



2011-2012

MID-YEAR
BUDGET
REVIEW



SECTION

II

**SELECTED SPECIAL/
CAPITAL FUNDS
STATUS REPORT**



**2011-2012
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Section II**

II. SELECTED SPECIAL/CAPITAL FUNDS STATUS REPORT

At mid-year, the City Manager's Budget Office conducts a comprehensive review of expenditure and revenue performance of all operating and capital funds and capital programs through the first six months of the fiscal year. Revenues and expenditures are generally tracking within estimated levels. This section of the report is intended to summarize the results of that review and only discusses selected funds with issues of interest or variances. It should be noted that the Mid-Year Budget Review previously included a discussion of each capital program. However, beginning in 2011-2012, discussion will be focused on the performance of selected capital funds and its associated capital program, as appropriate.

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STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

Airport Operating Funds Overview

Airport Activity

The 2011-2012 Adopted Budget was based on a projection of an approximate 2% increase in passenger activity levels. The increase was based both on activity trends in 2010-2011 and projected flight schedules. Activity at the Norman Y. Mineta San José International Airport (SJC) through December 2011 is tracking lower than projected as activity is 0.7% less than the same period a year ago.

Operations at the Airport (landings and takeoffs) decreased by 1.8% as compared to the first six months of last fiscal year with passenger carrier operations declining 1.3%, and cargo carrier activity declining 10.9%. Also, general aviation itinerant, local operations, and military operations decreased by 2.7% from last year, due to the continued closure of the general aviation runway. Parking activity decreased by 12.6% compared to the first six months of 2010-2011.

The Airport will continue to monitor and proactively report on activity levels and associated revenue performance. The following section provides details on the Airport's operating revenues and expenditures

Airport Revenues and Expenditures

Airport operating revenues through December 2011 totaled \$82.9 million, which includes \$24.9 million in reimbursements of eligible Terminal Area Improvement Program (TAIP) expenditures from bond proceeds. These reimbursements will be held in reserve to address potential future budget shortfalls. Regular operating revenues of \$58.0 million are

performing 2.4% higher than the budgeted estimate and 7.7% above the same period last fiscal year.

Terminal Rentals, Parking and Roadway and General & Non-Aviation revenue categories are trending slightly above budgeted levels while Landing Fees, Airfield, and Terminal Concessions are trending slightly below budgeted levels.

Two operating funds exist to provide Airport services: the Airport Maintenance and Operation Fund and the Airport Customer Facilities and Transportation Fee Fund. The Airport Maintenance and Operation Fund provides funding for Personal and Non-Personal/Equipment expenditures associated with Airport operations including, but not limited to, Airport staff, Airport police services, Fire Station 20 aircraft rescue and fire fighting services, interdepartmental charges, and overhead to the General Fund. Airport Maintenance and Operation Fund departmental expenditures through December 2011 are tracking below budgeted levels in Personal and Non-Personal/Equipment categories. Additional information on this fund is included later in this section of the report.

The Airport Customer Facilities and Transportation Fee Fund accounts for costs associated with inter-terminal busing services between the consolidated rental car facility and Terminal A as well as debt service payments for the new rental car facility.

Non-Personal/Equipment costs in the Airport Customer Facilities and Transportation Fee Fund are tracking above estimated levels due to

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Airport Operating Funds Overview

Airport Revenues and Expenditures

Commercial Paper fees required in advance of the approval of long-term debt financing, issued in December 2011. Further adjustments to the

fund will be requested later in the year to reflect the new fee structure for Customer Facility Charges and impacts from the issuance of Airport Revenue Bonds.

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Airport Maintenance and Operation Fund

	2011-2012 Adopted Budget	Change	2011-2012 Current Modified	2011-2012 YTD Actual	2011-2012 % of Budget	2010-2011 % of Budget
<i>Beginning Fund Balance</i>	20,049,190	(347,900)	19,701,290	N/A	N/A	N/A
<i>Carry-over Encumbrance</i>	2,714,363	(1,062,909)	1,651,454	N/A	N/A	N/A
<i>Transfers</i>	83,907,189	0	83,907,189	42,573,650	50.7%	50.1%
TOTAL SOURCES	106,670,742	(1,410,809)	105,259,933	42,573,650		
<i>Expenditures</i>	71,272,921	(3,187,709)	68,085,212	25,760,924	37.8%	38.3%
<i>Transfers</i>	6,391,005	2,655,444	9,046,449	7,477,451	82.7%	74.4%
<i>Reserves</i>	8,295,097	(2,420,097)	5,875,000	N/A	N/A	N/A
<i>Ending Fund Balance – Reserved Per Master Trust Agreement</i>	20,711,719	1,541,553	22,253,272	N/A	N/A	N/A
TOTAL USES	106,670,742	(1,410,809)	105,259,933	33,238,375		

Fund Status

Revenues – Revenues for this fund consist of transfers from the Airport Revenue Fund. The 2011-2012 transfers into the Airport Maintenance and Operation Fund continue to occur as budgeted. No adjustments to the transfer amounts are recommended at this time.

Expenditures – Expenditures in this fund represent operating costs for the Airport, direct charges from various City departments that provide support services to the Airport, and transfers to the General Fund for Police and Fire services. Through December, Airport Personal Services and Non-Personal/Equipment expenditures are tracking below budgeted levels.

Personal Services expenditures are tracking below year-to-date estimates (44.9% compared to par level of 48.5%) as a result of vacancies in the department. Overtime expenditures of \$145,000 are within budgeted levels. Overtime expenditures will be closely monitored for the balance of the fiscal year.

Non-Personal/Equipment expenditures are tracking at 32.1% compared to a benchmark of 43.3% with savings spread across most categories. There are potential savings in utilities, however, fluctuations in prices and loads along with the need to keep building temperatures comfortable require conservative budgeting. The department's efforts to efficiently operate and maintain the facilities while continuing to be fiscally responsible result in effective cost controls.

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Airport Maintenance and Operation Fund

Fund Status

Expenditures

Interdepartmental expenditures (charges for staff and services located in other City departments including the Police and Fire departments) total \$7.9 million through December and are tracking at anticipated levels.

In November 2011 Council approved a plan for the San José Police Department to continue providing Airport law enforcement services at a reduced cost and suspended potential outsourcing of that service. Effective February

1, 2012, the revised staffing model for this service includes 11 sworn positions (one police lieutenant, six police sergeants, and four canine police officers) as permanent staff with additional staffing equivalent to 16 officers provided through overtime.

Fund Balance – Technical adjustments to the Ending Fund Balance in the Airport Maintenance and Operation Fund is recommended to correct the allocation of funds between categories.

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Airport Revenue Fund

	2011-2012 Adopted Budget	Change	2011-2012 Current Modified	2011-2012 YTD Actual	2011-2012 % of Budget	2010-2011 % of Budget
<i>Beginning Fund Balance</i>	24,346,770	10,464,437	34,811,207	N/A	N/A	N/A
<i>Revenues</i>	117,098,583	(732,949)	116,365,634	81,793,828	70.3%	48.1%
<i>Transfers</i>	6,798,849	934,784	7,733,633	1,058,333	13.7%	12.6%
TOTAL SOURCES	148,244,202	10,666,272	158,910,474	82,852,161		
<i>Transfers</i>	143,177,669	201,835	143,379,504	71,246,532	49.7%	48.8%
<i>Reserves</i>	0	0	0	N/A	N/A	N/A
<i>Ending Fund Balance- Reserved per Master Trust Agreement</i>	5,066,533	10,464,437	15,530,970	N/A	N/A	N/A
TOTAL USES	148,244,202	10,666,272	158,910,474	71,246,532		

Fund Status

Revenues – As indicated in the overview, overall revenue collections in the Airport Revenue Fund are tracking higher than the budgeted estimate due to the receipt of \$24.9 million in reimbursement of eligible TAIP expenditures from bond proceeds during the first half of the fiscal year.

Through December, performance of airline rates and charges (Landing Fees and Terminal Rentals) is 1.6% above anticipated levels. Landing Fees are tracking below estimated levels due to reduced flights and are offset by greater than anticipated common use ticket counter and gate revenue in the Terminal Rentals category.

Parking and Roadway revenue are tracking 4.4% greater than estimated primarily due to

increased rental car activity and associated privilege fees offset by public parking revenues which are tracking 5.0% below budgeted estimates.

