III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

This section provides financial information on the 2022-2023 year-end performance for selected special and capital funds that represent major City operations. Specifically, it includes discussions regarding the funds' revenue, expenditure, and ending fund balance performances. The funds are discussed in alphabetical order.

The Revenue and Expenditure Performance chart displays the 2022-2023 Modified Budget and Actual revenues and expenditures, with the dollar and percent variance for each. The revenue figures exclude the Beginning Fund Balance and Reserves while the expenditure figures include encumbrances but exclude the Ending Fund Balance and other reserves. The Ending Fund Balance Performance chart displays the 2022-2023 Modified Budget, which includes fund balance and reserves. The 2022-2023 Estimated Ending Fund Balance and Actual Ending Fund Balance also includes reserves, except the reserve for encumbrances. The dollar variance compares the Estimated Ending Fund Balance used to develop the 2023-2024 Adopted Budget with the Actual Ending Fund Balance. The Recommended Annual Report Rebudget Adjustments show the amount of additional rebudgets recommended in this report and calculates the revised variance should recommended rebudgets be approved.

Revenue Performance: This discussion identifies the amount of revenue received in 2022-2023 and major revenue sources; provides context regarding the year-end revenue performance variance to the modified budget; and compares revenues to the prior year performance.

Expenditure Performance: This discussion identifies the amount of expenditures for 2022-2023 and major expenditure categories; provides context regarding the year-end expenditure performance variance to the modified budget; discusses significant capital improvement project variances relative to the size of the capital fund; calculates the revised expenditure variance due to rebudgets approved as part of the 2023-2024 Adopted Budget or as recommended in this report; and compares expenditures to the prior year performance.

Ending Fund Balance Performance: This discussion provides the actual Ending Fund Balance and the estimated Ending Fund Balance used in the development of the 2023-2024 Adopted Budget; discusses variances between these two amounts; and identifies any impact on the 2023-2024 budget related to recommended actions included in this report.

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III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2022-2023 Budget	**2022-2023 Actuals**	**Variance**	**% Variance**
Revenues	$159,097	$102,951	($56,146)	(35.3%)
Expenditures	$188,356	$84,981	($103,376)	(54.9%)

The Airport Capital Funds include the Airport Capital Improvement Fund, the Airport Revenue Bond Improvement Fund, the Airport Renewal and Replacement Fund, and the Airport Passenger Facility Charge Fund.

Revenues totaled $103.0 million and were generated primarily from transfers from the Airport Surplus Revenue Fund ($55.0 million), Passenger Facility Charges (PFCs) ($23.2 million), grant income ($12.1 million), Commercial Paper proceeds ($10.0 million) and interest earnings ($1.6 million). This revenue level was $56.1 million (35.3%) below the Modified Budget.

The negative variance to the budget of $56.1 million (35.3%) was due primarily to lower than budgeted grant revenue of $30.7 million (71.6%) and lower than budgeted Commercial Paper proceeds of $29.2 million (74.5%). This performance resulted from the intentional drawing of commercial paper in alignment with the project schedule and expenditure stream to limit financing fees. Passenger Facility Charge revenue ended the year above estimated levels by $2.0 million (9.5%), the result of increased passenger activity in the spring of 2023. Overall, revenues in 2022-2023 of $103.0 million were above 2021-2022 revenues of $42.0 million primarily due to an increased transfer from the Airport Surplus Revenue Fund ($39.2 million), increased grant revenue ($6.0 million) and increased Passenger Facility Charge revenue ($3.5 million). Revenue rebudgets totaling $2.1 million are recommended in this report to align the anticipated 2023-2024 revenue budget with planned expenditures.

Expenditures and encumbrances totaled $85.0 million and consisted primarily of various capital renewal and replacement projects ($36.9 million), grant-funded projects ($24.2 million), and transfers to other Airport funds for debt service payments ($13.6 million). Some significant expenditures in 2022-2023 included terminal projects such as the Terminal Accessibility Upgrades project ($16.8 million) and airfield projects such as the Airfield Configuration Updates ($12.7 million) and Airfield Electrical Circuit Rehabilitation ($4.4 million) projects. This expenditure level was $103.4 million (54.9%) below the Modified Budget and $28.9 million (51.6%) above the prior year level of $56.1 million.

After adjusting for rebudgets of $95.7 million included in the 2023-2024 Adopted Budget and net negative rebudgets of $2.1 million recommended in this report, expenditure savings of $9.8 million were largely attributed to grant projects that were not awarded and project deferrals. Project savings also resulted from the completion of several projects including the Aircraft Rescue and Fire Fighting Facility project ($885,000), the Airfield Electrical Circuit Rehabilitation project ($879,000), and the Roadway Micro Surfacing project ($251,000). The Airport continues to ensure passenger safety is a top priority and development of additional passenger, airline, and concession activity is important for the Airport's future growth.

AIRPORT CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2022-2023 Modified Budget	***2022-2023 Estimated Ending Fund Balance***	***2022-2023 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudgets***	***Revised Variance***	***Revised Variance % (incl. Rebudgets)***
$217,934	$80,799	$77,204	($3,595)	$2,052	($1,543)	(0.7%)

The **Ending Fund Balance** of $77.2 million was $3.6 million below the estimate used in the development of the 2023-2024 Adopted Capital Budget. After accounting for negative rebudgets totaling $2.1 million that are recommended as part of this Annual Report, the revised fund balance variance is $1.5 million (0.7%), the result of project deferrals and project timeline extensions.

As described in *Section IV - Recommended Budget Adjustments and Clean-Up/Rebudget Actions,* increases to the Airfield Configuration Updates and Vehicle Replacement Program projects are recommended in this report. After accounting for these adjustments, a decrease of $1.7 million is recommended to the 2023-2024 Ending Fund Balance.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT OPERATING FUND - AIRPORT CUSTOMER FACILITY AND TRANSPORTATION FEE FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2022-2023 Budget	2022-2023 Actuals	Variance	% Variance
Revenues	$15,305	$16,755	$1,450	9.5%
Expenditures	$11,654	$11,186	($468)	(4.0%)

Revenues totaled $16.8 million and were generated from rental car Customer Facility Charge (CFC) fees ($16.5 million) and interest earnings ($258,000). This revenue level was $1.5 million or 9.5% above the Modified Budget of $15.3 million and $3.0 million (22.1%) above the prior year level of $13.7 million.

The positive variance to the budget of $1.5 million (9.5%) was mainly due to higher than estimated CFC revenue, which was driven by an increase in car rental activities. While 2022-2023 passenger levels were in line with expectations, rental car activity was above estimated levels, generating higher CFC revenue. The overall increase of $3.0 million (22.1%) over the prior year can be attributed to a combination of the increase in passengers and increase in rental car usage.

Expenditures totaled $11.2 million and were primarily attributed to transfers for debt service payments ($9.0 million) as well as shuttle bus transportation costs ($2.2 million) in Airport's Non-Personal/Equipment budget. Expenditures were slightly below the budget with a variance of $468,000 (4.0%) due to lower than estimated shuttle bus costs and unused contingency funds. This expenditure level was $834,000 (8.1%) above the prior year level of $10.4 million primarily due to an increase in CFC funded debt service payments.

