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## SPECIAL REVENUE FUNDS

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### Anti-Tobacco Master Settlement Agreement Revenue Fund

The attorney generals of most states and the major United States tobacco companies agreed to settle more than 40 pending lawsuits brought by states against the tobacco industry. This fund accounts for monies received through the Master Settlement Agreement (MSA) signed by parties to the lawsuit on November 23, 1998. This fund is commonly referred to as the Healthy Neighborhoods Venture Fund (HNVF).

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***Anti-Tobacco Master  
Settlement Agreement  
Revenue Fund***

<b>(\$000s)</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 12,712	\$ 11,924	\$ (788)	(6.2%)
<i>Expenditure</i>	13,849	11,841	2,008	14.5%
<i>Fund Balance (est.)</i>	5,972 *	6,314	342	5.7%

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The \$788,000 revenue variance is primarily the result of lower than budgeted transfers from other funds (\$1.7 million) as a result of higher than anticipated cash balance in the fund reducing the need for a short-term loan from the Sewage Treatment Plant Connection Fee Fund, offset by higher than budgeted revenues from the master tobacco settlement (\$771,000), interest earnings (\$112,000), and miscellaneous revenue (\$29,000). The amount of each year's tobacco settlement payment is difficult to estimate and subject to change depending on a number of factors including inflation, sales by the tobacco industry, and changes in market shares of the settling tobacco companies. Thus, variances between the projected and actual amounts are likely to continue to occur.

The expenditure variance of \$2.0 million primarily reflects the lower than budgeted transfers to the Sewage Treatment Plant Connection Fee Fund (\$1.7 million) as a result of the lower than anticipated loan that was required, as well as expenditure savings for Homework Centers (\$78,000) and staff costs related to the administration of the HNVF Program (\$116,000). No unexpended funds are recommended to be rebudgeted to 2008-2009 at this time.

The 2007-2008 ending fund balance is higher than estimated due to the combination of unexpended project funds and higher than anticipated revenues. Additional interest earnings of \$95,000 will be added to the Interest Earnings reserve, per City Council policy. The Interest Earnings Reserve is being built up over time in order to facilitate cash flow needs.

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## SPECIAL REVENUE FUNDS (CONT'D.)

### Benefit Funds

The Benefit Funds consist of the Dental Insurance, Life Insurance, Unemployment Insurance, and Benefit Funds. These funds account for the provision and financing of benefits to City employees, retirees, and their dependents.

#### *Introduction*

The Benefit Funds are designed to generate revenues sufficient to cover administrative costs, anticipated claims, premiums, expenditures, and the claims reserve for each fund when applicable. Benefit rates are then determined to produce the necessary revenues to cover the projected costs.

These funds are not designed to carry significant unrestricted fund balances, though they do carry 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 as needed.

<i><b>Benefit Funds</b></i>				<b>Percent</b>
<i><b>(\$000s)</b></i>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Variance</b>
<i>Revenue</i>	\$ 73,289	\$ 72,141	\$ (1,148)	(1.6%)
<i>Expenditure</i>	74,816	72,056	2,760	3.7%
<i>Fund Balance (est.)</i>	5,563 *	6,326	763	13.7%

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

#### *Overview of 2007-2008 Activity by Fund*

- Dental Insurance Fund:** The Dental Insurance Fund was established to account for the costs of dental benefits for City employees, retirees, and dependents. Revenues were above the modified budget (\$11.5 million) by 1.9 % or \$221,000. Revenues were slightly higher than anticipated due to a combination of higher participant and retiree contributions and interest earnings, offset by lower than anticipated reimbursements from City funds to the dental plan. Expenditures were below budget by \$1.03 million. The positive expenditure variance reflects lower than budgeted claims costs for the Delta Dental Plan (\$978,000 savings) as well as savings in Personal Services appropriation. The fund balance exceeded estimated levels by \$610,000 primarily due to lower than expected claims costs.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Benefit Funds (Cont'd.)

#### *Overview of 2007-2008 Activity by Fund (Cont'd.)*

- **Life Insurance Fund:** The Life Insurance Fund accounts for the costs of life insurance benefits for City employees and dependents. Revenues ended the year lower than budgeted levels by 21.0% or \$329,000 due to lower than expected reimbursements from City funds (\$270,000) and participant contributions (\$66,000). Slightly higher than expected interest earnings (\$7,000) offset the lower than expected reimbursements from City funds and participant contributions. Expenditures were \$339,000 or 20.8% lower than budgeted. The variance in expenditures was primarily due to savings in insurance premiums of \$323,000, due to an RFP process that resulted in lower premium rates as well as savings in the Personal Services appropriation (\$15,000). The year-end fund balance was lower than estimated by \$17,000 primarily due to higher than estimated participant enrollment.
- **Unemployment Insurance Fund:** Revenues ended the year above budgeted levels by 25.8% or \$27,000 due to higher than anticipated interest earnings (\$26,000) as well as slightly higher reimbursements from City funds (\$1,000). Expenditures were \$358,000 lower than budgeted levels due to savings from unemployment claims (\$302,000) and personal services funding (\$56,000). The fund balance exceeded estimated levels by \$3,000, reflecting lower than estimated expenditure levels and lower than anticipated interest earnings.
- **Benefit Fund:** Revenues and expenditures within this fund represent the amount City departments contribute to several specific employee benefits. Health coverage is the largest of the benefits, but also included are revenues and expenditures for AFSCME (American Federation of State, County, and Municipal Employees) legal assistance, vision care (Confidential Employees Organization, Municipal Employees Federation, and Association of Maintenance Supervisory Personnel), Employee Assistance Program premiums, FICA-Medicare payments, and PTC-457 Program (part-time, temporary, and contractual employee contributions for retirement).

Revenues ended the year below the modified budget level by 1.8% or \$1.1 million and expenditures were lower than the budgeted level by 1.7% or \$1.0 million. These variances are primarily due to revenues and expenditures related to health coverage, personal services funding, and overhead expenditures.

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**SPECIAL REVENUE FUNDS (CONT'D.)**

Benefit Funds (Cont'd.)

***Overview of 2007-2008 Activity by Fund (Cont'd.)***

The fund balance was higher than estimated levels by \$167,000. This reflects the impact of lower than budgeted expenditures offset by lower than anticipated revenue.

The FICA-Medicare appropriation was not adequate to reflect actual expenditures. This caused the appropriation level to be exceeded by \$52,948. Therefore, on September 30, 2008, City Council will consider a retroactive increase to the FICA-Medicare appropriation.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Business Improvement District Fund

The Business Improvement District Fund was established to collect and account for assessments imposed by the City for the general promotion of business activities in and improvements to the districts.

***Business Improvement  
District Fund***

<i>(\$000s)</i>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 2,676	\$ 2,755	\$ 79	3.0%
<i>Expenditure</i>	2,709	2,555	154	5.7%
<i>Fund Balance (est.)</i>	459 *	753	294	64.1%

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

Total revenues of \$2.76 million were higher than budgeted by \$79,000. The variance is primarily the result of higher than estimated collections in Hotel assessments (\$29,000), Downtown assessments (\$54,000), and unallocated interest earnings (\$8,000). The higher than estimated collections were slightly offset by lower than estimated collections in Willow Glen assessments (\$10,000).

Expenditures were below projected budget levels by \$154,000 due to savings in the Hotel Business Improvement District (\$137,000), Willow Glen Business Improvement District (\$11,000), and Japantown Business Improvement District (\$7,000) allocations.

The 2007-2008 ending fund balance positive variance of \$294,000 primarily reflects the combined impact of higher than estimated revenues (\$188,000) and lower than estimated expenditures in the Hotel Business Improvement District (\$104,000) allocation.

Additionally, on May 6, 2008, City Council approved the 2008-2009 budget report for the Downtown Business Improvement District. In order to align the budget with this report, it is recommended as part of this document to recognize an additional \$50,000 in revenue from the Downtown assessments as well as provide \$80,000 for the Downtown Business Improvement District allocation. Ending fund balance will be used to offset a portion of this adjustment.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Cash Reserve Fund

The Cash Reserve Fund is a revolving fund for the payment of authorized expenditures for any fiscal year in anticipation of and before the collection of taxes and other revenues, and for payment of authorized expenses for any fiscal year that must be paid prior to the receipt of tax payments and other revenues.

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#### *Cash Reserve Fund*

<i>(\$000s)</i>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 0	\$ 0	\$ 0	N/A
<i>Expenditure</i>	0	0	0	N/A
<i>Fund Balance (est.)</i>	5 *	5	0	0.0%

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

Revenues of \$196 were 41.4% (\$61) above the budgeted revenue estimate, reflecting higher than anticipated interest revenues. There were no expenditures in this fund in 2007-2008.