Year-to-date collections in the General and Non-Aviation category exceeded projections by 8.4%, primarily due to release of excess bond reserve funds in the Airport Revenue Bond Reserve account as well as hanger rental revenue.

Revenue from Airfield and Terminal Concessions are tracking below budget by 2.1% partially due to a minimum annual guarantee (MAG) reduction associated with temporary closure of food and retail outlets in Terminal A+, which was approved by the City Council on June 21, 2011.

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Airport Revenue Fund

Fund Status

Revenues

Revenues will be carefully monitored for the remainder of 2011-2012 and any adjustments will be recommended to the City Council as part of the year-end budget process.

Expenditures – Expenditures in this fund consist entirely of transfers to other funds. Transfers

are made on a monthly basis in accordance with the Master Trust Agreement. No adjustments to the transfer amounts are recommended in this document.

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

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Benefit Funds

	2011-2012 Adopted Budget	Change	2011-2012 Current Modified	2011-2012 YTD Actual	2011-2012 % of Budget	2010-2011 % of Budget
<i>Beginning Fund Balance</i>	6,962,522	2,181,431	9,143,953	N/A	N/A	N/A
<i>Carry-Over Encumbrances</i>	111	(110)	1	N/A	N/A	N/A
<i>Revenues</i>	1,243,000	0	1,243,000	584,572	47.0%	53.5%
<i>Transfers</i>	77,571,000	(3,032,300)	74,538,700	38,730,619	52.0%	50.4%
TOTAL SOURCES	85,776,633	(850,979)	84,925,654	39,315,191		
<i>Expenditures</i>	76,907,903	(2,509,769)	74,398,134	32,664,630	43.9%	45.6%
<i>Transfers</i>	117,399	12,175	129,574	129,574	100.0%	100.0%
<i>Reserves</i>	6,825,431	1,277,060	8,102,491	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	1,925,900	369,555	2,295,455	N/A	N/A	N/A
TOTAL USES	85,776,633	(850,979)	84,925,654	32,794,204		

Fund Status

Revenues – 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 generate sufficient revenues to cover projected costs. In addition, revenues from participant contributions are generated from active and retired employees to reimburse the City for a portion of projected costs.

Through December, revenues in the Dental Insurance Fund and Unemployment Insurance Fund are tracking higher than budgeted levels. The higher than budgeted revenues in the Dental Insurance Fund reflect higher retiree enrollment

than anticipated in the 2011-2012 Adopted Budget, partially offset by lower employee enrollment due to higher than anticipated vacancies in the City. Revenues in the Unemployment Insurance Fund are expected to level out and end the year at budgeted levels as the unemployment insurance rate which is charged to City funds was reduced in October 2011 as part of the City Council approved 2010-2011 Annual Report.

Conversely, revenues in the Benefit Fund and Life Insurance Fund are tracking below budgeted levels. Reduced revenue in the Life Insurance Fund is mostly due to lower than estimated participant contributions and reimbursements from City funds due to higher than anticipated vacancies with only a slight offset in retiree enrollment. In the Benefit Fund,

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Benefit Funds

Fund Status

Revenues

revenues are tracking low mostly due to reduced enrollment as a result of higher than anticipated vacancies and new restrictions on double coverage in addition to the under-collection of health premiums from City Funds. Currently, health premium expenditures exceed revenues by approximately \$130,000 and are tracking to exceed revenues by \$145,000 by year's end. Human Resources department staff will be reconciling the gap in collections over the coming months and will continue to carefully monitor the fiscal health of the fund. An increase in the revenue estimate for Transfers from City Funds in the amount of \$1.0 million is recommended in this document to reflect the increase in the City's contribution rate to account for an average health rate increase of 7.2% effective January 2012.

Expenditures – Expenditures in the benefit funds cover administrative costs, anticipated claims, premiums, and other expenditures related to the provision of employee benefits.

Through December, expenditures in the benefit funds are tracking below budgeted levels. In the Dental Insurance Fund and Unemployment Insurance Fund, lower expenditures are attributable to lower payments of claims than anticipated in the 2011-2012 Adopted Budget. With one quarter of unemployment claims data received, insurance claims appear to be tracking

lower than anticipated, partially due to the general positive employment trend in the region.

Expenditures in the Life Insurance Fund are slightly lower than anticipated as a result of lower enrollment due to higher than anticipated vacancies. While year-to-date expenditures are currently tracking overall lower than budgeted in the Benefit Fund, expenditures are expected to increase in the second half of the year due to a 7.2% average health rate increase effective January 2012. An increase in the Health Premiums appropriation of \$1.0 million is recommended to account for this change.

Fund Balance – Healthy Ending Fund Balances are projected in the Dental Insurance Fund and Unemployment Insurance Fund due to higher than projected revenues coupled with lower than projected expenditures. As a result, the dental insurance rate and unemployment insurance rate are expected to be reduced as part of the 2012-2013 budget process. The Dental Insurance Fund's Ending Fund Balance is recommended to be increased by \$111 to align the actual audited 2010-2011 Ending Fund Balance with the 2011-2012 Beginning Fund Balance.

As discussed above, health premium expenditures are tracking higher than health premium collections in the Benefit Fund, which has the potential to deplete the fund's Ending Fund Balance. Staff will be actively working to reconcile this gap and monitoring its effect on the fund's Ending Fund Balance.

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Building and Structure Construction Tax Fund

	2011-2012 Adopted Budget	Change	2011-2012 Current Modified	2011-2012 YTD Actual	2011-2012 % of Budget	2010-2011 % of Budget*
<i>Beginning Fund Balance</i>	11,195,261	2,673,394	13,868,655	N/A	N/A	N/A
<i>Carry-Over Encumbrances</i>	3,745,766	(12,356)	3,733,410	N/A	N/A	N/A
<i>Revenues</i>	18,349,000	2,698,000	21,047,000	6,637,319	31.5%	N/A
TOTAL SOURCES	33,290,027	5,359,038	38,649,065	6,637,319		
<i>Expenditures</i>	28,045,766	4,416,644	32,462,410	8,102,117	25.0%	N/A
<i>Transfers</i>	435,000	107,040	542,040	541,979	100.0%	N/A
<i>Reserves</i>	3,754,000	0	3,754,000	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	1,055,261	835,354	1,890,615	N/A	N/A	N/A
TOTAL USES	33,290,027	5,359,038	38,649,065	8,644,096		

* This chart did not previously appear in the Status of Selected Capital Funds. Therefore, the 2010-2011 % of Budget information is not available.

Fund Status

Revenues – Currently tax revenue in the Building and Structure Construction Tax Fund, which is a funding source for the Traffic Capital Program, is tracking above anticipated levels. Through December, Building and Structure Construction Tax receipts totaled \$5.4 million and are on pace to well exceed the budgeted estimate of \$6.0 million. The budgeted estimate for this tax allowed for a 36% decline from 2010-2011 as prior year collections included one-time revenues associated with two residential permits for new housing developments in North San José. Through December, however, revenues are only 17% below prior year collections. The better than expected performance is primarily due to new residential construction activity. While residential permit activity is lower than the

record setting levels in 2010-2011, it has performed at higher than anticipated levels and experienced increases in November and December due primarily to permits associated with four apartment complexes. In recognition of this improved performance, a recommendation is included in this document to increase the budgeted revenue estimate for this category by \$3.0 million, from \$6.0 million to \$9.0 million. Revenue from grants and reimbursements is tracking within anticipated levels.

Expenditures – Overall, expenditures in the Building and Structure Construction Tax Fund are tracking within expected levels and are expected to end the year within budgeted levels, however a number of expenditure adjustments, described below, are recommended in this report.

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Building and Structure Construction Tax Fund

Fund Status

Expenditures

The allocation of resources for the Autumn Street Expansion Project (\$500,000) is recommended. The City has a permit with the Public Utility Commission (PUC) for construction of a railroad crossing at the new Autumn Street extension, which is a requirement for Downtown expansion and the proposed ballpark. The PUC permit will expire in January 2013 and the City is working with Union Pacific Railroad (UPRR) to install the new railroad crossing before that time. The PUC and UPRR required that a section of Autumn Street be constructed and used prior to activation of the new railroad crossing. The proposed funding will be used to design the roadway to meet the requirements of the permit. As part of the development of the 2013-2017 Proposed Capital Improvement Program, the Administration will evaluate the funding needs for the construction of Autumn Street.