Ending Fund Balance Performance ($ in Thousands)						
2022-2023 Modified Budget	*2022-2023 Estimated Ending Fund Balance*	*2022-2023 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudgets*	*Revised Variance*	*Revised Variance % (incl. Rebudgets)*
$25,335	$14,695	$16,029	$1,333	$0	$1,333	5.3%

The 2022-2023 **Ending Fund Balance** of $16.0 million was $1.3 million above the estimate used in the development of the 2023-2024 Adopted Budget. This positive variance from the estimate resulted primarily from higher than estimated CFC revenue combined with savings in transportation costs and lower encumbrances.

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III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT OPERATING FUNDS - AIRPORT REVENUE FUND AND AIRPORT MAINTENANCE AND OPERATION FUND

Revenue and Expenditure Performance ($ in Thousands)

	2022-2023 Budget	*2022-2023 Actuals*	*Variance*	*% Variance*
Revenues	$208,548	$226,634	$18,086	8.7%
Expenditures	$155,827	$119,144	($36,682)	(23.5%)

Revenues in the Airport Revenue Fund totaled $226.6 million and were generated from Airline Terminal Rental ($60.3 million), Parking and Roadway ($59.9 million), Federal Grant revenue ($28.9 million), Landing Fees ($28.5 million), Terminal Building Concessions ($22.4 million), Miscellaneous Revenue ($17.1 million), Airfield ($6.3 million), Petroleum Products ($2.5 million), and Transfers from General Fund for Jet Fuel Sales Tax ($702,000). The total revenue level was $18.1 million (8.7%) above the Modified Budget of $208.5 million.

The positive revenue variance of $18.1 million was primarily due to higher-than-expected revenues in the following categories: Parking and Roadway ($11.0 million), Terminal Building Concession ($6.0 million), Miscellaneous ($4.6 million), and Airfield revenue ($610,000). These positive revenue variances were partially offset by negative variances in Terminal Rentals ($2.2 million), Landing Fees ($1.2 million), Petroleum Products ($478,000), and transfers from the Fiscal Agent Fund ($241,000).

The 2022-2023 revenue level was $18.2 million (8.7%) above the 2021-2022 level of $208.5 million primarily due to the continuing rise in passenger levels and overall activity at the airport as air traffic increases and stabilizes following the pandemic lows.

Expenditures in the Airport Maintenance and Operation Fund totaled $119.1 million and were primarily for Airport Department non-personal/equipment ($52.4 million including encumbrances), Airport personal services ($36.9 million), transfers to the General Fund for Police and Fire services ($18.4 million), Overhead ($3.6 million), and Interdepartmental Services expenditures ($1.1 million). Additionally, there were Airline Reserve Funds Distribution payments ($5.1 million) made to distribute the airlines' portion of the net remaining revenue resulting from the 2022-2023 financial performance. This expenditure level was $36.7 million (23.5%) below the Modified Budget of $155.8 million and $17.5 million (17.8%) below the prior year level of $136.6 million.

AIRPORT OPERATING FUNDS - AIRPORT REVENUE FUND AND AIRPORT MAINTENANCE AND OPERATION FUND

The favorable variance to the budget of $36.7 million was primarily due to a lower-than-expected Airline Reserve Fund Distribution ($24.9 million), and non-personal/equipment expenditure savings ($5.7 million) resulting from reduced expenditures for custodial, baggage system maintenance, shuttle bus and parking operations services. Additionally, there were vacancy savings in personal services ($2.5 million), unused Operations Contingency funds ($910,000), and savings in interdepartmental expenses ($501,000). The $17.4 million (17.8%) decrease over the prior year was primarily due to decreased Airline Reserve Funds Distribution payments ($22.3 million).

Ending Fund Balance Performance ($ in Thousands)

2022-2023 Modified Budget	*2022-2023 Estimated Ending Fund Balance*	*2022-2023 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudgets*	*Revised Variance*	*Revised Variance % incl. Rebudgets)*
$502,040	$141,683	$138,748	($2,935)	$0	($2,935)	(0.6%)

The 2022-2023 combined **Ending Fund Balance** of $138.7 million was $2.9 million below the budgeted estimate used to develop the 2023-2024 Adopted Operating Budget. The variance from the estimate was primarily due to a lower than estimated debt service coverage requirement.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2022-2023 Budget	*2022-2023 Actuals*	*Variance*	*% Variance*
Revenues	$95,603	$29,978	($65,625)	(68.6%)
Expenditures	$144,669	$53,302	($91,367)	(63.2%)

Revenues totaled $30.0 million and were generated primarily from Building and Structure Construction Tax receipts ($16.4 million), grant funding ($11.0 million), interest earnings ($2.3 million), and other revenue ($235,000). The revenue level was $3.5 million (13.2%) above the prior year level of $26.5 million. The 2022-2023 revenues were lower than the budgeted estimate of $95.6 million by approximately $65.6 million, resulting primarily from lower than budgeted grant revenues ($64.3 million) and Building and Structure Construction Tax ($2.6 million), offset by higher interest earnings ($1.1 million) and other revenue ($245,000).

At $16.4 million, Building and Structure Construction Tax receipts in 2022-2023 were below the budgeted estimate of $19.0 million, and 22.8% lower than the 2021-2022 collections of $21.2 million. During the development of the 2024-2028 Capital Improvement Program, the Building and Structure Construction Tax revenue estimate was kept the same as the $19.0 million estimate included in the 2022-2023 Modified Budget, based on a steady level of anticipated collections. This year-over-year lower collection level for Building and Structure Construction Tax revenues is primarily attributable to a significant decrease in valuation of permits for building projects in the commercial land use category. The total valuation of projects submitted in 2022-2023 was $1.3 billion, 13.9% below the $1.5 billion valuation of projects that were received in 2021-2022. Residential valuation of $369.2 million in 2022-2023 was slightly higher (0.5%) than the 2021-2022 level of $367.4 million. A total of 1,792 new residential units received permits in 2022-2023, which was below 2021-2022 levels of 1,887 units. Commercial valuation of $577.6 million ended 2022-2023 at 29.7% below the prior year level of $821.7 million. Industrial activity of $357.1 million was 9.6% higher than the 2021-2022 level of $325.9 million. To achieve the 2023-2024 Adopted Budget estimate of $19.0 million requires an increase of 16.0% from the actual 2022-2023 collection level. Examples of major projects for the year include permits for a six-story affordable multi-family residence with 245 units on North 1st Street; a 225,000 square foot warehouse located on King Road; a 23-story, mixed-use high rise building with 336 units located on East Reed Street; and an eight-story hotel located on West San Carlos Street.

Grant-related revenues of $55.1 million, which were not received in 2022-2023 due to project delays, were anticipated and rebudgeted as part of the 2023-2024 budget process. An additional rebudget of grant funding in the amount of $8.1 million is recommended as part of this report.

