and Richland Avenue, Lower Bird Avenue, Chant Court and Kollmar Drive, Blossom Hill Area, Parkmoor Avenue and Meridian Avenue, Westgate Avenue, and Echo Valley; 60" Brick Interceptor, Phase VIA & VIB (\$2.5 million); Morrill Avenue/Sierra Road Sanitary Sewer Improvement (\$1.2 million); and Sanitary Sewer Condition Assessments, Phase II (\$1.0 million). The 2010-2011 expenditures ended the year 56.6% (\$35.7 million) below the budgeted level of \$63.1 million. This variance was primarily due to project timing. Projects with the largest savings include the 30" Old Bayshore Supplement (\$4.1 million), Spreckles Sanitary Sewer Force Main Supplement (\$4.0 million), Almaden Expressway Sanitary Sewer (\$3.0 million), Coleman Road Sanitary Sewer Supplement (\$2.9 million), Fourth Major Interceptor, Phase IIB (\$2.6 million), Minnesota Avenue Sanitary Sewer Improvements (\$1.6 million), and Lamplighter Relief Pump Station Force Main (\$1.4 million). Funding is available for the continuation of all these projects in 2011-2012, with the exception of the Lamplighter Relief Pump Station Force Main, continuation of which has been deferred to 2012-2013 to allow staff to focus on more urgent projects. Of the \$35.7 million expenditure variance, \$27.6 million was rebudgeted as part of the 2011-2012 Adopted Capital Budget for future project expenditures, and an additional \$2.6 million is recommended to be rebudgeted as part of this document, thereby reducing the expenditure variance to \$5.5 million or 8.7%.

Expenditures in this fund were 3.4% below the 2009-2010 level of \$28.4 million. This variance reflects a transfer of \$6.0 million due to a short-term loan to the Building and Construction Tax Fund, which took place in 2009-2010, partially offset by slightly higher project spending in 2010-2011.

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$105,694	\$72,795	\$79,518	\$6,723	\$2,627	\$4,096	3.9%

The 2010-2011 Ending Fund Balance of \$79.5 million was \$6.7 million above the estimate used to develop the 2011-2012 Adopted Budget. This variance was due to lower than expected expenditures (\$7.2 million), partially offset by lower than expected revenues (\$531,000). This document recommends rebudgets of \$2.6 million for a number of projects, as described elsewhere in this document. The remaining fund balance of \$4.1 million is recommended to be allocated to the 2011-2012 Ending Fund Balance and would be available for future use.

**2010-2011  
ANNUAL REPORT**

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**SANITARY SEWER CAPITAL PROGRAM (CONT'D.)**

As described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$78,791 for this fund is set aside in a Transfer appropriation to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balance. If, however, it is determined that this additional contribution is not necessary, it will be the Administration's intention to return to the City Council with recommendations to allocate the set aside fund to the 2011-2012 Ending Fund Balance.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**STORM SEWER CAPITAL PROGRAM**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$10,572	\$10,545	(\$27)	(0.3%)
Expenditures	\$14,434	\$6,290	\$8,144	56.4%

Revenue Performance

In 2010-2011, revenues totaled approximately \$10.5 million and were generated primarily from a Transfer from the Storm Sewer Operating Fund (\$10.4 million), and Storm Drainage Fees (\$137,000). 2010-2011 revenues came in slightly below the budget estimate by \$27,000 due to lower than budgeted interest earnings (\$64,000), partially offset by higher than budgeted Storm Drainage Fees (\$37,000).

This 2010-2011 collection level was \$4.6 million (78.0%) above the 2009-2010 level of \$5.9 million due primarily to a higher transfer from the Storm Sewer Operating Fund (\$4.6 million). Storm Drainage Fee revenue increased by \$41,000 (43.1%) to \$137,000, but still remains far below pre-2008-2009 levels. The average annual collection of this fee for the five years starting in 2004-2005 was \$335,000.

Expenditure Performance

In 2010-2011, expenditures totaled \$6.3 million. Major projects contributing to this expenditure level were Storm Pump Station Rehab & Replacements (\$2.6 million), Creek Channel Stabilization (\$538,000), Outfall Rehabilitation – Capital (\$397,000), Storm Sewer Master Plan - City-wide (\$356,000), and Minor Neighborhood Storm Drain Improvements (\$312,000).