A reallocation of resources from the Milpitas Transit Area - Capitol Avenue Corridor Improvements (\$200,000) to a new project for Adaptive Signal Control Equipment is recommended. The Milpitas Transit Area - Capitol Avenue Corridor Improvements project has not yet begun due to the Valley Transportation Authority (VTA) delays in completing its Wayside Detection Pilot Project, upon which the Milpitas Transit Area project was dependent. The Adaptive Signal Control Equipment appropriation will improve traffic signal improvements in transit corridors

throughout the City, reflecting a broader focus than the Milpitas Transit Area - Capitol Avenue Corridor Improvements project. Lastly, funds are recommended for Project Development Engineering (\$24,000), and Blossom Hill Road/Monterey Pedestrian Improvements (\$21,000), both of which are funded through VTA reimbursements. An increase to the Lighting and Signal Program (\$6,000), funded from developer contributions, is recommended as well.

Fund Balance – A recommendation to increase the Ending Fund Balance by \$3.0 million, from \$1.9 million to \$4.9 million is included in this report as a result of higher than anticipated revenue collections. A portion of this fund balance (\$500,000) is recommended to be used for the Autumn Street Extension project, with the remaining \$2.5 million preserved for future use. This additional funding will be programmed as part of the upcoming 2013-2017 Proposed Capital Improvement Program.

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Construction and Conveyance Tax Funds

	2011-2012 Adopted Budget	Change	2011-2012 Current Modified	2011-2012 YTD Actual	2011-2012 % of Budget	2010-2011 % of Budget*
<i>Beginning Fund Balance</i>	50,734,119	20,050,908	70,785,027	N/A	N/A	N/A
<i>Carry-Over Encumbrances</i>	7,982,271	(73,886)	7,908,385	N/A	N/A	N/A
<i>Revenues</i>	24,091,000	(382,000)	23,709,000	9,385,012	39.6%	N/A
<i>Transfers</i>	4,930,500	120,000	5,050,500	852,638	16.9%	N/A
TOTAL SOURCES	87,737,890	19,715,022	107,452,912	10,237,650		
<i>Expenditures</i>	53,511,271	15,478,114	68,989,385	12,181,517	17.7%	N/A
<i>Transfers</i>	8,263,000	117,383	8,380,383	2,670,075	31.9%	N/A
<i>Reserves</i>	6,187,000	(250,000)	5,937,000	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	19,776,619	4,369,525	24,146,144	N/A	N/A	N/A
TOTAL USES	87,737,890	19,715,022	107,452,912	14,851,592		

* This chart did not previously appear in the Status of Selected Capital Funds. Therefore, the 2010-2011 % of Budget information is not available.

Fund Status

Revenues – Nearly 99% of the total Construction and Conveyance (C&C) Taxes are comprised of conveyance receipts, a tax based on the value of property transfers. As previously reported in the Bi-Monthly Financial Reports, after experiencing moderate declines compared to prior year activity levels in the first few months of the year, C&C taxes are now showing signs of growth. Receipts in November and December 2011 increased by 10% and 8%, respectively, compared to prior year levels, and in addition, the City has received January Conveyance receipts, which represents an impressive 28% growth compared

to prior year receipts. It should be noted that the housing market continues to experience fluctuations. The average days-on-market for single-family and multi-family dwellings totaled 84 days in December 2011, which is a slight drop from the 87 days experienced in December 2010. In addition, the number of new single-family and multi-family dwellings listed on the market has dropped approximately 19% from the 724 listings in December 2010 to 583 in December 2011. However, it is important to note that the property transfers (sales) for all types of residences dropped almost 1% from 718 in December 2010 to 713 in December 2011. The December 2011 median single-family home price of \$474,500 is also down

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Construction and Conveyance Tax Funds

Fund Status

Revenues

almost 1% from the December 2010 price of \$478,000. This marks the 15th consecutive month in which the median single-family home price has dropped compared to the same month in the previous year.

The 2011-2012 C&C Tax estimate of \$21 million allows for a 1.8% drop from the 2010-2011 collection level. Through the first six months of the fiscal year receipts have totaled \$11.9 million, and appear to be on par to meet or slightly exceed budgeted levels. However, due to the volatile nature of this tax revenue, these receipts will continue to be monitored closely and additional recommendations, if necessary, may be made at a later date.

Expenditures – Of the total C&C Tax revenues received, the majority is allocated to the Parks and Community Facilities Development Capital Program (64% for the ten Council Districts and Parks City-Wide C&C Tax Funds and 1.2% to the Park Yards C&C Tax Fund), with the remaining distributed to the Library (14.22%), Service Yards (8.78%), Public Safety (8.4%), and Communications (3.4%) Capital Programs. Expenditures in the various C&C Tax Funds are generally tracking within estimated levels, however, there are several expenditure adjustments recommended in this report. These adjustments, which are described further in Section III of this report, include:

- Increasing the Facilities Improvements project to fund urgent facility maintenance needs at Fire Station 11 (\$240,000) and Fire Station 15 (\$100,000) such as mold abatement, roof repairs, rodent extermination, restroom and kitchen repairs, and carpet replacement. These funds are recommended to be allocated from the Fire C&C Tax Fund Ending Fund Balance. (Fire C&C Tax Fund)
- Recognizing revenue from the Vineland Branch Library debt service reserve account (\$42,138) due to the bond being fully paid in August 2011. Funding is recommended to be allocated to the Facilities Improvements project to evaluate security improvement options at the Biblioteca Latinoamericana Branch Library. (Library C&C Tax Fund)
- Establishing a new allocation for the Facilities Capital Repairs project (\$25,000). This allocation, which is recommended to be offset with a reduction to the Roof Replacement Painting and Supplemental Needs appropriation in the Service Yards C&C Tax Fund, will provide a separate appropriation to address ongoing capital infrastructure repairs and maintenance needs. (Service Yards C&C Tax Fund)

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Construction and Conveyance Tax Funds

Fund Status

Expenditures

- Increasing the Family Camp Master Plan project (\$63,000) primarily to conduct an archaeological cultural resource study associated with Native American artifacts that could possibly be discovered with any ground disturbance at San José Family Camp. Funding is recommended to be re-allocated from the Family Camp Interim Dining Hall project, which is complete. (Parks City-Wide C&C Tax Fund)
- Establishing a new allocation for the Parks Facilities Capital Repairs project (\$160,000). This allocation will provide funding to address ongoing capital infrastructure repairs and maintenance needs. In 2011-2012, funding of \$160,000 is recommended to be allocated from the Parks Central Fund C&C Tax Fund Ending Fund Balance. In addition, the 2013-2017 Proposed Capital Improvement Program will include funding of \$60,000 annually from the Parks Central C&C Tax Fund, with additional funding being allocated from the General Fund in the Parks, Recreation and Neighborhood Services Department Non-Personal/Equipment appropriation as funding needs are evaluated. (Parks Central C&C Tax Fund)
- Establishing the Japanese Friendship Garden Tea House project (\$340,000). This project will provide funding to renovate the facility, thereby allowing it to be used for rentals, which will generate revenue in the future. A corresponding action is recommended to decrease the Happy Hollow Park and Zoo East Side Improvements project, which is complete. (Parks City-Wide C&C Tax Fund)

Fund Balance – This report includes a recommendation to allocate \$340,000 from the Fire C&C Tax Fund Ending Fund Balance for facility maintenance needs at Fire Station 11 and Fire Station 15 and \$160,000 from the Parks Central C&C Tax Fund Ending Fund Balance for parks facilities capital repair needs. No further adjustments to the Ending Fund Balances in the various C&C Tax Funds are required at this time.

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Construction Excise Tax Fund

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<i>Beginning Fund Balance</i>	19,959,036	7,965,204	27,924,240	N/A	N/A	N/A
<i>Carry-Over Encumbrances</i>	8,229,072	(2,363)	8,226,709	N/A	N/A	N/A
<i>Revenues</i>	26,275,626	2,407,000	28,682,626	16,299,644	56.8%	N/A
TOTAL SOURCES	54,463,734	10,369,841	64,833,575	16,299,644		
<i>Expenditures</i>	41,170,698	3,145,457	44,316,155	12,436,971	28.1%	N/A
<i>Transfers</i>	4,588,000	115,501	4,703,501	4,703,473	100.0%	N/A
<i>Reserves</i>	6,668,840	4,768,153	11,436,993	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	2,036,196	2,340,730	4,376,926	N/A	N/A	N/A
TOTAL USES	54,463,734	10,369,841	64,833,575	17,140,444		

* This chart did not previously appear in the Status of Selected Capital Funds. Therefore, the 2010-2011 % of Budget information is not available.