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

Expenditures including encumbrances totaled $53.3 million and were $91.4 million (63.2%) below the modified budget. A significant portion of the expenditure savings ($78.7 million), excluding reserves, was anticipated and rebudgeted as part of the 2023-2024 budget process. An additional $9.1 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects to continue in 2023-2024. Once rebudgets are included, expenditures in the Building and Structure Construction Tax Fund approach budgeted levels for 2022-2023. The expenditure level was $36.9 million (81.5%) above the prior year level of $29.3 million. This increase is primarily due to expenditures in the following projects: McKee Road Safety Corridor Improvements ($7.3 million), Tully Road Safety Corridor Improvements ($6.6 million), Quiet Zone ($3.6 million), Monterey Road Safety Improvements ($1.7 million), North San José – City of Santa Clara Settlement ($1.5 million), Safety – Pedestrian Improvements ($1.1 million), and San José Regional Transportation Hub ($801,000).

Ending Fund Balance Performance ($ in Thousands)						
2022-2023 Modified Budget	***2022-2023 Estimated Ending Fund Balance***	***2022-2023 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudgets***	***Revised Variance***	***Revised Variance % (incl. Rebudgets)***
$198,785	$78,505	$79,892	$1,388	$944	$444	0.2%

The **Ending Fund Balance** of $79.9 million was $1.4 million above the estimate used in the development of the 2023-2024 Adopted Budget. After accounting for net rebudget adjustments of $944,000 recommended in this report, the positive variance changes to $444,000. Significant expenditure rebudgets include Quiet Zone ($2.8 million), North San José Transportation Plan ($1.6 million), and Route 87/Taylor Bike/Ped Improvements ($532,000) and significant revenue rebudgets include McKee Road Safety Corridor Improvements ($3.1 million) and Tully Road Pedestrian Safety Improvements ($2.0 million).

As described in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions*, a limited number of revisions to existing projects are recommended in this report. After accounting for all recommended adjustments, a net increase of $197,000 is recommended to be allocated to the 2023-2024 Ending Fund Balance.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2022-2023 Budget	*2022-2023 Actuals*	*Variance*	*% Variance*
Revenues	$73,641	$59,697	($13,944)	(18.9%)
Expenditures	$151,067	$74,690	($76,376)	(50.6%)

The Construction and Conveyance (C&C) Tax Funds consist of the Communications C&C Tax Fund, Service Yards C&C Tax Fund, Fire C&C Tax Fund, Library C&C Tax Fund, Parks Central C&C Tax Fund, Parks City-Wide C&C Tax Fund, 10 Council Districts C&C Tax Funds, and Park Yards C&C Tax Fund.

Revenues generated in the Construction and Conveyance (C&C) Tax Funds in 2022-2023 totaled $59.7 million and were comprised of C&C tax receipts ($37.9 million), transfers between funds ($10.5 million), State and federal grants ($7.8 million), interest earnings ($3.0 million), and miscellaneous revenue that is primarily related to Federal Emergency Management Agency reimbursements ($650,000). The revenue level is $13.7 million below the budgeted estimate of $73.6 million, primarily due to lower C&C tax proceeds ($7.1 million), miscellaneous revenue ($6.0 million), and transfers between funds ($4.8 million), partially offset by higher than budgeted State and federal grants ($3.9 million) and interest earnings ($103,000). A significant portion of revenue was rebudgeted as part of the 2023-2024 Adopted Capital Budget ($2.4 million) or is recommended to be rebudgeted as part of this report ($2.9 million).

C&C Tax revenue collections of $37.9 million was received in 2022-2023, which is $7.1 million below the 2022-2023 Modified Budget of $45.0 million and $2.1 million below the estimated collection level of $40.0 million. The tax receipts in 2022-2023 were 41.3% below the historically high tax collections received in 2021-2022 ($64.5 million), primarily due to a tightened local real estate market, which is the primary driver of this revenue source. In 2023-2024, C&C Tax collections are budgeted at $40.0 million, which require growth of $2.1 million (5.7%) from the actual 2022-2023 collection level. Given the volatile nature of the C&C Tax, receipts will be closely monitored with budget adjustments brought forward later in the budget process, if deemed necessary. Further information regarding the local real estate market, which drives this tax revenue, can be found in the Transmittal Memorandum at the beginning of this report.

Expenditures in the various C&C Tax Funds totaled $74.7 million in 2022-2023 and were derived primarily from various capital projects and transfers to other funds across the 17 C&C Tax funds (Council Districts 1-10, Parks City-Wide, Parks Central, Park Yards, Fire, Library, Service Yards, and Communications). This expenditure level is $76.4 million (50.6%) below the budgeted level of $151.1 million, which is primarily the result of unexpended capital project funding – most of which was rebudgeted into 2023-2024 as part of the Adopted Budget process – and project reductions that were necessary as a result of declining C&C Tax revenue. The 2022-2023 expenditure level of $74.7 million was $11.1 million (13.0%) below the prior year's level of $85.8 million.

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2022-2023 Modified Budget	***2022-2023 Estimated Ending Fund Balance***	***2022-2023 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudgets***	***Revised Variance***	***Revised Variance % (incl. Rebudgets)***
$205,297	$101,742	$117,129	$15,387	$4,993	$10,394	10.2%

The **Ending Fund Balance** of $117.1 million was $15.4 million above the $101.7 million estimate used to develop the 2023-2024 Adopted Capital Budget. After accounting for net revenue and expenditure rebudgets of $5.0 million recommended in the Annual Report, the variance decreases to $10.4 million.

As described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions*, this report includes recommendations to allocate from a number of C&C Tax Fund Ending Fund Balances to fund various capital projects, including Family-Friendly City Facilities ($203,000; Parks City-Wide C&C Tax Fund), Family Camp Infrastructure Renovations ($103,000; Parks City-Wide C&C Tax Fund), Strategic Capital Replacement and Maintenance Needs ($75,000; Parks City-Wide C&C Tax Fund), and Alameda Undercrossing Diamond Plate Lids (-$32,230; Council District 6 C&C Tax Fund). In addition, the Library C&C Tax Fund includes an action to decrease the Building Forward Library Infrastructure grant revenue and the Ending Fund Balance. The 2023-2024 Adopted Capital Budget assumed this revenue would be received in 2023-2024, however, the grant was actually received in 2022-2023. For a complete list of all budget adjustments included in the 17 C&C Tax Funds, please refer to *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions.*

CONSTRUCTION EXCISE TAX FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2022-2023 Budget	*2022-2023 Actuals*	*Variance*	*% Variance*
Revenues	$137,264	$90,274	($46,990)	(34.2%)
Expenditures	$203,564	$143,064	($60,500)	(29.7%)

Revenues totaled $90.3 million and were primarily generated from grant funding ($74.7 million), Construction Excise Tax receipts ($10.9 million), interest earnings ($2.7 million), traffic impact and other fees ($917,000), miscellaneous revenue ($595,000), and developer contributions ($489,000). The majority of grant funding consists of allocations for pavement maintenance from the State of California and the Valley Transportation Authority (VTA) ($61.8 million). The revenue level was $47.0 million (34.2%) below the budgeted estimate but $2.6 million (3.0%) above the prior year level of $87.7 million.