The 2007-2008 ending fund balance ended the year \$61 higher than the estimated level. This is due to higher than anticipated revenues, as mentioned above.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### City Hall Debt Service Fund

The City Hall Debt Service Fund collects transfers from the General Fund, Special Funds, and Capital Funds in order to fund debt service related to the new City Hall, City Hall off-site employee parking garage, and furniture, fixtures and equipment costs. Each fund's share of costs is determined annually by the Finance Department based on each fund's fair-share allocation.

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***City Hall Debt  
Service Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 25,955	\$ 24,912	\$ (1,043)	(4.0%)
<i>Expenditure</i>	26,849	24,533	2,316	8.6%
<i>Fund Balance (est.)</i>	0 *	1,273	1,273	N/A

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The negative revenue variance of \$1.0 million is the result of budgeted interest earnings received in a separate trustee-held fund and credited to this fund through a reduction in debt service payments. An offsetting reduction in expenditures occurred as a result of this credit.

The positive expenditure variance primarily reflects lower than budgeted City Hall and City Hall Garage debt service payments due to a credit of interest earnings mentioned above as well as a lower than overall debt issuance than originally anticipated.

The 2007-2008 positive fund balance variance of \$1.3 million resulted from lower than estimated expenditures (\$2.3 million), partially offset by lower than estimated revenues (\$1.0 million).

Lastly, it should be noted that adjustments to the 2008-2009 transfers from the General Fund, Special Funds, and Capital Funds to the City Hall Debt Service Fund are recommended in this document. These actions are recommended in order to bring the Transfer to the City Hall Debt Service Fund appropriations to a level necessary to adequately fund each fund's fair share allocation of debt service related to City Hall, the City Hall off-site employee parking garage, and furniture, fixtures, and equipment. The fair share allocation of debt service was not available during the development of the 2008-2009 Adopted Operating and Capital Budgets.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Community Development Block Grant Fund

The Community Development Block Grant Fund accounts for federal grant monies received from the U.S. Housing Urban and Development Department under Title II of the Housing and Community Development Act of 1974 and Rental Rehabilitation Program funds.

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***Community  
Development  
Block Grant Fund***

(\$000s)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent Variance</u>
<i>Revenue</i>	\$ 11,889	\$ 11,465	\$ (424)	(3.6%)
<i>Expenditure</i>	18,022	14,122	3,900	21.6%
<i>Fund Balance (est.)</i>	6,688 *	8,350	1,662	24.9%

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The \$424,000 negative variance in revenue is the result of less than anticipated collections from loan repayments. The majority of the loans are to individual homeowners for rehabilitation projects on their homes. The reduction in these loan repayments is believed to be a reflection of the downturn in the housing market.

Of the \$3.9 million variance in expenditures, approximately \$1.9 million is for projects that were programmed for the 18 month period between July 2007 and December 2008. The majority of these funds are expected to be expended by the end of the year, and the funds were rebudgeted to 2008-2009. An additional \$2.0 million of the expenditure variance primarily results from projects that did not need their entire allocation, including: Housing Rehabilitation projects (\$579,000), Anti-Graffiti (\$249,000), Revolving Loan Fund Expansion (\$256,000), Code Enforcement vacancy savings (\$197,000), and CDBG program administration (\$131,000). Additionally, several projects were cancelled, including O'Connor Park project (\$250,000), and Rehabilitation for a cafeteria and nutrition center for San Jose Conservation Corps (\$203,000). The unused funds will return to the project fund balance for allocation to future projects.

Community Development Block Grant Fund (CDBG) regulations limit the amount that may be spent on Public Service activities and Administration to 15% and 20% respectively. The base for the percentage calculation is a combination of the current CDBG entitlement award plus the program income generated by the City's CDBG Program in the prior year. Therefore the drop in loan repayments mentioned above required reductions in the 2008-2009 budgets for Public Service (approximately \$55,000) and Administration (approximately \$83,000) which are recommended in this document.

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**SPECIAL REVENUE FUNDS (CONT'D.)**

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Community Development Block Grant Fund (Cont'd.)

The 2007-2008 ending fund balance is approximately \$1.7 million higher than estimated due to lower than estimated expenditure levels, partially offset by lower than estimated revenue.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Community Facilities Revenue Fund

The Community Facilities Revenue Fund was established to account for the financing and operation of the Hayes Conference Center. Effective January 1, 2004, Dolce International/San José, Inc. (Dolce) was appointed the new manager of the facility under the terms of a ten-year (with options to extend) management agreement with the City. As part of the agreement, Dolce transfers the necessary money from Hayes Mansion operations to this fund for debt service payments and to reimburse the City for some operating costs, such as insurance.

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***Community Facilities  
Revenue Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 9,409	\$ 8,963	\$ (446)	(4.7%)
<i>Expenditure</i>	10,361	9,317	1,044	10.1%
<i>Fund Balance (est.)</i>	506 *	746	240	47.4%

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

The negative revenue variance of \$446,000 is primarily due to the lower than expected transfers from Dolce for debt services (\$437,000), capital improvements (\$80,000), and city expenses (\$15,000), partially offset by higher than expected interest earnings (\$87,000).

The expenditure variance of \$1.0 million is due to lower than budgeted transfers for debt service on the Hayes Mansion Phase III project (\$632,000), and lower than anticipated expenditures in the Hayes Capital Improvement project (\$411,000). The Debt Service payment was lower than the budgeted level based on the instability of the current market on a variable rate.

The 2008-2009 transfer from the Hayes Mansion Phase III Fund into the Community Facilities Revenue Fund of \$276,000 is recommended to be reduced by \$116,000 in this document. This is due to a lower than anticipated Fund Balance in the Hayes Mansion Phase III Fund. Also included in this document is a recommendation to increase the transfer from the General Fund to the Community Facilities Revenue Fund by \$118,140. This is a result of a 2007-2008 transfer from the General Fund into this fund which was made in error.

The 2007-2008 ending fund balance is \$240,000 higher than estimated primarily due to the lower than expected expenditures partially offset by lower revenue.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Convention and Cultural Affairs Fund

The Convention and Cultural Affairs Fund was established to account for operations of the San José McEnery Convention Center, the Center for the Performing Arts (CPA), Civic Auditorium, Montgomery Theater, Exhibit Hall, and their related facilities and grounds.

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***Convention and  
Cultural Affairs Fund***

<i>(\$000s)</i>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent Variance</u>
<i>Revenue</i>	\$ 18,795	\$ 20,008	\$ 1,213	6.5%
<i>Expenditure</i>	18,070	16,821	1,249	6.9%
<i>Fund Balance (est.)</i>	6,429 *	7,606	1,177	18.3%

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The Convention and Cultural Affairs Fund accounts for the operation of the City's Convention Facilities that are managed by Team San José. In 2007-2008, activity at the Convention Facilities generated higher than anticipated revenues. The actual revenue collections were \$1.2 million above the budgeted level, primarily due to higher than budgeted building rentals.

Total expenditures in this fund were less than budgeted by approximately \$1.2 million. The expenditure variance was primarily due to savings realized in the following appropriations: Non-Personal/Equipment appropriation (\$557,000) primarily due to lower than anticipated supplies and utility expenditures, Office of Cultural Affairs Improvements (\$377,000) due to a delay in the project, Personal Services appropriation (\$163,000) due to a high number of vacancies, Workers' Compensation Claims (\$87,000), Insurance Expenses (\$55,000), and Capital Improvements (\$11,000).

The 2007-2008 ending fund balance ended the year \$1.2 million higher than estimated due to higher than anticipated revenue collections and lower than anticipated expenditures. As part of this document, \$483,000 of additional 2007-2008 Transient Occupancy Tax (TOT) revenue is recommended to be recognized and transferred into this fund. TOT Fund tax revenue is by ordinance shared by three groups, the Convention Facilities Operations and Maintenance (50% of the TOT growth from the prior year), the San José Convention and Visitors Bureau (25% of the TOT growth from the prior year), and Cultural Grants (25% of the TOT growth from the prior year). This report, therefore, contains the proposed appropriation adjustment actions required to distribute the excess collection to the three groups. In addition, per prior City Council direction, \$500,000 of the fund balance is recommended to be set aside in a sinking fund for future capital improvements at the Convention Center. With the addition of \$500,000 to the sinking fund, \$1.0 million will be allocated for this purpose.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Downtown Property and Business Improvement District Fund

The Downtown Property and Business Improvement District Fund was established to account for the revenue collected and expenses related to maintaining and operating any public improvements which are local in nature and are payable from annual assessments apportioned among the several lots of parcels or property within the maintenance district.

***Downtown Property and  
Business Improvement  
District Fund***

(\$000s)

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 1,768	\$ 1,766	\$ (2)	(.1%)
<i>Expenditure</i>	968	945	23	2.4%
<i>Fund Balance (est.)</i>	818 *	822	4	0.5%

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

Total revenues (\$1.8 million) were lower than budgeted by \$2,000. The variance was a result of lower than anticipated revenue collection of special assessments (\$4,000) and higher than anticipated interest earnings (\$2,000). Expenditures were below estimated budget levels by \$23,000 due to lower than anticipated maintenance and improvement costs in the Downtown area.