Fund Status

Revenues – Construction Excise tax receipts are the single largest source of revenue in the Traffic Capital Program, constituting approximately 28% of the budgeted revenue estimate for this fund. The 2011-2012 Modified Budget assumed tax revenues of \$8.0 million, however, through December revenues of \$7.7 million has been received, which are well ahead of anticipated levels. The budgeted estimate for this tax allowed for a 40% decline from 2010-2011 as prior year collections included one-time revenues associated with two residential permits for new housing developments in North San José. Through December, however, revenues are only 21% below prior year collections. The better than expected performance is primarily due to new residential construction activity.

While residential permit activity is lower than the record setting levels in 2010-2011, it has performed at higher than anticipated levels and experienced increases in November and December due primarily to permits associated with four apartment complexes. In recognition of this improved performance, a recommendation is included in this document to increase the budgeted revenue estimate for this category by \$4.0 million, from \$8.0 million to \$12.0 million. Revenue from grants and reimbursements is tracking within anticipated levels.

Other major revenue sources in this fund include funds for pavement maintenance from the Gas Tax (\$7.5 million) and from the Federal Transportation bill (\$6.2 million), grant funds, and traffic impact fees. Gas Tax collections are

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Construction Excise Tax Fund

Fund Status

Revenues

tracking within anticipated levels (\$4.5 million or 60% of the budgeted estimate). Revenues from the Federal Transportation bill are expected to be received by the end of this fiscal year as programmed. All grant revenues are tracking within anticipated levels. Traffic Impact Fees are appropriated as they are collected from developers, and are set aside in a reserve until they can be expended. Included in this report is a recommendation to increase the estimate for traffic impact fees collected in the North San José area (\$2.5 million) due to higher development activity and placing them in the Reserve for North San José Traffic Impact Fees.

Expenditures – Overall, expenditures in the fund are tracking within expected levels and are expected to end the year within budgeted levels, however, a number of expenditure adjustments are recommended in this report.

An increase to the Traffic Safety Education project (\$55,000) is also recommended at this time. This increase, which is funded through a grant from the California Office of Traffic

Safety, will be used for educational materials, helmets, and minimal staff time to support the ongoing education and encouragement of safe walking and biking behavior for school-aged children within the Franklin McKinley School District.

Due to a rise in the number of streetlight copper wire thefts being experienced, a recommendation to allocate \$150,000 for repairs is recommended. The increase in thefts, which was detailed for the City Council in a January 2012 Information Memorandum, has contributed to a growing backlog of streetlight outages. Funds allocated for this purpose will be used for supplies and overtime for existing staff to complete repairs and would be funded through a reduction to the Ending Fund Balance.

Lastly, the establishment of an appropriation for Jackson Avenue and Alexian Drive Pedestrian Improvements (\$35,000) is recommended in this report. This appropriation, which will be funded through developer contributions, will allow for the installation of pedestrian activated flashing beacons to enhance pedestrian crossings and traffic safety at this intersection.

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**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

Construction Excise Tax Fund

Fund Status

Fund Balance – A recommendation to increase the Ending Fund Balance by \$4.0 million, from \$4.4 million to \$8.4 million, is included in this report as a result of higher than anticipated revenue collections. A portion of the fund balance (\$150,000) is recommended to be used for the Copper Wire Thefts project, with the remaining \$3.85 million preserved for future uses. This additional funding will be programmed as part of the upcoming 2013-2017 Proposed Capital Improvement Program.

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MID-YEAR BUDGET REVIEW
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**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

Convention and Cultural Affairs Fund

	2011-2012 Adopted Budget	Change	2011-2012 Current Modified	2011-2012 YTD Actual	2011-2012 % of Budget	2010-2011 % of Budget
<i>Beginning Fund Balance</i>	5,791,544	2,629,969	8,421,513	N/A	N/A	N/A
<i>Carry-Over Encumbrances</i>	510,397	(15,095)	495,302	N/A	N/A	N/A
<i>Revenues</i>	12,147,548	0	12,147,548	6,343,421	52.2%	35.2%
<i>Transfers</i>	5,146,365	435,846	5,582,211	3,009,029	53.9%	50.8%
TOTAL SOURCES	23,595,854	3,050,720	26,646,574	9,352,450		
<i>Expenditures</i>	18,886,420	1,769,494	20,655,894	13,703,520	66.3%	52.3%
<i>Transfers</i>	520,726	33,528	554,254	554,254	100.0%	100.0%
<i>Reserves</i>	1,712,112	0	1,712,112	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	2,476,596	1,247,698	3,724,314	N/A	N/A	N/A
TOTAL USES	23,595,854	3,050,720	26,646,574	14,257,774		

Fund Status

Revenues – Revenues booked in the Convention and Cultural Affairs Fund through December represent activity through November. However, according to reports not yet fully reviewed by the City from the operator of the City’s Convention and Cultural Facilities, Team San José (TSJ), revenue is tracking within anticipated levels and TSJ anticipates 2011-2012 revenues to finish \$3.5 million higher than the budgeted estimate of \$12.1 million. The better than anticipated revenue performance is primarily due to food and beverage and contract labor revenues. It should also be noted that the budget for 2011-2012 was developed assuming some contracted events would be cancelled due to the temporary negative impacts from the Convention Center expansion project. Through December 2011, there has been minimal impact

on operating revenues from the project, however the potential of cancellations still exists as the construction moves from the outside of the facility to the inside portion. This will be closely monitored as the year progresses.

Much of the operating revenue generated by TSJ requires corresponding expenditures. With revenue expected to exceed the budgeted level by \$3.5 million, a recommendation is included in this document to increase the budgeted revenue estimate by this amount, with a corresponding increase to the expenditure budget.

Approximately \$5.1 million of the budgeted revenues in this fund come from a transfer from the Transient Occupancy Tax (TOT) Fund. Due to better than anticipated TOT receipts through December 2011, an increase of \$1.65 million to

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MID-YEAR BUDGET REVIEW
Section II**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

Convention and Cultural Affairs Fund

Fund Status

Revenues

the budgeted revenue estimate for TOT collections, in the TOT Fund, is recommended elsewhere in this report. Also included in the TOT Fund is a recommendation to distribute these additional funds to the three recipients (Convention and Visitors Bureau, Cultural Development, and Convention Facilities Operation and Maintenance), per the distribution formula outlined in the San José Municipal Code. A recommendation is therefore included in this document to increase the budgeted transfer from the TOT Fund to the Convention and Cultural Affairs Fund by \$824,000. A more detailed discussion of TOT performance can be found elsewhere in this report.

Expenditures – Through December, expenditure appropriations are anticipated to end the year at higher than budgeted levels, as described previously, due to higher than budgeted activity levels. TSJ forecasts indicate that the Non-Personal/Equipment appropriation, which covers all TSJ operating expenses, will be exceeded by approximately \$3.5 million, or 23.5%, without an adjustment to the budget; therefore, a recommendation to increase this appropriation is included in this report. This is primarily due to food and beverage expenses and contract labor costs, which are passed on to facility users. The Personal Services appropriation is currently tracking very close to year-to-date expected levels and is anticipated to end the year at or below the budgeted level.

In the 2010-2011 Annual Report, presented to the City Council in October 2011, the allocation of resources (\$600,000) from this fund to support Convention and Visitors Bureau (CVB) marketing costs was approved to market the convention center in advance of the completion of the expansion project. As a result of better than anticipated performance in the TOT Fund through December, additional resources can be allocated to the Convention and Visitor's Bureau, per the distribution formula. These additional resources (\$412,000) will enable a reduction to the CVB allocation in this fund for marketing, while preserving funding for marketing the expanded facility. The ensuing savings in this fund are recommended to be allocated towards minor facility improvements (\$150,000) Convention Center Kitchen Remodel design (\$100,000) and Ending Fund Balance (\$162,000) for future use.