The 2022-2023 revenue level was lower than the 2022-2023 Modified Budget estimate of $137.3 million, primarily due to lower receipts from grant funds ($40.2 million), miscellaneous revenue ($5.4 million), Construction Excise Tax receipts ($3.1 million), and licenses and permits ($100,000), and partially offset by higher than estimated traffic impact fees ($916,000), interest earnings ($720,000), and developer contributions ($171,000). Grant related revenues of $7.0 million which were not received in 2022-2023 due to project delays were anticipated and rebudgeted as part of the development of the 2023-2024 Adopted Budget. An additional $40.6 million is recommended to be rebudgeted as part of this report, primarily due to VTA Measure B 2016 pavement maintenance funds that were not received in 2022-2023. The revenue variance to the prior year is $2.6 million greater which mainly resulted from higher collections from grant funding ($5.6 million), interest earnings ($1.6 million), traffic impact fees ($865,000), and traffic fees ($147,000), which were partially offset by lower collections from Construction Excise Tax receipts ($5.3 million), miscellaneous revenues ($202,000), and licenses and permits ($10,000).

At $10.9 million, Construction Excise Tax receipts in 2022-2023 were 22.3% below the budgeted estimate of $14.0 million and below 2021-2022 collections of $16.2 million. Commercial permit valuations in 2022-2023 were significantly lower than 2021-2022, while residential permit valuations remained nearly the same. The total valuation of residential and commercial projects submitted in 2022-2023 was $946.8 million, 20.4% below the $1.2 billion valuation of residential and commercial projects submitted in 2021-2022 (the Construction Excise Tax does not apply to industrial projects).

Residential valuation of $369.2 million in 2022-2023 was slightly higher (0.5%) than the 2021-2022 level of $367.4 million.

CONSTRUCTION EXCISE TAX FUND

A total of 1,792 new residential units received permits in 2022-2023, which was below 2021-2022 actuals of 1,887 units. More significantly, commercial valuation of $577.6 million was 29.7% below the prior year level of $821.7 million. Examples of major projects for the year include permits for a six-story affordable multi-family residence with 245 units on North 1st Street; a 23-story, mixed-use high rise building with 336 units located on East Reed Street; an eight-story hotel located on West San Carlos Street; and a six-story, 154-unit apartment project on Sunol Street.

To achieve the 2023-2024 Adopted Budget estimate of $15.0 million for Construction Excise Tax requires an increase of 37.8% from the actual 2022-2023 collection level.

Expenditures including encumbrances totaled $143.1 million and were $60.5 million (29.7%) below the 2022-2023 Modified Budget. A portion of the expenditure savings ($36.7 million) was anticipated and rebudgeted as part of the 2023-2024 budget process, in addition to the rebudgeting of reserves ($49.1 million). An additional $21.1 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2023-2024. The expenditure level was $32.1 million above the prior year level of $111.0 million, primarily due to level expenditures on pavement maintenance and road repair projects.

Ending Fund Balance Performance ($ in Thousands)

2022-2023 Modified Budget	2022-2023 Estimated Ending Fund Balance	2022-2023 Actual Ending Fund Balance	Variance	Recommended Annual Report Rebudgets	Revised Variance	Revised Variance % (incl. Rebudgets)
$257,408	$89,219	$79,416	($9,803)	($19,451)	$9,648	3.7%

The **Ending Fund Balance** of $79.4 million was $9.8 million below the estimate used in the development of the 2023-2024 Adopted Budget. After accounting for net revenue and expenditure rebudgets of a negative $19.5 million recommended in the Annual Report, this variance increases to $9.6 million above the estimate. Significant revenue rebudgets include Pavement Maintenance – VTA Measure B 2016 ($21.9 million), Pavement Cost Share ($6.0 million), TDA – Bicycle and Pedestrian Facilities ($3.7 million), Measure B Highway Bridge Program ($3.0 million), OBAG2 – Pavement Maintenance ($2.4 million), and St. James Station at Basset Bike/Ped Improvements ($1.2 million). Significant expenditure rebudgets include Pavement Maintenance – VTA Measure B 2016 ($9.8 million), Pavement Maintenance – VTA Measure B VRF ($3.1 million), ADA Sidewalk Accessibility Program ($1.0 million), Airport Connector ($985,000), and Pavement Maintenance SB1 Road Repair and Accountability Act 2017 ($974,000).

As described in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions*, a limited number of new grants and projects as well as revisions to existing projects are recommended in this report. After accounting for all recommended adjustments, the 2023-2024 Ending Fund Balance is recommended to be decreased by approximately $7.1 million.

DEVELOPMENT FEE PROGRAM FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2022-2023 Budget	*2022-2023 Actuals*	*Variance*	*% Variance*
Revenues				
Building:	$33,966	$37,997	$4,031	11.9%
Fire:	$7,893	$8,224	$331	4.2%
Planning:	$8,342	$7,241	($1,101)	-13.2%
Public Works:	$14,675	$16,954	$2,279	15.5%
Expenditures				
Building:	$43,341	$35,481	($7,860)	(18.1%)
Fire:	$10,573	$9,133	($1,440)	(13.6%)
Planning:	$8,279	$7,513	($766)	(9.3%)
Public Works:	$16,934	$16,154	($780)	(4.6%)

The Development Fee Program Funds include the Building Development Fee Program Fund, Fire Development Fee Program Fund, Planning Development Fee Program Fund, and Public Works Development Fee Program Fund. The Development Fee Programs were previously budgeted in the General Fund as full cost recovery programs; however, starting in 2020-2021, these fee programs have been reallocated into individual special funds to improve transparency and financial and budgetary administration.

Revenues generated from the Development Fee Program Funds totaled $70.4 million in 2022-2023, higher than the total budget of $64.9 million. Revenues exceeded budgeted levels in the Building, Fire, and Public Works Development Fee Program Funds, while revenues ended the year below budgeted levels in the Planning Development Fee Program Fund due to lower than anticipated activity across all major revenue generating Planning Permits. Total revenues were also approximately 6% above the prior year, with only the Planning Development Fee Program experiencing a decline (-12.2%).

The difference between revenues and expenditures are held in the fund balance to be spent down as projects proceed through the development process.

Expenditures totaled $68.3 million and were primarily for the Personal Services and Non-Personal/Equipment expenditures in all four Development Fee Program Funds. This expenditure level was $10.8 million (13.7%) below the modified budget of $79.1 million primarily due to vacancy savings experienced in all four Development Fee Program Funds.