This expenditure level was \$8.1 million (56.4%) below the modified budget due primarily to unexpended funds associated with the Alviso Storm Drain Rehabilitation (\$1.6 million), Storm Pump Station Rehab & Replacements (\$1.0 million), Storm Drainage Improvements – Special Corridors (\$842,000), Miscellaneous Projects (\$774,000), Storm Sewer Master Plan - City-wide (\$644,000), Minor Neighborhood Storm Drain Improvements (\$637,000), and Storm Sewer Master Plan – North San José (\$513,000). Expenditures related to these projects were delayed because of the selection process and contracting for master planning consultants and because of significant staff turn-over related to the bumping process in 2010-2011. This document includes a recommendation to rebudget \$950,000 to complete several projects, as described in the Ending Fund Balance Performance section below. These rebudgets, combined with rebudgets totaling \$4.8 million approved as part of the 2011-2012 Adopted Budget, bring the expenditure variance to \$2.4 million, or 16.6% of the Modified 2010-2011 budget.

Expenditures in this program were 70.3% or \$2.6 million above the 2009-2010 level of \$3.7 million due primarily to greater spending on the Storm Pump Station Rehab & Replacements (\$1.8 million), and Creek Channel Stabilization (\$534,000).

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**STORM SEWER CAPITAL PROGRAM (CONT'D.)**

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$16,850	\$9,405	\$10,692	\$1,287	\$1,250	\$37	0.0%

The 2010-2011 Ending Fund Balance of \$10.7 million was \$1.3 million above the estimate used to develop the 2011-2012 Adopted Budget. This variance was principally due to the lower than expected expenditures in Storm Pump Station Replacement (\$400,000), Rincon Storm System Study (\$100,000), and Storm Sewer Master Plan – North San José (\$413,000) projects, as well as the Reserve for Storm Sewer Capital Improvements, which was expected to be used for projects but was not expended.

It is recommended that \$1,250,000 of the additional fund balance be allocated to rebudget funds for the continuation of several projects, including Storm Sewer Master Plan – North San José (\$413,000), Storm Pump Station Rehabilitation and Replacement (\$390,000), Rincon Storm System Study (\$100,000), and the Reserve for Storm Sewer Capital Improvements (\$300,000). The remaining fund balance of \$37,000 is recommended to be allocated to the 2011-2012 Ending Fund Balance and would 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 recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$27,083 for this fund is set aside in a Transfer appropriation to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balance. If, however, it is determined that this additional contribution is not necessary, it will be the Administration’s intention to return to the City Council with recommendations to allocate the set aside fund to the 2011-2012 Ending Fund Balance.



<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**STORM SEWER OPERATING FUND**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$30,421	\$30,853	\$432	1.4%
Expenditures	\$36,924	\$33,178	\$3,746	10.1%

Revenue Performance

In 2010-2011, revenues totaled \$30.9 million and were generated primarily by Storm Sewer Service Fee assessments (\$30.7 million) and interest earnings (\$80,000). The favorable variance to budget was mainly driven by higher than expected assessments of Storm Sewer Service Charges (\$496,000), partially offset by lower than budgeted interest earnings (\$70,000).

The 2010-2011 revenue level was \$191,000 (0.6%) above the 2009-2010 level of \$30.7 million primarily due to higher assessments (\$198,000) and a 2010-2011 transfer from the General Fund for Retiree Healthcare (\$50,000), partially offset by lower interest income (\$52,000).

Expenditure Performance

Expenditures in this fund are focused primarily on maintenance and operation of the Storm Sewer System and stormwater pollution reduction. In 2010-2011, expenditures of \$33.2 million consisted primarily of a Transfer to the Storm Sewer Capital Fund (\$10.4 million), Environmental Services Department (ESD) Personal Services (\$5.0 million) and Non-Personal/ Equipment (\$3.2 million), Transportation Department Personal Services (\$4.8 million) and Non-Personal/Equipment (\$2.1 million), Overhead Reimbursements (\$2.5 million), Yard Trimmings/Street Sweeping (\$1.6 million), and an early repayment of the IBS Commercial Paper (\$1.0 million).