Recently the administration was made aware of a funding shortfall in the construction budget for the Convention Center expansion. Additional funding is required in order to cover the costs of connecting the central utility plant to both the existing and expanded portions of the Convention Center, as well as remodeling the kitchen. While the Convention and Cultural Affairs Fund currently has an unrestricted fund balance of \$3.7 million and reserves totaling \$1.7 million, it is anticipated, that with the expansion continuing into 2012-2013, a portion of these reserves and fund balance may be

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**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

Convention and Cultural Affairs Fund

Fund Status

Expenditures

required to offset temporary negative impacts resulting from the project. The administration and TSJ are working to revise the estimate for this shortfall, as well as to develop a strategy for covering this cost while ensuring General Fund resources will not be required. Funding for the design of the kitchen remodel (\$100,000) is recommended in this report. It is currently anticipated that a recommendation to resolve this shortfall, which may involve using a portion of the reserves and fund balance, will be brought forward for City Council consideration in the coming months.

It should also be noted that the City and Team San Jose are in the process of amending the

management agreement between the City and Team San José to update the calculation for Gross Operating Profit. This change, which will also be brought forward for City Council consideration in the coming months, will consider the positive impact of Team San Jose in generating Transient Occupancy Tax receipts as well as parking revenue at the Convention Center garage.

Fund Balance – As a result of the recommended increase in the transfer to this fund from the TOT Fund (\$824,000), and the reallocation of marketing resources to the Ending Fund Balance (\$162,000), the unrestricted fund balance will increase by approximately \$1.0 million, from \$3.7 million to \$4.7 million.

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**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

General Obligation Bond Funds

	2011-2012 Adopted Budget	Change	2011-2012 Current Modified	2011-2012 YTD Actual	2011-2012 % of Budget	2010-2011 % of Budget*
<i>Beginning Fund Balance</i>	57,923,106	715,544	58,638,650	N/A	N/A	N/A
<i>Carry-Over Encumbrances</i>	5,082,970	(393)	5,082,577	N/A	N/A	N/A
<i>Revenues</i>	11,638,000	0	11,638,000	147,401	1.3%	N/A
<i>Transfers</i>	1,143,000	0	1,143,000	1,143,000	100.0%	N/A
TOTAL SOURCES	75,787,076	715,151	76,502,227	1,290,401		
<i>Expenditures</i>	62,432,970	(429,393)	62,003,577	4,858,905	7.8%	N/A
<i>Transfers</i>	748,000	69,004	817,004	817,004	100.0%	N/A
<i>Reserves</i>	10,610,431	360,744	10,971,175	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	1,995,675	714,796	2,710,471	N/A	N/A	N/A
TOTAL USES	75,787,076	715,151	76,502,227	5,675,909		

* This chart did not previously appear in the Status of Selected Capital Funds. Therefore, the 2010-2011 % of Budget information is not available.

Fund Status

Revenues – The General Obligation Bond (G.O. Bond) Funds consist of the Parks and Recreation Bond Projects Fund in the Parks and Community Facilities Development Capital Program, Branch Libraries Bond Projects Fund in the Library Capital Program, and Neighborhood Security Act Bond Fund in the Public Safety Capital Program. All G.O. Bond proceeds have already been issued for the Parks and Recreation Bond Projects Fund; however, \$5.9 million remains to be issued for the Branch Library Bond Projects Fund and \$3.3 million remains to be issued for the Neighborhood Security Act Bond Fund. It was previously anticipated that the remaining G.O. Bond proceeds would be issued in 2011-2012; however, based on the current financial market

conditions, the City's timing needs for this funding, and cost/savings benefits of issuing multiple bond sales together, the Finance Department has determined that issuing the bonds in 2012-2013 would be more appropriate. Resulting rebalancing actions for the Branch Library Bond Projects Fund and the Neighborhood Security Act Bond Fund are discussed below.

In the Parks and Recreation Bond Projects Fund, the Earned Revenue estimate is recommended to be increased by \$387,000 to reflect the receipt of unanticipated revenues, with a corresponding increase to the Contingency Reserve. The City received Proposition 13 grant funding of \$109,000 for eligible grant expenditures

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**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

General Obligation Bond Funds

Fund Status

Revenues

associated with the TRAIL: Guadalupe River Reach 6 (Woz Way to Willow Street) project. In addition, for the Series 2006 G. O. Bond funds, \$274,000 was estimated to be the possible arbitrage rebate liability owed to the Internal Revenue Service (IRS) and was transferred from the Parks and Recreation Bond Projects Fund to an unbudgeted debt service fund in 2007-2008. It was subsequently determined that there is no arbitrage liability; therefore, \$278,000 (including interest earnings) can be returned to the Parks and Recreation Bond Projects Fund.

In the Branch Library Bond Projects Fund, the Earned Revenue estimate is recommended to be decreased by \$2.0 million to account for a delay in the sale of land previously planned to occur in 2011-2012. The land was purchased with bond funding to be the site of the Bascom Branch Library; however, given the subsequent decision to instead build a joint library and community center, it was determined that this site was not suitable for the joint use. The sale of land is now anticipated to occur in 2013-2014. This reduction in the revenue estimate is partially offset by a recommended increase of \$367,000 to reflect the receipt of unanticipated revenues. Similar to the Parks and Recreation Bond Projects Fund, there is no rebate liability owed to the IRS; therefore, funds can be returned from an unbudgeted debt service fund to the Branch Library Bond Projects Fund.

Expenditures – In the Parks and Recreation Bond Projects Fund, the Contingency Reserve is recommended to be increased to reflect the receipt of higher than anticipated revenue (\$387,000) as discussed earlier.

In the Branch Library Bond Projects Fund, the Southeast Branch appropriation is recommended to be reduced by \$6.0 million due to delays in the acquisition of land for the new branch library, which has pushed out the construction schedule. The Educational Park Branch appropriation is recommended to be reduced by \$1.9 million to recognize project savings resulting from lower than anticipated construction costs. Combined, these recommended decreases allow for a delayed issuance of the G.O. Bonds. In addition, the Contingency Reserve is recommended to be increased to reflect the receipt of higher than anticipated revenues as discussed previously (\$367,000). The full amount of the Southeast Branch appropriation will be recommended to be programmed as part of the 2013-2017 Proposed Capital Improvement Program.

In the Neighborhood Security Act Bond Fund, the Fire Station 21 - Relocation (White Road) appropriation is recommended to be decreased (\$4,800,000) to offset the delayed sale of the G.O. Bonds. The award for construction for this project has been postponed until 2012-2013. The design phase and overall project schedule have been extended due to several factors. The scope was not finalized until late 2010-2011. Since that time, consultant procurement, policy revisions, negotiations with an adjacent

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**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

General Obligation Bond Funds

Fund Status

Expenditures

developer for off-site and utility improvements, and protracted contract closeout negotiations for other capital projects coupled with ongoing staffing constraints have affected the schedule for this project. Part of the funding for Fire Station 21 is recommended to be appropriated in the Reserve: Fire Station 21 (\$1,475,000) for the remainder of 2011-2012; however, the full amount of \$4.8 million will be recommended to

be programmed for the Fire Station 21 project as part of the 2013-2017 Proposed Capital Improvement Program. In addition, funding is recommended to be shifted from the Contingency Reserve to the Fire Station 2 - Rebuild appropriation (\$65,702) to fund post-construction costs.

Fund Balance – No adjustment to the Ending Fund Balance is recommended at this time for any of the G.O. Bond Funds.