DEVELOPMENT FEE PROGRAM FUNDS

Ending Fund Balance Performance ($ in Thousands)							
Development Fee Program	***2022-2023 Modified Budget***	***2022-2023 Estimated Ending Fund Balance***	***2022-2023 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudgets***	***Revised Variance***	***Revised Variance % (incl. Rebudgets)***
Building	$68,471	$32,854	$37,021	$4,167	$0	$4,167	6.1%
Fire	$11,183	$2,331	$2,382	$51	$0	$51	0.5%
Planning	$12,685	$4,023	$4,071	$48	$0	$48	0.4%
Public Works	$21,459	$5,408	$7,584	$2,174	$0	$2,174	10.1%

The total **Ending Fund Balance** for all four Development Fee Program Funds of $51.1 million was $6.4 million above the estimate used in the development of the 2023-2024 Adopted Budget. These funds will be spent down in future years as projects proceed through the development process. After accounting for the recommended budget adjustments included in this report, the 2023-2024 Ending Fund Balance for the Development Fee Program Funds will be increased by $5.5 million. These funds will be spent down in future years as projects proceed through the development process. It is important to note that, after accounting for the clean-up/rebudget actions included in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2023-2024 Ending Fund Balance in the Fire Development Fee Program Fund is $895,000, or only 7.6% of the Fire Development Fee Program Fund's Modified Budget. The Administration will continue to carefully monitor this fund's status throughout the fiscal year and recommend adjustments as appropriate should revenue or expenditure expectations significantly change.

INTEGRATED WASTE MANAGEMENT FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2022-2023 Budget	***2022-2023 Actuals***	***Variance***	***% Variance***
Revenues	$194,401	$197,290	$2,889	1.5%
Expenditures	$207,416	$203,009	($4,407)	(2.1%)

Revenues totaled $197.3 million and were generated primarily from Recycle Plus collection charges ($188.5 million), AB939 Fees ($4.7 million), lien-related revenues ($1.2 million), and unclaimed Construction and Demolition Diversion Deposit revenue ($838,000). This revenue level was $2.9 million (1.5%) above the Modified Budget of $194.4 million and $9.7 million (5.2%) above the prior year level of $187.6 million.

The variance to the budget was mainly due to higher than anticipated revenue from Recycle Plus collection charges ($1.9 million), lien-related revenues ($591,000), and Commercial and Multi-Family Dwelling (MFD) Enforcement Fines ($358,000). The overall increase compared to the prior year was due primarily to increased Recycle Plus collection charges ($13.9 million), offset by property sales that took place in 2021-2022 ($3.8 million).

Expenditures totaled $203.0 million and were primarily for Single-Family Dwelling (SFD) Recycle Plus contracts ($94.5 million) to pay for hauling services for single-family dwellings across the City, yard trimmings/street sweeping contract ($32.8 million), MFD Recycle Plus contracts ($30.3 million), SFD back-end processing ($20.7 million) which pays for post-collection processing of solid waste to recover organics and recyclables, Environmental Services Department (ESD) personal services costs ($8.5 million), the International Disposal Corporation of California, Inc. (IDC) disposal agreement ($5.5 million), ESD non-personal/equipment costs ($3.9 million), reimbursement of citywide overhead expenses ($2.2 million), and costs for the County Revenue Collection Fee ($1.4 million). This expenditure level was $4.4 million (2.1%) below the Modified Budget of $207.4 million and $16.3 million (8.7%) above the prior year level of $186.7 million.

The variance to the budget was mainly due to savings in ESD non-personal/equipment expenses ($1.3 million), expenditures related to the CalRecycle Grant ($1.2 million), ESD personal services ($848,000) costs, and SFD Recycle Plus ($305,000) costs. The higher expenditure level compared to the prior year was due primarily to higher costs for SFD Recycle Plus ($9.5 million), MFD Recycle Plus ($2.7 million), yard trimming collection and processing ($2.3 million), and SFD back-end processing ($1.2 million).

INTEGRATED WASTE MANAGEMENT FUND

Ending Fund Balance Performance ($ in Thousands)						
2022-2023 Modified Budget	***2022-2023 Estimated Ending Fund Balance***	***2022-2023 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudgets***	***Revised Variance***	***Revised Variance as % of Modified Budget***
$225,817	$25,174	$25,629	$455	$293	$162	0.1%

The **Ending Fund Balance** of $25.6 million was $455,000 above the estimate used in the development of the 2023-2024 Adopted Budget primarily due to the higher than estimated expenditures in yard trimmings/street sweeping contract costs and SFD back-end processing, offset by lower than estimated expenditures in MFD Recycle Plus and higher than estimated Recycle Plus collection charges revenue. After accounting for adjustments recommended in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2023-2024 Ending Fund Balance in the Integrated Waste Management Fund is recommended to be increased by $162,000.

SANITARY SEWER CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2022-2023 Budget	***2022-2023 Actuals***	***Variance***	***% Variance***
Revenues	$38,062	$38,310	$248	0.7%
Expenditures	$73,130	$28,775	($44,355)	(60.7%)

The Sanitary Sewer Capital Funds include the Sewer Service and Use Charge Capital Improvement Fund and the Sanitary Sewer Connection Fee Fund.

Revenues totaled $38.3 million and were generated from a transfer from the Sewer Service and Use Charge Fund ($35.0 million), interest revenue ($2.3 million), connection fees ($508,000), and joint participation payments ($452,000). This revenue level was $248,000 (0.7%) above the Modified Budget and $800,000 (2.1%) above the prior year's level of $37.5 million.

The variance to the budget was due to higher than budgeted interest revenue ($905,000) offset primarily by lower joint participation payments ($678,000) as project delays in joint participation jurisdictions postpone when reimbursements are collected. The positive variance to the prior year was due primarily to higher interest revenue ($1.6 million), offset by lower joint participation payments ($570,000) and miscellaneous revenues ($284,000).

Expenditures totaled $28.8 million due to the progress on a variety of capital projects, the largest of which were: Urgent Rehabilitation and Repair Projects ($8.8 million), Infrastructure – Sanitary Sewer Condition Assessment ($3.8 million), Cast Iron Pipe – Remove and Replace ($3.4 million), Condition Assessment Sewer Repairs ($2.9 million), Immediate Replacement and Diversion Projects ($2.5 million), Capital Program and Public Works Department Support Service Costs ($1.8 million), and Master Planning Updates ($1.4 million). This expenditure level was $44.4 million (60.7%) below the Modified Budget and $3.1 million (9.9%) below the prior year's level of $31.9 million.

Expenditures were below the budget by $44.4 million (60.7%) as a result of savings across a number of projects, including: Sanitary Sewer Interceptor Management Program ($6.0 million), Fourth Major Interceptor Phase VIIA ($5.5 million), Immediate Replacement and Diversion Projects ($5.3 million), Condition Assessment Sewer Repairs ($5.0 million), Blossom Hill and Leigh Sanitary Improvements ($4.6 million), Cast Iron Pipe - Remove and Replace ($3.8 million), Almaden Supplement Sewer Rehabilitation (North) ($3.1 million), Urgent Rehabilitation and Repair Projects ($2.7 million), and Rehabilitation of Sanitary Sewer Pump Stations ($1.7 million). Several of these projects are recommended to be rebudgeted to 2023-2024 in this report as a result of project delays or were rebudgeted in the 2023-2024 Adopted Budget. The lower expenditure level compared to the prior year is largely attributed to lower costs for 60" Brick Interceptor, Phase VIA and VIB ($6.4 million) and Condition Assessment Sewer Repairs ($1.1 million), offset primarily by higher expenditures in Urgent Rehabilitation and Repair Projects ($2.7 million) and Immediate Replacement and Diversion Projects ($1.1 million).