This spending level was \$3.7 million (10.1%) below the modified budget. Savings occurred across all appropriations. The most significant savings were in ESD Non-Personal/Equipment appropriation (\$2.7 million) and Transportation Department Non-Personal/Equipment appropriation (\$530,000). Savings in ESD Non-Personal/Equipment appropriation were primarily due to delays in the implementation of the trash reduction initiative. These delays resulted from staffing vacancies in the Stormwater Management section of the Wastewatershed Division, staffing constraints in partner departments, and delays in securing the geotechnical engineering services required to support the installation of structural trash controls. In addition, several program efforts were conducted at a lower cost than estimated due to the rescoping of work or leveraging of efforts with other programs. For example, substantial savings were realized by combining rate increase notices for the Storm Sewer Service Charges with the notices for the Recycle Plus Rates. Of the total ESD Non-Personal/Equipment savings, \$1.8 million was rebudgeted as part of the 2011-2012 Adopted Budget for the purchase and installation of structural trash controls for the storm

<b>2010 - 2011 ANNUAL REPORT</b>
--------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**STORM SEWER OPERATING FUND (CONT'D.)**

Expenditure Performance (Cont'd.)

sewer system (\$1.7 million), and integrated pest management projects (\$100,000). Savings in the Transportation Department Non-Personal/Equipment appropriation were primarily due to a milder storm season resulting in fewer storm maintenance needs than compared to the previous year.

Expenditures in this fund were \$7.0 million (26.7%) above the 2009-2010 level of \$26.2 million due primarily to an increase in the Transfer to the Storm Sewer Capital Fund (\$4.6 million), the early repayment of IBS Commercial Paper in 2010-2011 (\$838,000), contractual increases in the Yard Trimmings/Street Sweeping contract (\$600,000), and higher spending in the Environmental Services Department Personal Services appropriation (\$574,000). The higher ESD Personal Services spending was due to higher 2010-2011 per-employee costs, mainly as a result of increased retirement rates, the addition of a temporary position to assist with trash reduction program oversight, and the filling of several positions that had been vacant in 2009-2010.

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$47,654	\$13,750	\$15,110	\$1,360	\$0	\$1,360	2.9%

The 2010-2011 Ending Fund Balance of \$15.1 million was \$1.4 million above the estimate used to develop the 2011-2012 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 2011-2012 Ending Fund Balance for future use, and to offset future rate increases needed to maintain the aging storm sewer infrastructure. Per direction from the City Council-approved Mayor's June Budget Message for Fiscal Year 2011-2012, a complete retirement contributions and unemployment insurance reconciliation was to be performed based on final actions approved as part of the 2011-2012 Adopted Budget as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document. Based on these reconciliations, actions to decrease personal services appropriations totaling \$149,949 in this fund and increase Ending Fund Balance are recommended elsewhere in this document. In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$217,849 for this fund is set aside in a Transfer appropriation to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balance. If, however, it is determined that this additional contribution is not necessary, it will be the Administration's intention to return to the City Council with recommendations to allocate the set aside fund to the 2011-2012 Ending Fund Balance.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**TRANSIENT OCCUPANCY TAX FUND**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$10,030	\$10,914	\$884	8.8%
Expenditures	\$12,156	\$10,638	\$1,518	12.5%

Revenue Performance

The 2010-2011 budgeted revenue estimate assumed a decline of approximately 3.1% from the 2009-2010 level. However, actual Transient Occupancy Tax (TOT) revenues of \$10.9 million ended the year 5.1% above 2009-2010 actual revenue collections and 8.8% (\$884,000) above the modified budget. The higher than budgeted 2010-2011 revenue is primarily due to the average occupancy rate for the City's 14 largest hotels climbing from 55.9% to 59.8% and a \$4 increase in the average room rate for the same set of hotels (from \$117 to \$121). A portion of the higher than budgeted revenues (\$589,000) were anticipated in the development of the 2011-2012 Adopted Budget, and were placed in a Reserve for Future Distribution. It was anticipated that, contingent upon the actual receipt of these revenues, this reserve would be distributed as part of the 2010-2011 Annual Report according to the City Council-approved formula. Because above-budgeted revenue actually was received in 2010-2011, recommendations for distributing these funds are contained elsewhere in this report.

Expenditure Performance

By ordinance, the TOT Fund tax revenue is split 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 included the Cultural Grants, Cultural Grants Administration, and Office of Cultural Affairs Relocation appropriations. When compared to the Modified Budget, savings in the Cultural Development category of approximately \$1.5 million were realized and the majority of these savings (\$1.35 million) were anticipated and rebudgeted or reallocated as part of the approval of the 2011-2012 Adopted Operating Budget. At year-end, after accounting for funds previously rebudgeted or reallocated, additional savings of \$169,000 in the Cultural Development category were realized in the Office of Cultural Affairs Relocation (\$85,000), Cultural Grants Administration (\$59,000), and Cultural Grants (\$25,000) appropriations. Savings from these three appropriations are recommended to be rebudgeted into the Cultural Grants appropriation in this report.