The 2007-2008 ending fund balance positive variance of \$4,000 reflects the combined impact of lower than anticipated revenues (\$5,000) offset by lower than estimated expenditures (\$9,000).

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Economic Development Administrative Loan Fund

The Economic Development Administrative Loan Fund was established to account for federal funds and loan repayment that provide loans to small businesses for business expansion, remodeling, working capital, equipment, or other specified uses with the goal of generating additional employment opportunities as a result of such assistance to businesses within the City of San José.

***Economic Development  
Administrative Loan  
Fund***

(\$000s)

		<b>Budget</b>		<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$	58	\$	49	\$ (9)	(15.5%)
<i>Expenditure</i>		55		45	10	18.2%
<i>Fund Balance (est.)</i>		48 *		58	10	20.8%

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

Total revenues (\$49,000) were lower than the budgeted estimate by \$9,000. The variance was due to lower than anticipated revenues from principal loan repayments (\$14,000), slightly offset by higher than anticipated interest earnings (\$1,000) and interest loan repayments (\$4,000). Expenditures were below the budgeted levels by \$10,000 due to savings in small business loans.

The 2007-2008 ending fund balance positive variance of \$10,000 reflects the impact of lower than anticipated expenditures for small business loans (\$10,000).

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Economic Development Enhancement Fund

The Economic Development Enhancement Fund was established to account for grants and interest income to assist San José small businesses by providing loan guarantees to lenders for transactions that do not meet traditional banking standards and to provide direct loans to eligible and qualified borrowers to close the gap in financing when the lender does not provide the total amount of funds requested.

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***Economic Development  
Enhancement Fund***

<i>(\$000s)</i>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 142	\$ 366	\$ 224	157.7%
<i>Expenditure</i>	1,618	288	1,330	82.2%
<i>Fund Balance (est.)</i>	1,688 *	2,169	481	28.5%

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

Total revenues (\$366,000) were higher than the budgeted revenue by \$224,000. The variance is primarily the result of higher than anticipated revenues from Development Enhancement Fund - Gap principal repayments (\$125,000), principal repayments (\$80,000), and interest earnings (\$24,000).

Expenditures were below estimated budget levels by \$1.3 million due to savings in the Small Business Loan Program (\$570,000) and loan administration (\$41,000). The Economic Development Catalyst Program also generated savings of \$719,000. Due to the strict investment criteria of the Economic Development Catalyst Program, variances in budgeted to actual expenditures are to be expected. Despite the current economic downturn, one to two investments in this program are anticipated for 2008-2009.

The 2007-2008 ending fund balance positive variance of \$481,000 reflects the combined impact of lower than anticipated expenditures mainly for the Economic Development Catalyst Program and slightly higher revenues.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Edward Byrne Memorial Justice Assistance Grant Trust Fund

The Edward Byrne Memorial Justice Assistance Grant Trust Fund (JAG) was established when the Bureau of Justice Assistance discontinued the Local Law Enforcement Block Grant (LLEBG) Program in 2004. The funds are used to support a broad range of activities to prevent and control crime and to improve the criminal justice system.

***Edward Byrne Memorial  
Justice Assistance Grant  
Trust Fund***

<b>(\$000s)</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 301	\$ 305	\$ 4	1.3%
<i>Expenditure</i>	695	583	112	16.1%
<i>Fund Balance (est.)</i>	236 *	121	(115)	(48.7%)

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

This Fund receives monies from the United States Department of Justice, Bureau of Justice Assistance. The funding is awarded each fiscal year in the form of a two-year grant. Any funds unexpended or unencumbered by the end of the two year grant cycle must be returned to the federal government, along with any interest earnings.

The 2007-2008 revenue variance of \$4,000 is the result of higher than estimated interest earnings.

The 2007-2008 expenditure variance of \$112,000 is primarily the result of 2007-2009 JAG grant funds not being fully expended. An estimate of the remaining grant funds was rebudgeted in the 2008-2009 Adopted Budget.

The 2007-2008 fund balance variance of \$115,000 is the result of higher than anticipated expenditures in the 2005-2007 JAG grant (\$10,000) and the 2007-2009 JAG grant (\$105,000). Downward adjustments to the rebudgets approved for these projects as part of the 2008-2009 Adopted Operating Budget are recommended in this report based on actual expenditures.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Emergency Communication System Support Fee Fund

This fund accounts for the receipt of all money received for the eligible portion of operating costs and project costs related to the operation of the San José 911 emergency communication system for telephone subscribers who are subject to the Emergency Communication System Support Fee collected pursuant to the provisions of Chapter 8.20 of Title 8 of the San José Municipal Code.

***Emergency Communication  
System Support Fee  
Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 23,400	\$ 23,477	\$ 77	0.3%
<i>Expenditure</i>	23,400	23,400	0	0.0%
<i>Fund Balance (est.)</i>	3,390 *	4,440	1,050	31.0%

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The \$77,000 revenue variance is the result of higher than budgeted Emergency Communication System Support (ECSS) fees collected. This collection level of \$23.5 million reflects growth of 1.0% from the 2006-2007 collection level of \$23.3 million, which was due to increases in the number of telephone lines for which the fee is assessed. No fee increases were implemented in 2007-2008.

The revenue collected in this fund is transferred to the General Fund to support the Emergency Communication System. The transfer of \$23.4 million occurred as budgeted for 2007-2008.

The ending fund balance of \$4.4 million was \$1.1 million above the estimate used in the 2008-2009 Adopted Budget. This reflects higher than estimated revenue of \$77,000 and a lower than projected transfer to the General Fund. When the 2008-2009 Adopted Budget was developed, it was assumed that \$973,000 of the fund balance in the Emergency Communication System Support Fee Fund would be transferred to the General Fund in 2007-2008 to reimburse the General Fund for prior year eligible costs. It is now anticipated that this transaction will occur during 2008-2009 and will incorporate the final reconciliation of the 2007-2008 actual costs and revenues that are covered by the ECSS Fee.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Emergency Reserve Fund

The Emergency Reserve Fund accounts for reserves established from local revenues to meet public emergencies.

<i>Emergency Reserve Fund</i>							
(\$000s)		Budget	Actual	Variance	Percent Variance		
<i>Revenue</i>	\$ 0	\$ 0	\$ 0	\$ 0	N/A		
<i>Expenditure</i>	0	0	0	0	N/A		
<i>Fund Balance (est.)</i>	4591 *	4591	0	0	N/A		

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

There were no revenues or expenditures in this fund in 2007-2008.

The 2007-2008 ending fund balance ended the year at the estimated level.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Federal Drug Forfeiture Fund

The Federal Drug Forfeiture Fund was established to account for all monies received by the City from the federal government pursuant to the drug abuse prevention and control provisions of Title 21, Chapter 13 of the United States Code. Federal guidelines for this Fund stipulate that seizure monies are to be used for the financing of programs or costs required for the direct or indirect enhancement of narcotics-related enforcement activities. There are no time restrictions dictating when the money must be expended or encumbered.

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***Federal Drug  
Forfeiture Fund***

(\$000s)

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 35	\$ 223	\$ 188	537.1%
<i>Expenditure</i>	92	44	48	52.2%
<i>Fund Balance (est.)</i>	1,468 *	1,532	64	4.4%

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The 2007-2008 revenue variance of \$188,000 is the result of higher than anticipated revenue from the federal government (\$169,000) as well as higher than anticipated interest earnings (\$19,000).

The 2007-2008 expenditure variance of \$48,000 is the result of an encumbrance for previous NCI equipment purchases (\$38,000) that was budgeted in 2007-2008; however, it was expended at the end of 2006-2007 and was not reconciled until the close of 2007-2008. Also federal revenue funds appropriated to purchase equipment for the Narcotics Covert Investigations (NCI) Unit were not fully expended (\$11,000). This \$11,000 is recommended for rebudget in this document to complete the purchase of the NCI equipment.

The 2007-2008 fund balance variance of \$64,000 is the result of higher than estimated revenue collections (\$53,000) combined with lower than anticipated expenditures (\$11,000).

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Fiber Optics Development Fund

The Fiber Optics Development Fund was created in 1996 to provide for a fiber optic conduit network. Activity in this fund currently consists of payback of the original loan from the Sewage Treatment Plant Connection Fee Fund.

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***Fiber Optics  
Development Fund***

(\$000s)

		<b>Budget</b>		<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$	50	\$	51	\$ 1	2.0%
<i>Expenditure</i>		50		50	0	0.0%
<i>Fund Balance (est.)</i>		21 *		21	0	0.0%

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

The revenue variance of \$1,000 is the result of higher than budgeted interest earnings.