SANITARY SEWER CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2022-2023 Modified Budget	*2022-2023 Estimated Ending Fund Balance*	*2022-2023 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudgets*	*Revised Variance*	*Revised Variance as % of Modified Budget*
$119,990	$68,944	$91,453	$22,509	$6,563	$15,946	13.3%

The **Ending Fund Balance** of $91.5 million was $22.5 million above the estimate used in the development of the 2023-2024 Adopted Budget. The actual Ending Fund Balance was above the estimate largely due to lower than anticipated expenditures across several projects, including Immediate Replacement and Diversion Projects ($5.3 million), Condition Assessment Sewer Repairs ($5.0 million), Cast Iron Pipe – Remove and Replace ($3.8 million), Urgent Rehabilitation and Repair Projects ($2.7 million), and Infrastructure – Sanitary Sewer Condition Assessment ($659,000). After accounting for all recommended adjustments in the Annual Report as included in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2023-2024 Ending Fund Balance is recommended to be increased by $10.7 million for the Sewer Service and Use Charge Capital Improvement Fund and $235,000 for the Sanitary Sewer Connection Fee Fund.

SAN JOSE CLEAN ENERGY OPERATING FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2022-2023 Budget	*2022-2023 Actuals*	*Variance*	*% Variance*
Revenues	$522,171	$521,562	($609)	(0.1%)
Expenditures	$471,154	$453,226	($17,928)	(3.8%)

Revenues totaled $521.6 million and were primarily generated from the sale of electricity ($516.6 million), interest earnings ($2.8 million), and grant revenue ($2.2 million). This revenue level was slightly below ($609,000 or 0.1%) the Modified Budget of $522.2 million, and $120.8 million (30.1%) above prior year actuals.

The 2022-2023 variance to budget ($609,000) was largely due to higher interest revenue ($2.1 million) and slightly higher energy sales ($60,000), offset by the delayed receipt of State grant revenue for the Disadvantaged Communities Green Tariff and Energy Efficiency grant programs ($2.7 million). In December 2022, City Council approved San José Clean Energy's (SJCE) rate package for 2023 and the shift to a new cost-of-service rate setting model in place of setting rates at a fixed discount or premium to PG&E's standard generation rates, inclusive of PG&E's added fees. SJCE's new rates began on January 1, 2023, and are 1-3% below PG&E rates, inclusive of the Power Charge Indifference Adjustment (PCIA) and Franchise Fee Surcharge, depending on customer class and usage.

PG&E's PCIA fees are highly volatile and are a significant factor when setting SJCE rates each year. Lower PCIA fees, combined with high market energy prices, created a favorable environment for SJCE in 2022-2023, which is a marked improvement from the prior year when SJCE's financials projected a cash flow shortage for which City Council approved a total Commercial Paper Notes authorization of up to $95.0 million. SJCE drew a total of $60.0 million of Commercial Paper notes in 2020-2021 and 2021-2022 combined.

Energy sales of $516.6 million were consistent with the Modified Budget estimate of $516.5 million and were up significantly (45.3%) from prior year totals of $355.5 million.

Expenditures including encumbrances totaled $453.2 million and consisted primarily of Cost of Energy expenditures ($384.0 million), Commercial Paper Debt Service principal and interest payments ($42.3 million), Community Energy Department non-personal/equipment ($8.7 million) and personal services expenditures ($7.3 million), City overhead reimbursement ($3.1 million), and PG&E security fees ($1.5 million). This expenditure level was $17.9 million (3.8%) below the Modified Budget of $471.2 million, which reflected savings in the Cost of Energy ($6.4 million), Community Energy Department non-personal/equipment ($4.5 million) and personal services expenditures ($973,000), letter of credit fees ($2.7 million), Debt Service Interest payments ($1.0 million), and Disadvantaged Communities Green Tariff ($798,000) and Energy Efficiency ($708,000) grant program costs. This expenditure level was 25.1% above the prior year's level of $339.4 million, primarily attributable to higher Cost of Energy expenditures ($66.8 million).

SAN JOSE CLEAN ENERGY OPERATING FUND

Ending Fund Balance Performance ($ in Thousands)						
2022-2023 Modified Budget	***2022-2023 Estimated Ending Fund Balance***	***2022-2023 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudgets***	***Revised Variance***	***Revised Variance % (incl. Rebudgets)***
$628,002	$180,030	$173,742	($6,288)	$1,181	($5,107)	(0.01%)

The **Ending Fund Balance** of $173.7 million was $6.3 million below the estimate used in the development of the 2023-2024 Adopted Budget. The variance can primarily be attributed to above estimated levels of State grant revenue ($2.0 million), higher interest earnings ($768,000), and lower than estimated cost of energy expenditures ($12.1 million), offset by a higher encumbrance balance ($18.0 million), higher than estimated Community Energy Department non-personal/equipment expenditures ($2.0 million) and State grant program costs ($1.8 million). After accounting for $1.2 million of rebudget adjustments (net revenue and expense) that result from SJCE grant program reconciliations recommended in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions*, the revised fund balance variance is $5.1 million.

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2022-2023 Budget	*2022-2023 Actuals*	*Variance*	*% Variance*
Revenues	$682,942	$441,487	($241,455)	(35.4%)
Expenditures	$739,564	$622,652	($116,912)	(15.8%)

Revenues totaled $441.5 million and were generated primarily from financing proceeds from the issuance of bonds ($301.4 million), Wastewater Revenue Notes ($63.2 million), a transfer from the Sewer Service and Use Charge (SSUC) Fund ($45.3 million), Revenue from Local Agencies for projects and debt service payments ($25.9 million), and interest income ($5.3 million). This revenue level was $241.5 million (35.4%) below the Modified Budget and $252.3 million (133.3%) above the prior year's level of $189.2 million.

The variance to the budget was due primarily to postponing the issuance of a portion of the authorized wastewater revenue notes ($238.2 million) to align with the timing of project spending and lower contributions from Santa Clara and the tributary agencies for projects ($4.9 million) as a result of the prior year's reconciliation for actual Treatment Plant expenditures and usage (Santa Clara and the tributary agencies are billed on a quarterly basis according to the most recent expenditure data available throughout the fiscal year). The increase from the prior year was due primarily to bond issuance ($301.4 million), an increased transfer from the Sewer Service and Use Charge Fund ($11.9 million), and increased interest earnings ($3.5 million), offset primarily by decreased contributions from Santa Clara and the tributary agencies for projects and debt service payments ($41.3 million) and lower revenue from the issuance of wastewater revenue notes ($23.3 million).