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**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

Low and Moderate Income Housing Fund

	2011-2012 Adopted Budget	Change	2011-2012 Current Modified	2011-2012 YTD Actual	2011-2012 % of Budget	2010-2011 % of Budget
<i>Beginning Fund Balance</i>	11,230,182	(1,333,787)	9,896,395	N/A	N/A	N/A
<i>Carry-Over Encumbrances</i>	40,360,001	(10,695,506)	29,664,495	N/A	N/A	N/A
<i>Revenues</i>	41,670,941	0	41,670,941	7,231,477	17.4%	36.7%
TOTAL SOURCES	93,261,124	(12,029,293)	81,231,831	7,231,477		
<i>Expenditures</i>	91,049,841	(12,648,300)	78,401,541	21,796,646	27.8%	29.1%
<i>Transfers</i>	750,099	165,554	915,653	915,653	100.0%	100.0%
<i>Reserves</i>	208,220	0	208,220	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	1,252,964	453,453	1,706,417	N/A	N/A	N/A
TOTAL USES	93,261,124	(12,029,293)	81,231,831	22,712,299		

Fund Status

The Low and Moderate Income Housing Fund has been used by the Housing Department since its establishment in 1988 to implement affordable housing programs and administer the 20% housing set-aside redevelopment funds on behalf of the San Jose Redevelopment Agency (SJRA). In June 2011, as part of the approval of the State budget, the California Legislature adopted two bills that directly impact redevelopment agencies, and redevelopment funding, throughout the State. The first bill, AB XI 26, approves the dissolution of redevelopment agencies throughout the State. The second bill, AB XI 27, enabled cities and counties to retain their redevelopment agencies by paying a specified amount to the State as established by a formula. In response, and also due to concerns that the legislation would violate legitimate agreements between the City of San José (City) and the SJRA, the City joined

the League of California Cities and Community Redevelopment Association in a lawsuit petitioning the California Supreme Court (Court) to invalidate both bills citing violations of the State Constitution. The Court agreed to hear the case and granted a Stay, which suspended all new activities, pending the Court's ruling. On December 29, 2011, the Court issued a decision that upheld the constitutionality of AB XI 26, thereby enabling the dissolution of redevelopment agencies, but struck down AB XI 27, which would have enabled agencies to pay the State to retain redevelopment agencies.

As a result of this decision, and pending any other action by the Legislature, redevelopment agencies throughout the State are dissolved effective February 1, 2012. The Legislation designates "Successor Agencies" to administer the dissolution and wind down the activities of the former redevelopment agencies, and

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**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

Low and Moderate Income Housing Fund

Fund Status

“Successor Housing Agencies” to manage all Low and Moderate Income Fund assets.

On January 24, 2012, the City Council took formal action to retain the housing assets and functions of the former San Jose Redevelopment Agency in accordance with AB XI 26. As part of this action, all housing assets are transferred from the SJRA to the City effective February 1, 2012. The City Council also approved the establishment of a new fund along with various actions to adjust the revenues and expenditures. The new fund, the Affordable Housing Investment Fund, will fund the administrative costs associated with managing the Successor Housing Agency assets and the continuation of affordable housing programs in the future. As part of the rebalancing effort, the Low and Moderate Income Housing Fund eliminated various programs and shifted expenditures to other Housing Funds. The remaining funds in the Low and Moderate Income Housing Fund will be limited to managing debt payments and five affordable housing projects currently under construction. As these obligations are completed, this fund will eventually be phased out. As a result of the approved actions, there are no recommended budget adjustments for this fund included in this report. Further information on the approved actions can be found at http://www.sanjoseca.gov/clerk/Agenda/20120124/20120124_0901.pdf.

Revenues – Revenues in the Low and Moderate Income Housing Fund account primarily for

SJRA tax increment funds received and loan repayments used by the City to provide affordable housing rehabilitation and new housing programs. To date, the fund has collected \$7.2 million, which is slightly below estimated levels. Typically, the majority of the 20% tax increments is collected in the second half of the fiscal year (in April and May). Loan repayments and other fees will no longer be collected in this fund as of February 1, 2012, and instead will be collected in the newly established Affordable Housing Investment Fund. However, the remaining tax increments budgeted for 2011-2012 are anticipated to be collected in the Low and Moderate Income Housing Fund. As part of the January 24, 2012 memorandum approved by the City Council, revenue adjustments were made accordingly.

Expenditures – As mentioned above, due to the dissolution of the SJRA, expenditures were reduced and shifted from the Low and Moderate Income Housing Fund to the Affordable Housing Investment Fund as part of the January 24, 2012 memorandum.

Fund Balance – With all the approved actions in the memorandum, the Low and Moderate Income Housing Fund will have no Ending Fund Balance.

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**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

Municipal Golf Course Fund

	2011-2012 Adopted Budget	Change	2011-2012 Current Modified	2011-2012 YTD Actual	2011-2012 % of Budget	2010-2011 % of Budget
<i>Beginning Fund Balance</i>	353,898	(52,416)	301,482	N/A	N/A	N/A
<i>Carry-Over Encumbrances</i>	6,749	0	6,749	N/A	N/A	N/A
<i>Revenues</i>	737,000	0	737,000	305,393	41.4%	32.6%
<i>Transfers</i>	1,500,000	0	1,500,000	1,500,000	100.0%	100.0%
TOTAL SOURCES	2,597,647	(52,416)	2,545,231	1,805,393		
<i>Expenditures</i>	2,269,749	0	2,269,749	1,538,291	67.8%	65.5%
<i>Unrestricted Ending Fund Balance</i>	327,898	(52,416)	275,482	N/A	N/A	N/A
TOTAL USES	2,597,647	(52,416)	2,545,231	1,538,291		

Fund Status

Revenues – Through December, activity at the three municipal golf courses is slightly up from 2010-2011 levels, however revenues are still tracking below budgeted levels for 2011-2012. Revenues consist primarily of course fees at the San José Municipal, Rancho del Pueblo, and Los Lagos Golf Courses. Rounds of golf played through December 2011 increased by 3.6% at Los Lagos and by 1.3% at Rancho del Pueblo. These increases in activity can be attributed to a slightly growing economy and a very mild and dry first half of the year. Through December 2010, the economy was still recovering slowly from the deep recession and San José experienced a very wet winter. Projections for 2011-2012 were built on the assumption that there would be some improvement in economic conditions resulting in increased activity and corresponding revenues from 2010-2011 levels. Through December, 41.4% of budgeted

revenues were received, which is up from revenues collected through the same period in 2010, when 32.6% of revenues were collected. Although revenue performance has improved over the 2010-2011 level, it has not improved sufficiently to support the current year estimated levels.

Revenues from the San José Municipal Golf Course are based on a fixed percentage of the gross sales, regardless of operator costs, per the agreement. The estimated revenues from this course (\$436,000) are expected to be approximately \$39,000 less than the budgeted estimate of \$475,000. For the Rancho del Pueblo and Los Lagos Golf Courses, only the net profits from the operation of the courses are paid into the Municipal Golf Course Fund. Net profits at Los Lagos are anticipated to end the year at \$110,000, \$90,000 (45%) below the budgeted estimate of \$200,000, while Rancho del Pueblo is projected not to generate a net

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**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

Municipal Golf Course Fund

Fund Status

Revenues

operating profit at all as anticipated in the budget. Actions to reduce the budgeted estimates for Interest Earnings (\$7,000) and Miscellaneous Revenue (\$34,500) are also included in this report.

All fund revenues are intended to offset or partially offset the debt service costs of these facilities. The San José Municipal Golf Course has no debt service obligations, but the revenue is used to help offset the debt service costs of the other two courses. Due to the fact that the course fees have been unable to cover the fixed costs of operating the facilities as well as the debt service, a General Fund subsidy has been required to support the debt service payments. In the 2011-2012 budget, the subsidy was set at \$1.5 million. With declining revenue collections in the fund resulting in increased net costs, an increase to the subsidy level of \$300,000 to bring the subsidy to \$1.8 million is recommended in this report.

Expenditures – Expenditures in this fund are generally made for two purposes: payments to the operators of the courses in months when course fees are unable to cover the fixed costs of operating the facilities at the Rancho del Pueblo

and Los Lagos Golf Courses; and payment of the debt service for the bonds used to develop the two courses. City staff continues to work with the operators to identify and implement expenditure reduction strategies at the courses, however, appropriation increases are necessary at both Rancho del Pueblo and Los Lagos due to the decrease in revenue levels at the courses. Included in this document are recommendations to increase the Rancho del Pueblo Golf Course appropriation by \$90,000 (from \$200,000 to \$290,000) and the Los Lagos appropriation by \$15,000 (from \$100,000 to \$115,000). Partially offsetting these increases is a recommended reduction of \$15,000 to the Non-Personal/Equipment appropriation.

Fund Balance – Even with the slight increase in activity levels in 2011-2012, adjustments in this fund included revenue estimate reductions and expenditure budget increases. In order to offset these actions and to ensure stability in this fund's ending fund balance, the subsidy from the General Fund is recommended to increase by \$300,000, resulting in a net increase to the Ending Fund Balance of \$39,500. While performance has improved over the prior year, the lower than expected revenues are a strong indicator that the recovery of recreational golf is progressing slower than expected.