Actual expenditure activity in this fund occurred as budgeted. It should be noted that an augmentation (\$1.8 million) to pay off a portion of the outstanding loan to the Sewage Treatment Plant Connection Fee Fund is recommended in this document. A remaining liability of (\$2.9 million) still remains and must be repaid by June 2011 per the terms of the loan agreement. This recommendation is consistent with the Mayor's June Budget Message that states that up to 25% of the General Fund Ending Fund Balance above estimated levels may be allocated to repay the outstanding Fiber Optics Development Fund loan.

The actual ending fund balance ended the year at estimated levels.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Gas Tax Maintenance and Construction Funds

The Gas Tax Maintenance and Construction Funds represent the City's portion of the State collected Gas Tax. Revenues are restricted for acquisition, construction, improvement, and maintenance of public streets subject to provisions of the Streets and Highways Code of the State of California and to provide for Traffic capital improvements.

***Gas Tax Maintenance and  
Construction Funds***

(\$000s)

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 17,200	\$ 17,200	\$ 0	0.0%
<i>Expenditure</i>	17,200	17,200	0	0.0%
<i>Fund Balance (est.)</i>	0 *	0	0	N/A

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The \$17.2 million in Gas Tax revenues were transferred to the General Fund as budgeted. There were no year-end variances in the three Gas Maintenance and Construction Funds.

It should be noted that the \$17.2 million revenue figure includes an accrual of \$5.5 million to reflect the expected Gas Tax payments from the State that were deferred at the end of 2007-2008. In 2007-2008, the State approved budget actions that resulted in the delay of Gas Tax payments to local jurisdictions for five months from April 2008 through August 2008. These funds are to be repaid to local governments at the end of September 2008. Cities were, however, authorized to accrue back to 2007-2008 the revenues associated with that fiscal year.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Gift Trust Fund

This fund receives gifts, donations, and bequests and accounts for their expenditures.

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#### *Gift Trust Fund*

(\$000s)

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 481	\$ 800	\$ 319	66.3%
<i>Expenditure</i>	2,424	657	1,767	72.9%
<i>Fund Balance (est.)</i>	1,932 *	2,091	(159)	(8.2%)

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

Revenues were 66.3% above (\$319,000) the budgeted revenue estimate in 2007-2008 due to the recognition of interest earnings and the receipt of unanticipated gifts.

Expenditures were 72.9% below (\$1.77 million) the budgeted level. Many of the cash gifts that the City receives are restricted for very specific purposes. In many cases the departments need to pool several gifts together until an expenditure can be made, therefore expenditures in this fund often are far lower than the budgeted level. All project savings are recommended in this document to be carried forward to 2008-2009, as this fund is appropriated according to the available cash balance.

The 2007-2008 ending fund balance ended the year \$159,000 below the estimated level due to slightly higher than anticipated expenditures in 2007-2008. This reduction does not reduce the total funding available for any particular project, but rather reconciles the fund balance to the actual amount of cash in the fund at the end of 2007-2008.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Home Investment Partnership Program Fund

The Home Investment Partnership Program Act, enacted by Congress in 1990, established a program of federal assistance to State and local governments for affordable housing projects. The City established the Home Investment Partnership Program Fund (HOME) in 1993-1994 to utilize the available federal funding for activities associated with housing rehabilitation and new construction. This fund is also utilized for federal Rental Rehabilitation Program activities.

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***Home Investment  
Partnership Program  
Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 16,038	\$ 6,314	\$ (9,724)	(60.6%)
<i>Expenditure</i>	14,019	6,367	7,652	54.6%
<i>Fund Balance (est.)</i>	470 *	208	(262)	(55.7%)

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

The expenditures in this fund are primarily allocated as loans and grants for the development of affordable housing. The U.S. Department of Housing and Urban Development (HUD), the main funding agent, allows the Housing Department a maximum of two years to commit to a project and three more years to disburse funds for a project.

Generally, variances in revenue and expenditures are due to delays in capital projects that qualified for federal funds. As expenditures are incurred, HOME funds are disbursed to the City as reimbursement revenue. For 2007-2008, the negative revenue variance of \$9.7 million is primarily due to the delay in the Kings Crossing family project expenditure (\$5.2 million) and in turn the revenue reimbursement has not yet been requested. This project, which will be reimbursed via grants from the U.S. Department of Housing and Urban Development, did not occur as planned in 2007-2008 and is recommended to be rebudgeted to 2008-2009 in this report. In addition, \$1.1 million of the variance is due to savings in the Neighborhood Housing Services appropriation, which is a low-income home buyer program. Savings in both of these appropriations are also recommended to be rebudgeted to 2008-2009 in this report.

The positive expenditure variance of \$7.7 million is due to a combination of lower than budgeted program and operating expenditures in nearly every budgeted appropriation; however, the majority of the savings were realized in the Home Loans and Grants category (\$4.5 million) and the Neighborhood Services Housing Program - Home Venture category (\$1.1 million) due to delays in completing capital projects qualified for federal funds.

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**SPECIAL REVENUE FUNDS (CONT'D.)**

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Home Investment Partnership Program Fund (Cont'd.)

The 2007-2008 Ending Fund Balance ended the year \$262,000 lower than the estimated level. This is due to lower than anticipated revenues, partially offset by lower than anticipated expenditures.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Housing Trust Fund

The Housing Trust Fund was established to assist non-profit service providers and organizations by providing one-time grants for housing and homeless related projects.

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*Housing Trust Fund*

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 6,385	\$ 6,281	\$ (104)	(1.6%)
<i>Expenditure</i>	5,220	4,036	1,184	22.7%
<i>Fund Balance (est.)</i>	6,549 *	6,537	(12)	(.2%)

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

This fund was established with an initial balance of almost \$2.0 million in one-time funds from the defeasance of 1983 through 1985 Single Family Mortgage Revenue Bonds. It has no identified source of ongoing funding. Over the years, however, additional funding has been allocated from various sources such as Proposition 46 grants, bond administration fees, tax credit application review fees, and in-lieu fees from housing developers in Redevelopment Project Areas, among others. These funding sources are, however, by their nature unpredictable.

The actual revenue collections were \$104,000 less than the budgeted level due to a combination of lower than estimated revenue from the Job Training Grant Program (\$320,000), and Inclusionary In-Lieu Fees (\$4,000), offset by higher than estimated revenue from interest earnings (\$128,000), Bond Administration Fees (\$85,000), and Miscellaneous Revenue (\$7,500).

The positive expenditure variance of almost \$1.2 million reflects lower than budgeted expenditures in the Housing and Homeless Project Program (\$775,000), Job Training Grant Program (\$320,000), as well as the Emergency Assistance Program (\$88,000).

The 2007-2008 ending fund balance ended the year \$12,000 less than the estimated level due to lower than anticipated revenues partially offset by lower than anticipated expenditures.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Ice Center Revenue Fund

The Ice Center Revenue Fund accounts for the rental revenues received from the Ice Rink Center operations, and provides for the accumulation and transfer of base rental income to the debt service fund for repayment of the debt and for repairs and improvements at the Ice Centre.

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***Ice Center Revenue  
Fund***

***(\$000s)***

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 2,526	\$ 3,068	\$ 542	21.5%
<i>Expenditure</i>	3,529	2,497	1,031	29.2%
<i>Fund Balance (est.)</i>	3,748 *	4,720	972	25.9%

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

At the end of 2007-2008, actual revenue collections were \$542,000 above the budgeted level. This is due to higher than expected revenues from rental income (\$534,000) and interest earnings (\$8,000).

The expenditure variance of approximately \$1 million reflects the combined impact of lower than expected expenditures for the Debt Service payment (\$507,000), the Repairs and Improvements project (\$487,000), and Ice Center Bond Expenses (\$38,000). The Debt Service payment was lower than the budgeted level based on the instability of the current market on a variable rate.

Additionally, it is recommended as part of this document to increase the Ice Center Repairs and Replacements appropriation by \$763,000 to cover unanticipated capital repairs and replacements that were not budgeted in 2008-2009.

The 2007-2008 ending fund balance ended the year \$972,000 higher than estimated due to higher than anticipated revenue collections, combined with lower than anticipated expenditures.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Integrated Waste Management Fund

The Integrated Waste Management (IWM) Fund was established July 1, 1994. The fund collects revenues from the City's Recycle Plus Program and through fees on other solid waste services as authorized by AB 939, the State law requiring cities to reduce waste landfill by 50% by the year 2000 and maintain this diversion rate every year thereafter. This fund is expended for programs related to the City's efforts to comply with that law, along with other integrated waste management services.