Expenditures totaled $622.7 million and were primarily attributed to capital improvement projects and associated support allocations ($313.4 million) and debt service payments ($309.3 million). The largest project and support allocation expenditures included Digested Sludge and Dewatering Facilities ($140.5 million), Filter Rehabilitation ($36.6 million), New Headworks ($28.0 million), Yard Piping and Road Improvements ($23.1 million), Nitrification Clarifier Rehabilitation ($19.5 million), Program Management ($12.1 million), Storm Drain System Improvements ($9.4 million), Advanced Facility Control and Replacement ($5.9 million), Outfall Bridge and Levee Improvements ($5.8 million), Aeration Tanks and Blower Rehabilitation ($5.7 million), and Support Building Improvements ($4.8 million). This expenditure level was $116.9 million (15.8%) below the Modified Budget and $195.7 million (45.9%) higher than the prior year's level of $426.9 million.

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

The variance between the Modified Budget and actual expenditures is $116.9 million, with a majority of the variance attributed to savings in the Facility Wide Water System Improvements ($47.2 million), Support Building Improvements ($18.3 million), Digester and Thickener Facilities Upgrade ($6.8 million), Debt Service Repayment for Plant Capital Improvement Projects ($6.0 million), Plant Infrastructure Improvements ($4.5 million), Plantwide Security Systems Upgrade ($4.4 million), Final Effluent Pump Station and Stormwater Channel Improvements ($3.8 million), Aeration Tanks and Blower Rehabilitation ($3.4 million), Owner Controlled Insurance Program ($2.6 million), and Preliminary Engineering ($2.5 million). Most of these savings were anticipated and rebudgeted as part of the 2023-2024 Adopted Budget process, with an additional $7.2 million recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2023-2024. Expenditures were higher than the prior year, with the most significant increases year-over-year being Debt Service Repayment for Plant Capital Improvement Projects ($306.9 million) to pay off outstanding debt service obligations, and Yard Piping and Road Improvements ($15.8 million). The most significant decreases year-over-year were New Headworks ($52.6 million), Digester and Thickener Facilities Upgrade ($19.8 million), Filter Rehabilitation ($10.7 million), Aeration Tanks and Blower Rehabilitation ($10.4 million), and Digested Sludge Dewatering Facility ($10.3 million).

Ending Fund Balance Performance ($ in Thousands)						
2022-2023 Modified Budget	***2022-2023 Estimated Ending Fund Balance***	***2022-2023 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudgets***	***Revised Variance***	***Revised Variance as % of Modified Budget***
$873,861	$99,468	$15,087	($84,381)	($77,821)	($6,560)	(0.8%)

The **Ending Fund Balance** of $15.1 million was $84.4 million below the estimate used in the development of the 2023-2024 Adopted Budget. The decrease to Ending Fund Balance is attributable to $170.0 million in encumbrances for construction projects that have not yet incurred actual expenditures and the corresponding deferral of issuing $85.0 million in wastewater revenue notes to 2023-2024 when the actual expenditures for the capital projects are expected. The wastewater revenue notes provide funding for project expenditures at the Regional Wastewater Facility, but notes are issued only after expenses are incurred. This creates a time lag between when a contract is encumbered and when the revenue is needed to pay for expenses. Rebudgeting the financing proceeds from wastewater notes in the amount of $85.0 million and $7.2 million for various projects are recommended in this report to retain sufficient budgetary Ending Fund Balance and ensure sufficient capacity to support the expenditures that are anticipated for 2023-2024. The wastewater revenue notes will only be drawn as necessary to ensure appropriate funds are available for the projects.

After accounting for adjustments recommended in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2023-2024 Ending Fund Balance in the San José-Santa Clara Treatment Plant Capital Fund is recommended to be decreased by $6.6 million.

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2022-2023 Budget	*2022-2023 Actuals*	*Variance*	*% Variance*
Revenues	$325,531	$319,625	($5,906)	(1.8%)
Expenditures	$378,292	$328,252	($50,040)	(13.2%)

The San José-Santa Clara Treatment Plant operating funds consist of the Sewer Service and Use Charge Fund (SSUC Fund), the San José-Santa Clara Treatment Plant Operating Fund (Plant Operating Fund), the Sewage Treatment Plant Connection Fee Fund (Connection Fee Fund), and the San José-Santa Clara Treatment Plant Income Fund (Plant Income Fund).

Revenues totaled $319.6 million and were generated primarily from sewer service and use charges for residential ($157.0 million), commercial ($27.9 million), and industrial ($4.9 million) users; a transfer from the SSUC Fund to the Plant Operating Fund ($86.8 million); contributions from tributary agencies ($22.2 million) and the City of Santa Clara ($15.3 million); interest and rental revenues ($3.1 million); and connection fees ($1.3 million). This revenue level was $5.9 million (1.8%) below the Modified Budget and $42.6 million (15.4%) above the prior year's level of $277.1 million.

The variance to the budget of $5.9 million (1.8%) was mainly due to lower contributions from tributary agencies ($5.2 million) and the City of Santa Clara ($4.6 million), primarily offset by higher SSUC charges ($3.6 million). Revenues came in $42.6 million (15.4%) higher than the prior year primarily due to a higher transfer from the SSUC Fund to the Plant Operating Fund ($22.8 million) and higher SSUC charges ($20.5 million), partially offset by lower contributions from the City of Santa Clara ($2.1 million) and tributary agencies ($428,000).

Expenditures totaled $328.3 million and consisted primarily of transfers to the Treatment Plant Operating Fund ($86.8 million), the Treatment Plant Capital Fund ($45.3 million), the Sewer Service and Use Charge Capital Fund ($35.0 million); Environmental Services Department (ESD) personal services ($60.1 million) and non-personal/equipment ($45.2 million) costs; overhead reimbursements ($19.5 million); and Transportation Department personal services ($16.4 million) and non-personal/equipment ($9.8 million) costs. This expenditure level was $50.0 million (13.2%) below the Modified Budget, and $50.1 million (18.0%) above the prior year's level of $278.2 million.

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Expenditures ended the year $50.0 million (13.2%) below the budget primarily due to savings in: the Legacy Lagoons Remediation project ($26.2 million), savings for which were anticipated and have been allocated to the City of San José Legacy Lagoons Remediation Project II Reserve in 2023-2024 to ensure funding is available when the next phase of the remediation project is ready to begin; the Prior Year Fiscal Agency Payment ($12.3 million) which was established in the Plant Operating Fund to track payments back to the Tributary Agencies for prior year credits, and this appropriation was unused in favor of the previous method in 2022-2023 due to delays in updating internal processes for the revised method; ESD personal services ($3.7 million) and non-personal/equipment ($2.6 million) savings; and Transportation Department non-personal/equipment ($1.6 million) savings. Expenditures ended the year $50.1 million (18.0%) above the previous year's expenditures due primarily to increased transfers to the Treatment Plant Operating Fund ($22.8 million) and the Treatment Plant Capital Fund ($11.9 million); increased ESD non-personal/equipment ($5.4 million) and personal services ($4.2 million) expenditures; and increased overhead reimbursements ($1.8 million).