**2010-2011  
ANNUAL REPORT**

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**TRANSIENT OCCUPANCY TAX FUND (CONT'D.)**

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$13,592	\$3,375	\$3,840	\$465	(\$169)	\$296	2.2%

The 2010-2011 Ending Fund Balance of \$3.8 million was \$465,000 above the estimate used to develop the 2011-2012 Adopted Budget. This variance was due primarily to higher than anticipated TOT receipts (\$283,000), interest earnings (\$13,000), and lower than anticipated expenditures of \$169,000 in the Cultural Development category. Recommendations are included elsewhere in this document to rebudget the savings in the Cultural Development category and distribute the higher than anticipated TOT receipts (\$283,000) and Reserve for Future Distribution appropriation (\$589,000) among the three categories according to the City Council approved distribution formula as follows: Cultural Development (\$218,000), Convention and Visitor's Bureau (\$218,000), and Transfer to the Convention and Cultural Affairs Fund (\$436,000).

Per direction from the City Council-approved Mayor's June Budget Message for Fiscal Year 2011-2012, a complete retirement contributions and unemployment insurance reconciliation was to be performed based on final actions approved as part of the 2011-2012 Adopted Budget as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document. Based on these reconciliations, actions to decrease personal services appropriations totaling \$11,905 in this fund and increase the Cultural Grants allocation are recommended elsewhere in this document. In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$10,446 for this fund is set aside in a Transfer appropriation to the Federated Retirement System with an offset to the Cultural Grants allocation. If, however, it is determined that this additional contribution is not necessary, it will be the Administration's intention to return to the City Council with recommendations to allocate the set aside fund to the Cultural Grants allocation.

<b>2010 - 2011 ANNUAL REPORT</b>
--------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**WATER UTILITY CAPITAL PROGRAM**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$4,209	\$4,111	(\$98)	(2.3%)
Expenditures	\$5,750	\$3,732	\$2,018	35.1%

Revenue Performance

In 2010-2011, revenues totaled \$4.1 million and were generated primarily from a Transfer from the Water Utility Fund (\$3.5 million) and fees paid by developers for direct services (\$599,000). The fees consist of Major Facilities Fees (\$428,000), Service Connection Fees (\$60,000), Meter Installation Fees (\$58,000), and Advance System Design Fees (\$53,000). Service Connection Fees, which are charged for small scale service connections to the water utility system, ended the year \$115,000 (65.6%) below budget due to lower than expected levels of this type of connection activity. All other fee revenues in this program ended the year slightly above budget.

The developer fee revenues ended the year well above 2009-2010 levels. Major Facilities Fees were \$389,000 above the 2009-2010 level of \$39,000 due to the conversion of a large facility in North San José from office space to mixed use commercial-residential requiring additional water facilities. Meter Installation Fees ended the year \$49,000 above 2009-2010 levels, Advanced System Design Fees ended the year \$44,000 above 2009-2010 levels, and Service Connection Fees ended the year \$12,000 above 2009-2010 levels, reflecting greater demand for installation or upgrade of water services, increased development activity, and new services for small scale connections to the Municipal Water System.

Expenditure Performance

In 2010-2011, expenditures totaled \$3.7 million. Major projects in this program included the Infrastructure Replacements (\$699,000), Service Installation (\$627,000), Castleton Drive Main Replacement (\$558,000), and System Maintenance and Repairs (\$384,000). Also contributing to this expenditure level was the repayment of a loan from the Sewage Treatment Plant Connection Fee Fund (\$1.0 million). Of this loan, \$1.2 million is outstanding as of June 30, 2011.

Expenditures were \$2.0 million (35.1%) below budget due primarily to savings or delays in the following projects: Nortech Parkway East Loop Main (\$658,000), Castleton Drive Main Replacement Project (\$332,000), Service Connections (\$243,000), System Maintenance and Repairs (\$176,000), North Coyote Valley Water System (\$168,000), and Water Valve Rehabilitation (\$100,000).

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**WATER UTILITY CAPITAL PROGRAM (CONT'D.)**

Expenditure Performance (Cont'd.)

Expenditures for 2010-2011 in this fund were 20.3% above the 2009-2010 level of \$3.1 million due primarily to work on the Castleton Drive Main Replacement Project (\$553,000), Infrastructure Replacement (\$329,000), and an increase in the Sewage Treatment Plant Connection Fee Fund loan repayment amount (\$300,000).