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***Integrated Waste  
Management Fund***

<b><i>(\$000s)</i></b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 101,282	\$ 109,190	\$ 7,908	7.8%
<i>Expenditure</i>	105,934	102,547	3,387	3.2%
<i>Fund Balance (est.)</i>	15,575 *	22,538	6,963	44.7%

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

Revenue ended the year approximately 7.8% (\$7.9 million) above the budgeted level. The positive variance resulted primarily from higher than budgeted revenues from Construction Demolition Diversion Deposit (CDDD) Ineligible Refunds (\$7.2 million), commercial paper proceeds (\$1.1 million), lien-related charges (\$810,000), interest income (\$689,000) and Household Hazardous Waste (HHW) revenue from the County (\$291,000). The CDDD revenues are generated when developers forfeit their deposits by either failing to meet the requirements of the program or failing to collect deposits to which they are entitled. This increase in revenue is partially offset by lower than budgeted Recycle Plus collection charges (\$2.0 million). This decrease reflects a change in the collection cycles only, and the revenue will be recognized in 2008-2009.

Expenditures in this fund ended the year with savings of \$3.4 million (3.2% below budgeted levels). Savings occurred primarily in the Environmental Services Department's Non-Personal/Equipment appropriation (\$2.1 million), the Information Technology Department's Personal Services appropriation (\$444,000), the Single-Family Recycle Plus program (\$367,000), the Multi-Family Recycle Plus program (\$115,000) and workers' compensation claims (\$113,000). Savings in the Environmental Services Department's Non-Personal/Equipment appropriation were primarily due to the deferral of construction on the Household Hazardous Waste facility into 2008-2009 (\$1.9 million). The positive expenditure variance in the Information Technology Department's Personal Services appropriation was primarily the result

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**SPECIAL REVENUE FUNDS (CONT'D.)**

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**Integrated Waste Management Fund (Cont'd.)**

of vacancy savings. A portion of the savings (\$1.8 million) was assumed and rebudgeted as part of the 2007-2008 Adopted Operating Budget. In addition, an augmentation of \$300,000 for a Material Recovery Facility Monitor and the Plastic Carryout Bag Reduction Initiative, approved in concept by Council on May 20, 2008, is recommended as part of this report.

The positive ending fund balance variance (\$7.0 million) is a result of the combined impact of the higher than estimated revenues and lower than anticipated expenditures. As discussed above, \$300,000 of this is recommended as an augmentation to the Non-Personal/Equipment appropriation in 2008-2009.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Library Parcel Tax Fund

The Library Parcel Tax program was approved by the voters of the City of San José on November 4, 2004 to provide funding for Library purposes such as acquisition of library books and materials; development and delivery of homework and educational programs; and repair, equipping, and staffing of libraries.

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#### *Library Parcel*

#### *Tax Fund*

(\$000s)

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 6,350	\$ 6,903	\$ 553	8.7%
<i>Expenditure</i>	7,402	6,266	1,136	15.3%
<i>Fund Balance (est.)</i>	5,047 *	6,336	1,289	25.5%

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The 2007-2008 year-end revenues had a positive variance of \$553,000 due to higher than anticipated tax collections (\$407,000) and interest earnings (\$145,000).

Total expenditures ended the year \$1.1 million below budgeted levels due to lower than anticipated expenditures for the Automation Projects (\$477,000), Non-Personal/Equipment appropriation (\$284,000), Library Department Personal Services appropriation (\$219,000), and Acquisition of Materials (\$150,000). Approximately \$150,000 was rebudgeted in the 2008-2009 Adopted Operating and Capital Budgets, and an additional \$890,000 of unexpended funds is recommended for rebudget as part of this document.

The higher ending fund balance (\$1.3 million) is the result of the combined impact of the lower than estimated expenditures and higher than estimated revenues. As discussed above, \$890,000 of this additional fund balance is recommended to be rebudgeted to 2008-2009. The remaining fund balance will be preserved for future administrative expenses or related capital projects.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Local Law Enforcement Block Grant Fund

The Local Law Enforcement Block Grant Fund (LLEBG), which ended in 2004 and was replaced by the Edward Byrne Justice Assistance Grant, provided funding to units of local government to underwrite projects that reduce crime and improve public safety. The LLEBG Program emphasized local decision-making and encouraged communities to craft their own responses to local crime and drug problems.

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***Local Law Enforcement  
Block Grant Fund***

<b>(\$000s)</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 0	\$ 1	\$ 1	N/A
<i>Expenditure</i>	35	30	5	14.3%
<i>Fund Balance (est.)</i>	0 *	5	5	N/A

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

This Fund received monies from the United States Department of Justice, Bureau of Justice Assistance. The funding was awarded each fiscal year in the form of a two-year grant. Any funds unexpended or unencumbered by the end of the two-year grant cycle had to be returned to the federal government, along with any interest earnings. In 2008-2009, San José plans to close out the remaining LLEBG Grants with the federal government, and this Fund will be eliminated once the fund balance goes to zero.

The 2007-2008 revenue variance of \$1,000 is the result of higher than anticipated interest earnings.

All remaining unexpended and unencumbered funding and interest earnings have been appropriated to be returned to the federal government in order to close out the remaining LLEBG grants.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Low and Moderate Income Housing Fund

The Low and Moderate Income Housing Fund accounts for the 20% tax increment monies received from the San Jose Redevelopment Agency (SJRA) for the purposes of increasing and improving the supply of low- and moderate-income households in the City of San José.

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***Low and Moderate  
Income Housing  
Fund***  
**(\$000s)**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 95,965	\$ 76,205	\$ (19,760)	(20.6%)
<i>Expenditure</i>	136,904	113,735	23,169	16.9%
<i>Fund Balance (est.)</i>	10,632 *	5,311	(5,321)	(50.0%)

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The negative revenue variance of \$19.8 million primarily reflects the ability of the Housing Department to manage project disbursements with cash on hand without accruing new debt via the line of credit (\$28.6 million), lower than anticipated collections for the Teacher Housing Program Revolving Loan Fund (\$2.5 million), and lower than anticipated bond sale proceeds (\$1.6 million), as planned through the budget process. This is partially offset by higher than anticipated loan repayments including a combined \$7.0 million from the Cinnabar and Lenzen housing projects. Included in this document is a recommendation to decrease the 2008-2009 20% Tax Increment from the Redevelopment Agency (\$630,000) to reflect adjusted revenue as projected by the County Assessor's Office.

The positive expenditure variance of \$23.2 million reflects savings in nearly every budgeted appropriation. The majority of the savings were realized in the Housing Loans, Grants, and Acquisitions and Second Mortgage Commitment appropriations. Savings in the Housing Loans, Grants and Acquisitions appropriation (\$7.8 million) were due to the delay in committing funds to new multi-family projects. The Housing Department anticipates an increase in activity in this program in 2008-2009. Savings in the Second Mortgage Commitment appropriation (\$10.0 million) were anticipated during the development of the 2008-2009 Adopted Budget, and \$5.0 million was rebudgeted in the Adopted Budget. Included in this document is a recommendation to increase this appropriation by \$2.9 million, as \$2.0 million is budgeted in the Home Investment Partnership Program Fund, bringing total available funding for this purpose to \$10.0 million. Funding in the amount of \$10.0 million was made available through a Notice of Funding Availability (NOFA) process and was committed prior to the end of 2007-2008 to developers in need of the funds.

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**SPECIAL REVENUE FUNDS (CONT'D.)**

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**Low and Moderate Income Housing Fund (Cont'd.)**

The negative variance in fund balance is due to the combined impact of lower than anticipated revenues, partially offset by lower than anticipated expenditures.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Multi-Source Housing Fund

The Multi-Source Housing Fund was established July 1, 2003 and is used for revenues and expenditures from various funds such as Rental Rights and Referrals fees, Strong Neighborhoods Initiative (SNI) projects, Supplemental Redevelopment Agency funds, federal grants, State grants, and others.

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***Multi-Source  
Housing Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 20,162	\$ 9,269	\$ (10,893)	(54.0%)
<i>Expenditure</i>	27,386	8,289	19,097	69.7%
<i>Fund Balance (est.)</i>	11,425 *	9,162	(2,263)	(19.8%)

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The revenue for this fund is derived from State and federal reimbursements for expenditures incurred for qualifying projects. The negative revenue variance of \$10.9 million is due to lower than budgeted Grant Revenues (\$6.5 million) and In-Lieu Fees (\$2.1 million) as well as lower reimbursements than budgeted for various programs funded by grants, such as, the Workforce Housing Program (\$1.9 million), San José State University Teacher Homebuyer Program (\$760,000), and the Rental Dispute Program (\$7,000). The lower than budgeted revenues are partially offset by higher interest earnings (\$362,000) and Loan Repayments (\$36,000). Since grant reimbursements are received in this fund as expenditures are incurred, expenditure savings, as described below, were also realized.