Ending Fund Balance Performance ($ in Thousands)						
2022-2023 Modified Budget	*2022-2023 Estimated Ending Fund Balance*	*2022-2023 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudgets*	*Revised Variance*	*Revised Variance as % of Modified Budget*
$492,850	$158,234	$161,796	$3,562	$5	$3,557	0.7%

The **Ending Fund Balance** of $161.8 million was $3.6 million above the estimate used in the development of the 2023-2024 Adopted Budget and primarily due to lower than estimated expenditures for the Prior Year Fiscal Agency Payment ($9.8 million), offset primarily by ESD non-personal/equipment ($6.2 million) and personal services ($2.8 million), and Transportation Department non-personal/equipment services ($4.3 million).

After accounting for rebudget adjustments, the 2022-2023 Ending Fund Balance variance remains at $3.6 million. The recommended various actions in *Section IV – Recommended Budget Adjustments and Clean-Up Actions* result in the following changes to the 2023-2024 Ending Fund Balance: an increase of $2.0 million in the Sewer Service and Use Charge Fund, an increase of $1.3 million in the San José-Santa Clara Treatment Plant Operating Fund, an increase of $188,000 in the San José-Santa Clara Treatment Plant Income Fund, and a decrease of $520,000 in the Sewage Treatment Plant Connection Fee Fund.

WATER UTILITY CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2022-2023 Budget	***2022-2023 Actuals***	***Variance***	***% Variance***
Revenues	$7,996	$8,579	$583	7.3%
Expenditures	$22,904	$10,335	($12,569)	(54.9%)

The Water Utility Capital Funds include the Water Utility Capital Fund and the Major Facilities Fund.

Revenues totaled $8.6 million and were generated from a transfer from the Water Utility Fund ($7.8 million), interest income ($689,000), and fees paid by developers ($90,000). The fees consist of Service Connection Fees ($61,000), Advanced System Design Fees ($15,000), Major Facilities Fees ($7,000), and Meter Installation Fees ($6,000). Revenues were $583,000 (7.3%) above the Modified Budget due to higher than anticipated interest income ($568,000) and revenue from the developer fees ($15,000). Revenues were $512,000 (6.3%) above the prior year's level of $8.1 million, due to increased interest revenue ($448,000) and developer fee revenues ($64,000).

Expenditures totaled $10.3 million for several capital projects, the largest of which were Annual Water Main Replacement ($4.5 million), the Water Resources Administration and Operations Facility ($2.2 million), System Maintenance and Repairs ($1.3 million), and Infrastructure Improvements ($1.1 million). This expenditure level was $12.6 million (54.9%) below the Modified Budget and $1.6 million (13.3%) below the prior year's level of $11.9 million.

Expenditures were below the budget by $12.6 million as a result of savings and unexpended funds across a number of projects, which included: the Water Resources Administration and Operations Facility ($5.1 million), North San José Reliability Well #6 Construction ($2.4 million) which is recommended to be renamed to North San José Reliability Well Construction in this report to provide more versatility in the use of funding to support the construction of additional reliability wells, North San José Well #5 Development and Construction ($2.2 million), and Annual Water Main Replacement ($2.0 million). Several of these projects have been fully or partially rebudgeted in the 2023-2024 Adopted Budget or are recommended to be rebudgeted in this report because of project delays. Expenditures were below the prior year's level primarily due to lower expenses for the Fowler Pump Station Replacement project ($827,000) which was substantially completed in 2021-2022, System Maintenance/Repairs ($495,000), Infrastructure Replacement ($250,000), Annual Water Main Replacement ($215,000), and Safety and Security Improvements ($200,000).

WATER UTILITY CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2022-2023 Modified Budget	***2022-2023 Estimated Ending Fund Balance***	***2022-2023 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudgets***	***Revised Variance***	***Revised Variance as % of Modified Budget***
$32,280	$22,264	$23,132	$868	$658	$210	0.7%

The **Ending Fund Balance** of $23.1 million was $868,000 above the estimate used in the development of the 2023-2024 Adopted Budget. After accounting for the $658,000 of recommended adjustments in the Annual Report as included in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2023-2024 Ending Fund Balance is recommended to be increased by approximately $155,000 for the Water Utility Capital Fund and approximately $55,000 for the Major Facilities Fund.

WATER UTILITY OPERATING FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2022-2023 Budget	***2022-2023 Actuals***	***Variance***	***% Variance***
Revenues	$61,744	$61,049	($695)	(1.1%)
Expenditure	$65,703	$61,544	($4,159)	(6.3%)

Revenues totaled $61.0 million and were generated from potable ($53.3 million) and recycled water ($6.1 million) sales, late fees ($1.4 million), miscellaneous revenues ($108,000), and interest earnings ($91,000). This revenue level was $695,000 (1.1%) below the Modified Budget and $4.9 million (8.1%) above the prior year's level of $56.1 million.

Revenues ended the year below the budget primarily due to lower than anticipated potable water sales ($1.9 million), offset by higher than anticipated late fee revenues ($1.1 million) and recycled water sales ($101,000). The increase over the prior year was due primarily to higher potable water sales ($6.2 million) and late fees ($457,000), offset by lower recycled water sales ($1.1 million) and revenue from the Federal Government ($541,000).

Expenditures totaled $61.5 million and were primarily for Environmental Services Department (ESD) non-personal/equipment costs of $40.9 million ($28.3 million was attributed to the purchase of wholesale potable water and $5.7 million to wholesale recycled water), ESD personal services costs ($8.8 million), a transfer to the Water Utility Capital Fund ($7.8 million), and the reimbursement of overhead costs ($2.1 million). This expenditure level was $4.2 million (6.3%) below the Modified Budget mainly due to lower than budgeted expenditures in ESD non-personal/equipment ($3.8 million), savings from the Customer Information System Transition allocation ($150,000), and Information Technology Department non-personal/equipment expenses ($120,000). Overall, the expenditure level was $1.7 million (2.9%) above the prior year's level of $59.8 million primarily due to higher ESD non-personal/equipment expenditures ($1.7 million), a higher reimbursement of overhead costs ($322,000), and higher ESD personal services expenditures ($180,000), offset by a lower transfer to the General Fund of unrestricted late fee revenues ($500,000).

WATER UTILITY OPERATING FUND

Ending Fund Balance Performance ($ in Thousands)						
2022-2023 Modified Budget	***2022-2023 Estimated Ending Fund Balance***	***2022-2023 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudgets***	***Revised Variance***	***Revised Variance as % of Modified Budget***
$76,854	$13,320	$14,629	$1,310	$0	$1,310	1.7%

The **Ending Fund Balance** of $14.7 million was $1.3 million above the estimate used in the development of the 2023-2024 Adopted Budget. The Ending Fund Balance was higher than the estimate primarily due to lower than estimated ESD non-personal/equipment costs ($4.6 million), and lower ESD personal services costs ($1.3 million), offset by lower than estimated revenue from water sales ($4.7 million). Accordingly, as included in *Section IV – Recommended Budget Adjustments and Clean-Up Actions,* the 2023-2024 Ending Fund Balance in the Water Utility Fund is recommended to be increased by $1.3 million.