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$11,682	\$6,731	\$7,941	\$1,210	\$0	\$1,210	10.4%

The 2010-2011 Ending Fund Balance of \$7.9 million was \$1.2 million above the estimate used to develop the 2010-2011 Adopted Budget. This variance was primarily due to lower than estimated project expenditures (\$736,000) and higher than estimated fee revenues (\$474,000). The remaining fund balance of \$1.2 million is recommended to be allocated to the 2011-2012 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 recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$7,913 for these funds are set aside in Transfer appropriations to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balances. If, however, it is determined that this additional contribution is not necessary, it will be the Administration’s intention to return to the City Council with recommendations to allocate the set aside funds to the 2011-2012 Ending Fund Balances.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**WATER UTILITY OPERATING FUND**

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

	2010-2011 Budget	2010-2011 Actuals	Variance	% Variance
Revenues	\$26,901	\$25,463	(\$1,438)	(5.3%)
Expenditures	\$27,133	\$24,934	\$2,199	8.1%

Revenue Performance

In 2010-2011, revenues totaled \$25.5 million and were generated from potable and recycled water sales (\$25.3 million), late fees (\$110,000), interest earnings (\$31,000), and a transfer from the General Fund (\$20,000). The revenues from potable water sales came in under budget by \$1.5 million or 5.3%. This shortfall was the result of a 5.7% decrease in water sales from the prior year. The lower sales were driven mainly by a wetter than average winter and cooler than normal spring, the continued impact of the economic downturn, and the continuing effects of a county-wide call for water conservation to address three consecutive years of drought. Also impacting revenue collections was a one-time \$240,000 write-off of uncollectible accounts.

The 2010-2011 collection level was \$753,000 (3.0%) over the 2009-2010 level of \$24.7 million, due to a 3.75% rate increase, partially offset by lower water usage due to cooler weather and the wetter than average winter, the economic downturn, and voluntary rationing.

Expenditure Performance

In 2010-2011, expenditures of \$24.9 million were primarily for potable wholesale water purchases (\$13.8 million), a transfer to the Water Utility Capital Fund (\$3.5 million), Environmental Services Department Personal Services (\$3.3 million), and other Environmental Services Department Non-Personal/Equipment needs (\$2.0 million). Expenditures ended the year \$2.2 million (8.1%) below budget, primarily due to lower Environmental Services Department Non-Personal/Equipment spending (\$2.1 million). Most of these savings (\$1.7 million) can be attributed to lower than expected wholesale purchases of potable water.

Expenditures in this fund were \$1.1 million (4.6%) above the 2009-2010 level of \$23.8 million due primarily to a higher transfer to the Water Utility Capital Fund (\$611,000), higher potable water costs (\$241,000), and a \$170,000 transfer of late fees to the General Fund approved by the City Council as part of the 2010-2011 Midyear Budget Review after a reconciliation of fees received over several years.

<b>2010-2011 ANNUAL REPORT</b>
------------------------------------

**PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS**

**WATER UTILITY OPERATING FUND (CONT'D.)**

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

2010-2011 Modified Budget	2010-2011 Estimated Ending Fund Balance	2010-2011 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance (incl. Rebudget Adj.)
\$33,448	\$6,100	\$7,265	\$1,165	\$0	\$1,165	3.5%

The 2010-2011 Ending Fund Balance of \$7.3 million was approximately \$1.2 million above the estimate used to develop the 2011-2012 Adopted Budget. This variance was primarily due to lower than estimated expenditure levels (\$1.4 million), partially offset by lower than estimated revenue levels (\$207,000). No rebudgets are recommended for this fund as part of this document, and the remaining fund balance of \$1.2 million is recommended to be allocated to the 2011-2012 Ending Fund Balance to be available for future use.

Per direction from the City Council-approved Mayor's June Budget Message for Fiscal Year 2011-2012, a complete retirement contributions and unemployment insurance reconciliation was to be performed based on final actions approved as part of the 2011-2012 Adopted Budget as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document. Based on these reconciliations, actions to decrease personal services appropriations totaling \$45,192 in this fund and increase Ending Fund Balance are recommended elsewhere in this document. In addition, as described in further detail in Section IV – Recommended Budget Adjustments and Clean-Up Actions section of this document, this report includes recommendations to set aside an additional potential Annual Required Contribution to the Federated Retirement System. The potential amount of \$72,828 for this fund is set aside in a Transfer appropriation to the Federated Retirement System with an offset from the 2011-2012 Ending Fund Balance. If, however, it is determined that this additional contribution is not necessary, it will be the Administration's intention to return to the City Council with recommendations to allocate the set aside fund to the 2011-2012 Ending Fund Balance.



**PAGE IS INTENTIONALLY LEFT BLANK**