The expenditure variance of \$19.1 million is primarily attributed to lower than budgeted expenditures in the CalHome Programs (\$7.3 million), the Family Shelter Project (\$4.0 million), In-Lieu Fees (\$3.9 million), the Workforce Housing Program (\$2.4 million) and the San José State University Teacher Homebuyer Program (\$640,000). Both the CalHome Programs and Workforce Housing Programs are State-funded programs that allow expenditures over a three-year time period. Of these savings, \$8.7 million was anticipated in the development of the 2008-2009 Adopted Budget and was rebudgeted accordingly.

Included in this document are recommendations to rebudget a portion of the remaining expenditure variance (\$349,000), and realign appropriations that were rebudgeted in June 2008 based on actual expenditure levels (\$159,000). Also included is a recommendation to increase the Family Shelter appropriation by \$1.8 million to fund relocation costs associated with building

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**SPECIAL REVENUE FUNDS (CONT'D.)**

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**Multi-Source Housing Fund (Cont'd.)**

a new Family Shelter at King Road and Dobbin Drive. This project will assist in the development and construction of 35 rental units or 143 beds to house San José's emergency and short-term homeless population. Funding for the relocation costs had previously been held in the Special Projects Reserve.

The 2007-2008 ending fund balance variance of \$2.3 million is the combined result of lower than anticipated expenditures, partially offset by lower than anticipated revenues.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Municipal Golf Course Fund

The Municipal Golf Course Fund accounts for the construction, management, and operation of City-owned golf courses, which include the Rancho del Pueblo, Los Lagos, and San José Municipal Golf Course, and are financed through user charges.

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***Municipal Golf  
Course Fund***

<i>(\$000s)</i>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 2,180	\$ 2,161	\$ (19)	(.9%)
<i>Expenditure</i>	2,279	2,080	199	8.7%
<i>Fund Balance (est.)</i>	791 *	925	134	16.9%

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

The negative revenue variance of \$19,000 reflects higher than budgeted concession revenue from the San José Municipal Golf Course (\$79,000), interest earnings (\$24,000), and miscellaneous revenue from the rental of space at the golf courses for telecommunication equipment (\$54,000), offset by lower than budgeted revenue from Rancho Del Pueblo Golf Course (\$150,000) and the Los Lagos Golf Course (\$27,000).

Contributing factors that have resulted in the reduced operating revenues of Los Lagos and Rancho del Pueblo Golf Courses appear to include both the impact of the local economic slowdown and increased competition from additional local golf courses. Several courses have been opened or renovated in the San José area and neighboring communities in recent years. Due to the economic slowdown, several higher-end golf courses have reduced their rates in order to draw in more customers. In many cases, these rate reductions have put their fees on par with Los Lagos and Rancho del Pueblo. In 2007-2008 the net operating loss (including debt service) for the Los Lagos Golf Course was \$800,000, while the net operating loss (including debt service) for Rancho Del Pueblo Golf Course was \$650,000.

The expenditure variance of \$199,000 primarily reflects the combined impact of lower than expected expenditures in the Parks, Recreation and Neighborhood Services Department's Non-Personal/Equipment appropriation (\$71,000), Los Lagos Golf Course debt service (\$85,000), and Rancho Del Pueblo Golf Course debt service (\$42,000). The debt service variances are due to a refunding of debt for these projects, which occurred in June of 2008.

The 2007-2008 ending fund balance is higher than estimated due to higher than estimated revenues and lower than estimated expenditures.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Municipal Health Services Program Fund

The Municipal Health Services Program Fund accounts for community-based health care services to Medicare recipients at four San José clinics. Funding for this demonstration project is provided by the federal Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration.

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***Municipal Health  
Services Program  
Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 1,068	\$ 429	\$ (639)	(59.8%)
<i>Expenditure</i>	1,082	410	672	62.1%
<i>Fund Balance (est.)</i>	0 *	32	32	N/A

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

The negative revenue variance of \$639,000 is primarily due to lower reimbursements for Medicare claims payments (\$657,000), offset slightly by higher than anticipated reimbursements for City administrative costs (\$14,000) and interest earnings (\$4,000).

The expenditure variance of \$672,000 is primarily due to savings in the Medicare Waiver reimbursement appropriation (\$663,000). It should be noted that since the Medicare claims payment was a cost reimbursement grant, revenue was received at the same reduced level based on reimbursement for services delivered by clinics that provided services to the elderly. Both the revenue and expenditure variances were anticipated in the development of the 2008-2009 budget as the Centers for Medicare and Medicaid Services (CMS) discontinued funding for patients in four participating cities, including the City of San José, on December 31, 2006 as a result of the termination of this federally funded program. All unexpended 2007-2008 funds will be returned to CMS as part of the program close out.

The fund ended the year with a fund balance as the refund of unexpended funds was not returned in 2007-2008 as originally anticipated. The entire fund balance (\$32,000) is recommended to be rebudgeted to the Medicare Waiver Reimbursement appropriation, where the remaining balance can be returned.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Public Works Program Support Fund

The Public Works Program Support Fund accounts for Public Works administrative costs, department-wide compensated absences, and non-personal/equipment costs. An annual cost allocation plan is developed to assign overhead rates based on service levels received by each program. The revenue source for this fund is transfers from the various capital funds where Public Works staff provides service. A compensated absence earned rate is also developed annually and charged to all City funds where Public Works employees provide service.

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***Public Works  
Program Support  
Fund***

(\$000s)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent Variance</u>
<i>Revenue</i>	\$ 14,720	\$ 15,514	\$ 794	5.4%
<i>Expenditure</i>	14,441	13,700	741	5.1%
<i>Fund Balance (est.)</i>	3,895 *	4,590	695	17.8%

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

There are two primary revenue categories within this fund: capital program support transfers and compensated absence transfers. The positive revenue variance of \$794,000 is the result of higher than budgeted compensated absence transfers (\$982,000) and interest earnings (\$117,000) partially offset by lower than anticipated capital program support transfers (\$305,000). Capital program support transfers were lower than anticipated due to the Public Works Department Development Fee Programs' continued inability to pay their fair share allocation. Beginning in 2008-2009, administrative costs for the Development Fee Programs have been removed from the fund's support services calculations and are now directly included in the Fee Program cost basis. It should be noted that the accumulated shortfall from the Fee Program will be repaid over the next few years from the interest earnings in the Public Works Support Fund.

Compensated absence transfers were significantly higher than budgeted due to an increase in the direct labor charges that are the base to which the compensated absence rate is applied. With capital program activity at peak levels in 2007-2008, the filling of numerous vacant positions increased the direct labor charge base by \$1 million over 2006-2007. The 2008-2009 capital program support and compensated absence rates are reviewed regularly, and may be revised in the coming months, if necessary.

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**SPECIAL REVENUE FUNDS (CONT'D.)**

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**Public Works Program Support Fund (Cont'd.)**

The positive expenditure variance of \$741,000 reflects savings in nearly every expenditure category, which include: administrative costs, non-personal/equipment, and compensated time off.

The 2007-2008 fund balance variance of \$695,000 is the result of higher than anticipated revenues, combined with lower than estimated expenditure levels, as discussed above. It should be noted that the budgeted revenue will always be higher than the expenditure budget in this fund because the compensated absence transfers include charges for the City's full liability for employees' accumulating sick leave, vacation, and compensatory time hours that are not immediately used and expensed.

In the development of the 2008-2009 cost allocation plan for this fund, the fair-share cost allocation for each program will be adjusted for any actual 2007-2008 over or under-collections.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### San José Arena Enhancement

The San José Arena Enhancement Fund was established for the payback of an \$8.25 million loan under the 2007 Amended and Restated San José Arena Management Agreement. This fund is used to fund capital improvements for the San José Arena.

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*San José Arena  
Enhancement Fund*

<i>(\$000s)</i>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 8,425	\$ 7,760	\$ (665)	(7.9%)
<i>Expenditure</i>	8,425	7,580	845	10.0%
<i>Fund Balance (est.)</i>	2 *	179	177	8850.0%

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

In May 2007, the City Council approved capital improvements to the San José Arena in the amount of \$16.5 million, half of which the City is responsible for (\$8.25 million). The City funded the improvements through the issuance and payback of commercial paper. The negative revenue variance of \$665,000 reflects lower than anticipated commercial paper proceeds that were slightly offset by higher than expected interest earnings (\$5,000). A lower amount of commercial paper was issued based on actual expenditure needs in this fund. A rebudget of commercial paper proceeds and the corresponding capital enhancement expenditure were anticipated and included as part of the 2008-2009 Adopted Budget.

The positive expenditure variance reflects savings for capital enhancements and debt service. As discussed previously, savings for capital enhancements were anticipated and assumed in the 2008-2009 Adopted Budget. It is recommended in this report to rebudget all unexpended funds for debt service (\$175,000) for payment in 2008-2009.