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**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

Sanitary Sewer Connection Fee Fund

	2011-2012 Adopted Budget	Change	2011-2012 Current Modified	2011-2012 YTD Actual	2011-2012 % of Budget	2010-2011 % of Budget*
<i>Beginning Fund Balance</i>	13,073,272	1,307,815	14,381,087	N/A	N/A	N/A
<i>Carry-over Encumbrance</i>	2,111,895	(552)	2,111,343	N/A	N/A	N/A
<i>Earned Revenue</i>	1,455,000	0	1,455,000	587,190	58.9%	N/A
TOTAL SOURCES	16,640,167	1,307,263	17,947,430	587,190		
<i>Expenditures</i>	12,810,895	(2,552)	12,808,343	1,092,849	8.5%	N/A
<i>Transfers</i>	97,000	14,261	111,261	110,597	99.4%	N/A
<i>Ending Fund Balance</i>	3,732,272	1,295,554	5,027,826	N/A	N/A	N/A
TOTAL USES	16,640,167	1,307,263	17,947,430	1,203,446		

* This chart did not previously appear in the Status of Selected Capital Funds. Therefore, the 2010-2011 % of Budget information is not available.

Fund Status

Revenues – Revenue for this fund in the Sanitary Sewer Capital Program consists of joint participation payments, connection fees, and interest earnings. Joint participation revenues reflect cost sharing of actual expenditures incurred in areas benefiting the County Sanitation Districts 2-3 and West Valley Sanitation District (WVSD). Through the first half of the year, \$166,000 in Joint Participation revenue has been received for projects benefiting the County Sanitation Districts 2-3. This collection level exceeds the budgeted estimate of \$160,000 by 3.7%. No additional revenue from the County Sanitation Districts is expected in 2011-2012. The budgeted estimate for Joint Participation from the WVSD is \$750,000, however through December, no revenues have been received. It is expected that by the end of the year, collections will total approximately \$320,000. The remaining

revenue of \$430,000 was budgeted to offset expenditures for the Moorpark-Meridian Trunk Sewer Rehabilitation Ph III project. The bid for this project is now expected to be awarded in 2012-2013. Therefore, as part of the development of the 2013-2017 Capital Improvement Program, the expenditure and related revenue for this project is expected to be rebudgeted.

Collections of connection fees are tracking to end the year above anticipated levels. Through December, \$400,000, or 76.1% of the estimated level has been received.

Expenditures – Expenditures in this fund represent the costs for increasing the capacity of, and expanding the Sanitary Sewer System. Through December, 8.5% of the budget, excluding transfers, reserves, and Ending Fund Balance had been expended, and an additional 15.4% encumbered. Spending is lower than

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**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

Sanitary Sewer Connection Fee Fund

Fund Status

Expenditures

expected in several appropriations, with the largest savings expected in the Miscellaneous Rehabilitation Projects, Miscellaneous Projects, 30" Old Bayshore Supplement, and Fourth Major Interceptor Phase IIB projects. The Miscellaneous Rehabilitation Projects and Miscellaneous Project appropriations provide funding for a variety of projects to increase capacity in sewer flows mostly related to private development. The lower expenditures are a reflection of lower than expected developer installed capacity projects. Design of the 30" Old Bayshore Supplement project (\$562,000) will be rescheduled until 2012-2013, with

construction anticipated to start in 2013-2014, to allow staff to focus on higher priority capacity projects as identified by the current Sanitary Sewer Master Plan recommendations. The Fourth Major Interceptor Phase IIB project (\$575,000) has been rescheduled to coincide with related construction to be performed at the Water Pollution Control Plant. This work is expected to begin in spring 2013. The savings in this program will be factored into the development of the 2013-2017 Proposed Capital Improvement Program.

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

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**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

Sewer Service and Use Charge Capital Improvement Fund

	2011-2012 Adopted Budget	Change	2011-2012 Current Modified	2011-2012 YTD Actual	2011-2012 % of Budget	2010-2011 % of Budget*
<i>Beginning Fund Balance</i>	59,721,312	5,415,478	65,136,790	N/A	N/A	N/A
<i>Carry-over Encumbrance</i>	8,986,681	(529,089)	8,457,592	N/A	N/A	N/A
<i>Earned Revenue</i>	598,000	0	598,000	140,372	23.5%	N/A
<i>Transfers</i>	31,000,000	0	31,000,000	10,333,334	33.3%	N/A
TOTAL SOURCES	100,305,993	4,886,389	105,192,382	10,473,706		
<i>Expenditures</i>	63,472,681	2,097,911	65,570,592	6,306,496	9.6%	N/A
<i>Transfers</i>	238,000	64,530	302,530	301,986	99.8%	N/A
<i>Reserves</i>	3,500,000	0	3,500,000	N/A	N/A	N/A
<i>Ending Fund Balance</i>	33,095,312	2,723,948	35,819,260	N/A	N/A	N/A
TOTAL USES	100,305,993	4,886,389	105,192,382	6,608,482		

* This chart did not previously appear in the Status of Selected Capital Funds. Therefore, the 2010-2011 % of Budget information is not available.

Fund Status

Revenues – Budgeted revenue for this fund in the Sanitary Sewer Capital Program in 2011-2012 consists of transfers from the Sewer Service and Use Charge Fund (\$31.0 million), Interest (\$113,000), and a grant from the Environmental Protection Agency (\$485,000) for the Japantown Sewer Infrastructure project, which is a part of the Miscellaneous Projects appropriation. Transfers from the Sewer Service and Use Charge Fund take place in three installments over the year, and the remaining two transfers will take place as scheduled. All revenues are expected to be received by the end of the year, as budgeted.

Expenditures – Expenditures in this fund represent the costs of improvements and

rehabilitation of the Sanitary Sewer System. Through December, 9.6% of the budget, excluding transfers, reserves, and Ending Fund Balance, had been expended and an additional 11.3% encumbered. It is expected that approximately \$20.5 million, or 31.2% of budget, will be unexpended at the end of the year and may be recommended for rebudget into 2012-2013 as part of the 2013-2017 Capital Improvement Program budget process. The expenditure variance is attributable to the delay of several projects. Reasons for these delays include a more extensive environmental review process for larger projects, permitting issues with the Union Pacific Railroad, and the coordination and timing of large sewer interceptor projects to limit construction impacts on the Water Pollution Control Plant.

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**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

Sewer Service and Use Charge Capital Improvement Fund

Fund Status

Expenditures

For three projects – the Almaden Expressway Sanitary Sewer (\$3.4 million), Coleman Road Sanitary Sewer Supplement (\$3.6 million), and Husted-Richland Sanitary Sewer Improvement (\$3.3 million) – project designs are expected to be completed in 2011-2012 and construction award is expected in early 2012-2013 after completion of the environmental review process that complies with recent regulatory changes for utility projects over one mile in length.

The Almaden Road Supplement Sewer Rehabilitation (North) project (\$2.2 million) is delayed due to a longer than expected permitting process for work under the Union Pacific Railroad tracks and within other portions of the railroad company's right of way.

The Fourth Major Interceptor Phase IIB project (\$2.0 million) will be rescheduled to coincide with related construction to be performed at the Water Pollution Control Plant. This work is expected to begin in spring 2013.

In addition to this, approximately \$700,000, or 23.5%, of the Reinforced Concrete Pipe Rehabilitation Program appropriation, as well as \$1.3 million, or 39.4%, of the Rehabilitation of Sanitary Sewer Pump Stations appropriation are

expected to remain unexpended pending completion of the condition assessment and videotape data analysis, which are currently underway.

Design of the 30" Old Bayshore Supplement project (\$4.0 million) is expected to be rescheduled to 2012-2013, with construction to start in 2013-2014, due to a reprioritization of capacity projects, particularly in light of unscheduled urgent sewer repair projects to address potential sewer main blockages.

Staff anticipates completion of approximately \$44.3 million in projects in 2011-2012, focusing on such large efforts as the Condition Assessment Sanitary Sewer Repairs (\$5.0 million), Spreckles Sanitary Sewer Force Main (\$4.7 million), Sanitary Sewer Condition Assessments Phase II (\$4.4 million), 60" Brick Interceptor Rehabilitation (\$2.2 million), Morrill Avenue/Sierra Road Sanitary Sewer Improvements (\$1.3 million), and other smaller projects. The savings in this program will be factored into the development of the 2013-2017 Proposed Capital Improvement Program.