The 2007-2008 ending fund balance is higher than estimated mainly due to lower than estimated expenditures for debt service as discussed above.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### San José Municipal Stadium Capital Fund

The San José Municipal Stadium Capital Fund was established in 2007 to account for revenues that are received pursuant to the agreement with Baseball Acquisition Company for the use, operation, and management of the Municipal Stadium. The funds are used for capital repairs and replacements.

***San José Municipal  
Stadium Capital Fund***

(\$000s)

		<b>Budget</b>		<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$	200	\$	200	\$ 0	0.0%
<i>Expenditure</i>		200		200	0	0.0%
<i>Fund Balance (est.)</i>		0 *		0	0	0.0%

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

There are no revenue, expenditure, or ending fund balance variances in this fund. The City initially provided a \$200,000 contribution to this fund for roof repair and stadium seating upgrades from the Parks City-Wide Construction and Conveyance Tax Fund. All revenues transferred from the Construction and Conveyance Tax Fund were expended on capital enhancements in 2007-2008.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Special Assessment Maintenance District Funds

The Special Assessment Maintenance District Funds account for the maintenance districts that were created to provide special services for areas or items not considered to be normal City maintenance. In 2007-2008, the City operated fourteen maintenance districts and five community facility districts.

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***Special Assessment  
Maintenance District  
Funds***

<b><i>(\$000s)</i></b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 4,897	\$ 5,414	\$ 517	10.6%
<i>Expenditure</i>	6,213	4,008	2,205	35.5%
<i>Fund Balance (est.)</i>	10,144 *	11,835	1,691	16.7%

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

The positive revenue variance of \$517,000 is the result of receipts that trended higher than anticipated in several of the districts. In particular, revenues were higher than budgeted projections by \$253,000 in Community Facilities District #12 (Basking Ridge) due to the establishment of this new district and the underestimated amount of revenue collection in 2007-2008. Revenues collected were higher than budgeted projections by \$103,000 in Maintenance District #1 (Los Paseos) because of a higher than expected increase in property tax revenue which is unique to this district. In addition, revenues were higher than budgeted projections in Maintenance District #15 (Silver Creek Valley) by \$65,000 as a result of higher interest earnings. Also, revenues were higher than budgeted projections in Community Facilities District #2 (Aborn – Murillo) and Community Facilities District #3 (Silverland – Capriana) by \$45,000 as a result of higher interest earnings and accelerated development of supplemental units in these districts. Revenue variances in the 15 remaining funds were all below \$15,000.

Savings of approximately \$2.2 million in the expenditure category in all funds combined reflects lower than anticipated maintenance costs in most districts. Given the economic downturn, districts that renegotiated maintenance contracts received favorable bids. Further savings were generated as part of a concerted effort by staff to reduce costs while maintaining service levels. Six districts, in particular, had large expenditure variances. Maintenance District #15 (Silver Creek Valley) expenditures were \$674,000 below budgeted levels since it was not necessary for the district to use funds earmarked for unanticipated emergencies. The Community Facilities District #8 (Communications Hill) had an expenditure savings of \$546,000 primarily due to the delay in acceptance of the new construction by the developers. Maintenance District #1 (Los

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**SPECIAL REVENUE FUNDS (CONT'D.)**

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Special Assessment Maintenance District Funds (Cont'd.)

Paseos) expenditures were \$373,000 lower than budgeted levels as a result of delays in completion of planned renovation projects. Expenditures in Community Facilities District #12 (Basking Ridge) were \$193,000 below budgeted levels since the fund had only been established in the second half of the fiscal year. Expenditures were lower than budgeted levels in Maintenance District #9 (Santa Teresa – Great Oaks) by \$65,000 and in Maintenance District #20 (Renaissance – N. First Landscaping) by \$60,000 as a result of savings in contractual services and electricity costs. Expenditure variances in the 13 remaining funds were all below \$60,000.

The combined positive ending fund balance variance of \$1.7 million reflects higher than estimated revenues of \$704,000 coupled with lower than estimated expenditures of \$987,000.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### State Drug Forfeiture Fund

The State Drug Forfeiture Fund was established to account for all monies received by the City from the State, whenever the Police Department is involved in asset seizures from convicted drug law violators, pursuant to California Health and Safety Code Section 11489. Monies deposited in this Fund shall be expended or disbursed for use by the Police Department for equipment and programs designed to combat drug abuse and divert gang activity. There are no time restrictions dictating when the money must be expended or encumbered.

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***State Drug  
Forfeiture Fund***

(\$000s)

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 45	\$ 134	\$ 89	197.8%
<i>Expenditure</i>	447	324	123	27.5%
<i>Fund Balance (est.)</i>	1,300 *	1,330	30	2.3%

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

The 2007-2008 revenue variance of \$89,000 is the result of higher than anticipated revenue from the State (\$74,000) and interest earnings (\$15,000).

The 2007-2008 expenditure variance of \$123,000 is the result of State revenue funds appropriated to purchase equipment for 14 new officers added to the Department in the 2007-2008 Adopted Operating Budget not being fully expended. A rebudget of \$150,860 was approved in the 2008-2009 Adopted Operating Budget; however, expenditures at the end of 2007-2008 reduced the balance to \$123,000. As a result, a downward adjustment is recommended to the Non-Personal/Equipment appropriation in this document.

The 2007-2008 fund balance variance of \$30,000 is the result of higher than estimated revenue collections (\$59,000) partially offset by higher than estimated expenditures (\$28,000).

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Stores Fund

This fund accounts for the purchase and issuance of materials and supplies and payment for postage consumed by departments for general operations.

<i>Stores Fund</i>				
(\$000s)	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 4,360	\$ 4,106	\$ (254)	(5.8%)
<i>Expenditure</i>	4,466	4,318	148	3.3%
<i>Fund Balance (est.)</i>	870 *	784	(86)	(9.9%)

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

At the end of 2007-2008, revenues were 5.8% (\$254,000) below budgeted levels, reflecting lower than budgeted transfers from departments for the issuance of supplies, materials and postage, and lower than budgeted hydrant sales revenue.

Expenditures were 3.3% (\$148,000) below budgeted levels primarily due to lower than budgeted postage and inventory (\$77,000), personal services (\$33,000), and non-personal/equipment expenditures (\$34,000).

The 2007-2008 Ending Fund Balance ended the year \$86,000 lower than the estimated level. This is due to lower than anticipated revenues partially offset by lower than anticipated expenditures. It should be noted, however, that the budgetary fund balance reported in this document is \$492,000 lower than the fund balance which will be reported in the 2007-2008 CAFR. This reflects the fact that the fund balance as defined for budgetary purposes does not include an item (Materials Inventory ending balances) used to calculate fund balances for financial reporting purposes.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Storm Sewer Operating Fund

The Storm Sewer Operating Fund was established to provide for the acquisition, construction, reconstruction, maintenance, and operation of the storm drainage system. With the establishment of the Storm Sewer Capital Fund in 1994-1995 (which is funded primarily through transfers from this fund), expenditures are focused on non-point source pollution reduction, along with the maintenance and operation of the storm drainage system.

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***Storm Sewer  
Operating  
Fund***  
(*\$000s*)

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 17,416	\$ 18,024	\$ 608	3.5%
<i>Expenditure</i>	19,816	17,827	1,989	10.0%
<i>Fund Balance (est.)</i>	3,908 *	7,294	3,386	86.6%

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The positive revenue variance (\$608,000) is due to higher than budgeted storm drainage assessments (\$535,000) and penalties and interest earnings (\$73,000).

Expenditure savings of \$2.0 million were primarily produced in the Environmental Services Department's Non-Personal/Equipment appropriation (\$813,000) and Personal Services appropriation (\$465,000), and the Department of Transportation's Personal Services appropriation (\$429,000). The personal services savings realized by both departments was due to position vacancy savings. The non-personal/equipment savings in the Environmental Services Department was due primarily to supplies and materials and consultant services expenditures in the Watershed Protection program. The remaining savings were spread over a number of projects, which had savings of less than \$100,000 each.

The ending fund balance ended the year \$4.2 million higher than the estimated levels. This variance was due to the combined impact of the higher than estimated revenues and lower than estimated expenditures, detailed above.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Supplemental Law Enforcement Services Fund

The Supplemental Law Enforcement Services Fund (SLES) was established to provide front line law enforcement services, which includes, but is not limited to, intervention, anti-gang, and community crime prevention activities.

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***Supplemental Law  
Enforcement Services  
Fund***

<i>(\$000s)</i>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 1,943	\$ 1,975	\$ 32	1.6%
<i>Expenditure</i>	4,250	2,418	1,832	43.1%
<i>Fund Balance (est.)</i>	1,832 *	1,886	54	2.9%

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

This Fund receives monies from the State in accordance with the proportionate share of the State's total population that resides in the City. The funding is awarded each fiscal year in the form of a two-year grant. Any funds unexpended or unencumbered by the end of the two year grant cycle must be returned to the State, along with any interest earnings.