Fund Balance – No adjustment to the Ending Fund Balance in the Sewer Service and Use Charge Capital Improvement Fund is recommended at this time.

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Section II**

**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

Storm Sewer Capital Fund

	2011-2012 Adopted Budget	Change	2011-2012 Current Modified	2011-2012 YTD Actual	2011-2012 % of Budget	2010-2011 % of Budget*
<i>Beginning Fund Balance</i>	9,210,999	1,255,133	10,466,132	N/A	N/A	N/A
<i>Carry-over Encumbrance</i>	2,393,492	0	2,393,492	N/A	N/A	N/A
<i>Earned Revenue</i>	4,000	0	4,000	16,825	420.6%	N/A
<i>Transfers</i>	6,000,000	0	6,000,000	4,000,000	66.7%	N/A
TOTAL SOURCES	17,608,491	1,255,133	18,863,624	4,016,825		
<i>Expenditures</i>	17,174,492	950,000	18,124,492	1,480,757	8.2%	N/A
<i>Transfers</i>	58,000	26,671	84,671	81,581	96.4%	N/A
<i>Reserves</i>	0	300,000	300,000	N/A	N/A	N/A
<i>Ending Fund Balance</i>	375,999	(21,538)	354,461	N/A	N/A	N/A
TOTAL USES	17,608,491	1,255,133	18,863,624	1,562,338		

* This chart did not previously appear in the Status of Selected Capital Funds. Therefore, the 2010-2011 % of Budget information is not available.

Fund Status

Revenues – The budgeted revenue estimate for this fund in the Storm Sewer Capital Program consists of transfers from the Storm Sewer Operating Fund (\$6.0 million) and interest earnings (\$4,000). The transfers and interest earnings are expected to end the year at or above the budgeted estimate.

Expenditures – Expenditures in this fund represent the costs of improvements and rehabilitation of the Storm Sewer System. Through December, 8.2% of the budget, excluding transfers, reserves, and Ending Fund Balance, had been expended and an additional 15.8% encumbered.

It is expected that at year-end, approximately \$8.4 million, or 46.6% of the expenditure

budget, will fall to fund balance as savings or be recommended for rebudget into 2012-2013 as part of the 2013-2017 Proposed Capital Improvement Program (CIP).

Savings of \$900,000 or more are expected in each of the following appropriations: Storm Pump Station Replacement, Storm Drainage Improvements, Alviso Storm Network Infiltration Control, Master Planning, and Urgent Flood Prevention and Repair. The savings expected in the Storm Pump Station Replacement project, currently estimated at \$1.4 million, are due to the deferral of a land purchase for the Charcot Pump Station, pending master plan recommendations that are expected in fall 2012. These improvements are being deferred until new recommendations resulting from the master planning effort for North San José are available. The anticipated savings in

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**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

Storm Sewer Capital Fund

Fund Status

Expenditures

the Storm Drainage Improvements – Special Corridors project (\$1.3 million) are due to the re-scoping of several projects. The re-scoping will simplify the design and consolidate projects in proximity to one another into more efficient design and construction packages. Expected savings for the Alviso Storm Network Infiltration project (\$1.2 million) will likely be recommended for rebudget as part of the 2013-2017 CIP process, because possible designs for the project are still under evaluation. The Master Planning project is anticipated to have savings (\$1.1 million) due to delays in the selection and purchase of the modeling software necessary to evaluate the City's sub-drainage areas. Finally, the Urgent Flood Prevention and Repair Projects appropriation is likely to have year-end savings (\$940,000) because staff needs additional time to repackage construction projects to create economies of scale and an improved project delivery model before the projects are awarded. In addition to the savings described above, seven other projects are expected to have smaller amounts of savings, totaling approximately \$1.3 million.

It is currently estimated that approximately \$10.0 million will be expended on projects and related expenses by the end of the year. Included in this are the Lower Bird Avenue

Drainage Improvements (\$694,000), Outfall Rehabilitation - Capital (\$653,000), El Dorado Street Storm Drainage Improvements (\$467,000), Gold Street Storm Drainage Improvements (\$378,000), Gateway East Storm Drainage Improvements (\$355,000), and Creek Channel Stabilization (\$341,000) projects as well as a number of smaller projects.

One appropriation, Permit Review and Inspection for Outside Agencies, is tracking to exceed the appropriation by \$25,000. Per State Law, the City and the Santa Clara Water District (District) do not charge each other for the review and inspection of projects. In 2011-2012, the District performed a widening of the Silver Creek channel that had not been anticipated when the budget was developed. This creek channel widening required the relocation of streetlights and other utilities and will require significant City staff time to inspect. It is recommended to increase this appropriation by \$25,000 offset with a decrease in the Ending Fund Balance.

Fund Balance – A \$25,000 decrease to the Ending Fund Balance in the Storm Sewer Capital Fund is recommended as part of this report to provide additional funding for Permit Review and Inspection for Outside Agencies, as described above.

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**STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
(CONT'D.)**

Transient Occupancy Tax Fund

	2011-2012 Adopted Budget	Change	2011-2012 Current Modified	2011-2012 YTD Actual	2011-2012 % of Budget	2010-2011 % of Budget
<i>Beginning Fund Balance</i>	3,375,075	464,559	3,839,634	N/A	N/A	N/A
<i>Carry-Over Encumbrances</i>	197,106	(21,378)	175,728	N/A	N/A	N/A
<i>Revenues</i>	10,807,000	0	10,807,000	4,671,215	43.2%	41.3%
TOTAL SOURCES	14,379,181	443,181	14,822,362	4,671,215		
<i>Expenditures</i>	7,203,742	573,032	7,776,774	3,365,626	43.3%	48.6%
<i>Transfers</i>	5,146,365	446,292	5,592,657	3,019,475	54.0%	47.4%
<i>Reserves</i>	589,000	(589,000)	0	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	1,440,074	12,857	1,452,931	N/A	N/A	N/A
TOTAL USES	14,379,181	443,181	14,822,362	6,385,101		

Fund Status

Revenues – Currently revenues in the Transient Occupancy Tax (TOT) Fund are tracking above estimated levels and are anticipated to end the year above the budgeted level. The 2011-2012 Adopted Budget assumed a 1.8% increase in receipts based on estimated 2010-2011 collections. Due to the fact that collections ended 2010-2011 at higher than anticipated levels, the 2011-2012 Adopted Budget estimate allows for a 0.9% decline from 2010-2011 receipts. Through December 2011, year-to-date receipts of \$4.7 million are 12.9% above December 2010 receipts.

The increase in TOT receipts is due to increased occupancy and average daily room rates at the City's 14 major hotels. Through December, the average hotel occupancy rate at these hotels was 57.9%, a slight improvement from the 57.5%

occupancy rate for the same period in 2010-2011. For the same 14 hotels the average daily room rate through December was \$122.19, an improvement from the \$117.42 room rate for the same period in 2010-2011. As of December, the trailing 12-month average revenue-per-available-room (RevPAR) increased to \$70.76, a 6.2% increase from the \$66.64 level experienced in December 2010.

As a result of the higher than anticipated revenue collections, an increase to the budgeted revenue estimate is recommended at this time. The recommended increase from \$10.8 million to \$12.5 million represents a 15.7% increase, and results in increased allocations to the three programs (Convention and Visitors Bureau, Cultural Development, and Convention Facilities Operations & Maintenance) per the distribution formula outlined in the San José Municipal Code.

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Section II**

**STATUS OF SELECTED SPECIAL FUNDS
(CONT'D.)**

Transient Occupancy Tax Fund

Fund Status

Expenditures – Expenditures through December are generally tracking within budgeted levels. The allocations to the three recipient organizations receive a fixed percentage of TOT receipts. When collections exceed or fall short of anticipated levels, the allocations to the recipients are adjusted. As mentioned previously, a recommendation is included in this report to increase the budgeted revenue estimate, which will result in \$412,000 for the Convention and Visitors Bureau, \$412,000 for Cultural Development, and \$824,000 for Convention Facilities Operation & Maintenance.

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