The 2007-2008 revenue variance of \$32,000 is the result of higher than anticipated interest earnings.

The 2007-2008 expenditure variance of \$1,832,000 is mainly the result of the 2007-2009 SLES grant funds not being fully expended. An estimate of the remaining grant funds was rebudgeted in the 2008-2009 Adopted Budget. This variance also includes 2004-2006 SLES and 2005-2007 SLES funds (\$39,000) that were unexpended and unencumbered and must be returned to the State.

The 2007-2008 fund balance variance of \$54,000 is the result of higher than anticipated interest earnings (\$32,000) and unexpended 2004-2006 SLES and 2005-2007 SLES funds (\$39,000) that must be returned to the State. This is partially offset by an over rebudget in the 2007-2009 SLES grant, causing the allocation not to achieve sufficient year-end savings to cover the estimated rebudget amount in the 2008-2009 Adopted Budget. As a result, a downward adjustment of \$16,000 is recommended to this appropriation in this document.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Transient Occupancy Tax Fund

The Transient Occupancy Tax (TOT) is assessed as a percentage of the rental price for transient lodging charged when the period of occupancy is less than 30 days. The tax rate is currently 10%, six percent of which is placed in this fund and four percent of which is deposited in the General Fund. The uses of revenues from the TOT Fund are specified by City Ordinance and include subsidies for Convention Facilities operations and the San José Convention and Visitors Bureau as well as grants and rental subsidies for arts and cultural programs.

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***Transient Occupancy  
Tax Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 13,450	\$ 14,466	\$ 1,016	7.6%
<i>Expenditure</i>	16,395	14,652	1,743	10.6%
<i>Fund Balance (est.)</i>	3,007 *	3,066	59	2.0%

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

Due to higher than expected receipts and interest earnings, actual 2007-2008 revenues in the TOT Fund exceeded the budgeted amount by almost \$1.02 million. This is due to higher than anticipated revenue from the Transient Occupancy Tax (\$965,000) as well as higher interest earnings.

When the 2007-2008 Adopted Operating Budget was developed, \$13.45 million in revenue was budgeted to be received. This was a 4.4% increase over the 2006-2007 year-end estimates. Revenues in 2007-2008, however, ended the year 12% above the 2006-2007 actuals due to higher than anticipated room rates and occupancy levels. The average room rate for the City's 14 largest hotels grew from \$133 to \$142 over the year. The average occupancy rate for the same hotels grew from 59.9% to 62%.

The positive expenditure variance of \$1.7 million is due primarily to savings in the Cultural Grant program. The majority of these savings were anticipated in the development of the 2008-2009 Adopted Budget, and were rebudgeted accordingly. Additionally, a rebudget of \$19,000 of unexpended funds for the City Hall Exhibits Program is recommended in this document.

TOT Fund tax revenue is by ordinance shared by three groups, the Convention Facilities Operation Subsidy (50% of the TOT growth from the prior year), the San José Convention and Visitors Bureau (25% of the TOT growth from the prior year), and Cultural Grants (25% of the TOT growth from the prior year). A cleanup is recommended in this document to liquidate the

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**SPECIAL REVENUE FUNDS (CONT'D.)**

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**Transient Occupancy Tax Fund (Cont'd.)**

Reserve for Future Distribution (\$961,000) that was established in the 2008-2009 Adopted Budget based on the assumption that actual TOT assumptions would exceed the budgeted estimate. Now that the estimated revenues have been realized, the reserve will be distributed to the three recipient organizations: Convention and Visitors Bureau (\$240,000); Convention and Cultural Affairs Fund (\$481,000); and Cultural Grants (\$240,000).

The 2007-2008 ending fund balance is higher than estimated due to the combination of slightly higher than expected revenues and lower than estimated expenditures.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Vehicle Maintenance and Operations Fund

The Vehicle Maintenance and Operations Fund accounts for the operation, maintenance and replacement of all City vehicles and equipment.

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***Vehicle Maintenance  
and Operations Fund***

<i>(\$000s)</i>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 24,858	\$ 23,257	\$ (1,601)	(6.4%)
<i>Expenditure</i>	26,830	26,157	673	2.5%
<i>Fund Balance (est.)</i>	1,830 *	980	(850)	(46.4%)

*\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget*

The negative revenue variance of \$1.6 million primarily reflects lower than budgeted revenues from replacement charges (\$787,000), as well as lower than budgeted revenues from vehicle maintenance and operations departmental charges (\$679,000).

The positive expenditure variance of \$673,000 reflects savings in nearly every budgeted category. Expenditure savings in the vehicle replacement allocation totaled \$447,000. Savings in the vehicle replacement appropriation is partially due to a delay in the purchasing of vehicles that were wrecked, failed mechanically, or reached their replacement life in 2007-2008. Savings of \$590,000 associated with these vehicles in the Police Department are recommended to be rebudgeted to 2008-2009 as part of this document. In addition, this variance reflects savings in workers' compensation claims (\$92,000), Personal Services and Non-Personal/Equipment appropriations (\$88,000), inventory purchases (\$37,000), and diesel retrofit mandate expenses (\$8,000).

The negative ending fund balance variance (\$850,000) is the combined impact of less than budgeted revenues and lower than anticipated expenditures.

It should be noted, however, that the budgetary fund balance reported in this document is \$1.1 million lower than the fund balance which will be reported in the 2007-2008 CAFR. The fund balance used for budgetary purposes does not include the change in beginning and ending Materials Inventory balances and Unrealized Gains and Losses for estimated liabilities. These non-budgetary items are, however, incorporated into the CAFR fund balance figure.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Workforce Investment Act Fund

The Workforce Investment Act is a federal program that provides primary employment training, adult education, and vocational rehabilitation programs. This fund is a memo fund to the General Fund for governmental accounting purposes.

On July 1, 2000 the Workforce Investment Act (WIA) replaced the Job Training Partnership Act (JTPA), and the City of San José assumed administration and fiscal liability for this program. There are three categories of funding under WIA which correspond to the three populations being served: Adult Workers, Dislocated Workers, and Youth Workers. San José's Workforce Investment Area receives grants from the State and federal governments for these three categories on an annual basis. Each annual grant allocation is available for a two-year period upon which unspent allocations are forfeited.

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***Workforce Investment  
Act Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 14,278	\$ 11,367	\$ (2,911)	(20.4%)
<i>Expenditure</i>	13,679	12,509	1,170	8.6%
<i>Fund Balance (est.)</i>	844 *	(294)	(1,138)	(134.8%)

\* Refers to the 2007-2008 Ending Fund Balance estimate used to develop the 2008-2009 Adopted Budget

The variance between revenues and expenditures primarily reflects the timing difference in expense and revenue recognition.

The fund ended the year with a negative ending fund balance of approximately \$294,000 as a result of the accounting treatment of federal reimbursements due to this program. The negative balance reflects the late posting of revenue and carryover encumbrances for committed expenses at the end of 2007-2008. Because revenue is received by the fund on a reimbursement basis, at year end, there was insufficient revenue recognized in the fund to cover all expenditures. Under the current WIA contract with the State, expenses will only be reimbursed when funds are actually spent, not just encumbered. When the encumbered amounts are actually expended, the revenue will become available to cover the costs.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Workforce Investment Act Fund (Cont'd.)

In developing the 2008-2009 Adopted Budget for work2future, the program that administers the WIA funding, funds were allocated based on 2008-2009 State allocation. No assumptions were made for any 2007-2008 funds that could be spent in 2008-2009. In this report are recommendations to adjust program budgets for 2008-2009 to include recognizing and appropriating funds from 2007-2008 and aligning the program budgets with State allocations.

These adjustments include:

- Increasing the 2008-2009 Contingency Reserve by \$1.1 million to reach the Silicon Valley Workforce Investment Network Board directed 15% requirement for this year based on the Adult Workers, Dislocated Workers, and Youth Workers Program allocations;
- Appropriating funding from the 2007-2008 WIA grant for Administration (\$405,000), Adult Workers (\$476,000), Dislocated Workers (\$1.0 million), and Youth Workers (\$1.4 million);
- Align budget levels to the 2008-2009 State allocations by reducing Adult Workers (\$83,000), Dislocated Workers (\$41,000), the Rapid Response Grant (\$168,000), and Youth Workers (\$448,000) allocations. These adjustments are offset by increasing the Contingency Reserve (as previously discussed) and increasing the Administration (\$102,000) allocations. The net impact to these adjustments would be zero;
- Recognizing \$3.6 million in revenues for the 2007-2008 WIA grant and \$514,000 in revenues for the 2008-2009 WIA grant; and
- Recognizing and appropriating \$49,000 from the State Incentive award for exemplary performance in 2007-2008.