

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

This section provides financial information on the 2023-2024 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 2023-2024 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 2023-2024 Modified Budget, which includes fund balance and reserves. The 2023-2024 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 2024-2025 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 2023-2024 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 2023-2024 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 2024-2025 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 2024-2025 Adopted Budget; discusses variances between these two amounts; and identifies any impact on the 2024-2025 budget related to recommended actions included in this report.

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AIRPORT CAPITAL FUNDS

Revenue and Expenditure Performance (\$ in Thousands)				
	2023-2024 Budget	2023-2024 Actuals	Variance	% Variance
Revenues	\$184,811	\$121,340	(\$63,471)	(34.3%)
Expenditures	\$261,094	\$114,935	(\$146,159)	(56.0%)

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 \$121.3 million and were generated primarily from transfers from the Airport Surplus Revenue Fund (\$52.1 million), Commercial Paper proceeds (\$25.5 million), Passenger Facility Charges (PFCs) (\$22.5 million), grant income (\$17.3 million), and interest earnings (\$3.8 million). This revenue level was \$63.5 million (34.3%) below the Modified Budget and \$18.4 million (17.9%) higher than the prior year level of \$103.0 million.

The negative variance to the budget of \$63.5 million (34.3%) was due primarily to lower than budgeted grant revenue of \$58.5 million (77.2%), a factor of timing as Airport capital projects await grant application and award approval by the Federal Aviation Administration, and lower than budgeted PFC revenue of \$4.2 million (15.8%). Overall, revenues in 2023-2024 of \$121.3 million were above 2022-2023 revenues of \$103.0 million primarily due to increased Commercial Paper proceeds (\$15.5 million) and additional federal grant revenue (\$5.1 million). Revenue rebudgets totaling \$869,000 are recommended in this report to align the anticipated revenue budget with planned expenditures.

Expenditures totaled \$114.9 million and consisted primarily of various capital renewal and replacement projects (\$36.0 million), one large commercial paper-funded project (\$31.8 million), grant-funded projects (\$24.1 million), and transfers to other Airport funds for debt service payments (\$23.1 million). Some significant expenditures in 2023-2024 included the Facilities Division Relocation project (\$31.8 million), Taxiway V in the Airfield Configuration Updates project (\$21.7 million), and the Terminal Accessibility Upgrade project (\$13.1 million). This expenditure level was \$146.2 million (56.0%) below the Modified Budget and \$30.0 million (35.2%) above the prior year level of \$85.0 million.

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After adjusting for rebudgets of \$94.5 million included in the 2024-2025 Adopted Budget and net negative rebudgets of \$740,000 recommended in this report, expenditure savings of \$51.7 million were largely attributed to the deferral of grant projects, including the Belly Freight Facility (\$56.8 million), Parking Accessibility Upgrades (\$19.2 million), Electric Vehicle Chargers (\$1.8 million), and Terminal A Baggage Claim Carousels (\$366,000) projects. Project savings also resulted from the completion of several projects including the Guadalupe Gardens Fencing (\$547,000) and Blue Dot Lighting Replacement (\$135,000) projects. The Airport continues to ensure passenger safety is a top priority and development of additional passenger, airline, and concession activity is important to planning for the Airport’s future growth.

Ending Fund Balance Performance (\$ in Thousands)						
<i>2023-2024 Modified Budget</i>	<i>2023-2024 Estimated Ending Fund Balance</i>	<i>2023-2024 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Annual Report Rebudget Adjustments</i>	<i>Revised Variance</i>	<i>Revised Variance % (incl. Rebudget Adjustment)</i>
\$295,616	\$114,712	\$117,866	\$3,155	(\$740)	\$3,895	1.3%

The **Ending Fund Balance** of \$117.9 million was \$3.2 million above the estimate used in the development of the 2024-2025 Adopted Capital Budget. After accounting for negative expenditure rebudget adjustments totaling \$740,000 that are recommended as part of this Annual Report, the revised fund balance variance is \$3.9 million (1.3%), the result of project deferrals and project timeline extensions.

As described in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions*, a limited number of adjustments are recommended in this report. After accounting for these adjustments, decreases to the Ending Fund Balance are recommended in the Airport Renewal and Replacement Fund (\$339,000) and Airport Capital Improvement Fund (\$331,000).

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AIRPORT OPERATING FUND - AIRPORT CUSTOMER FACILITY AND TRANSPORTATION FEE FUND

Revenue and Expenditure Performance (\$ in Thousands)				
	2023-24 Budget	2023-2024 Actuals	Variance	% Variance
Revenues	\$17,525	\$17,971	\$447	2.5%
Expenditures	\$12,613	\$12,317	(\$296)	(2.3%)

Revenues totaled \$18.0 million and were generated from rental car Customer Facility Charge (CFC) fees (\$17.4 million) and interest earnings (\$546,000). This revenue level was \$447,000 (2.5%) above the Modified Budget of \$17.5 million and \$1.2 million (7.3%) above the prior year level of \$16.8 million.

The positive variance to the budget of \$447,000 (2.5%) was mainly due to higher interest earnings and above estimated levels of CFC revenue, which was driven by an increase in car rental activities. While 2023-2024 passenger levels were slightly below expectations, rental car activity remained strong and steady resulting in higher CFC revenue. The increase of \$1.2 million (7.3%) over the prior year further demonstrates the increase in rental car usage.

Expenditures totaled \$12.3 million and were primarily attributed to transfers to the Airport Fiscal Agent Fund for debt service payments (\$10.0 million) and shuttle bus transportation costs (\$2.3 million) allocated in Airport's Non-Personal/Equipment budget. Expenditures fell slightly below the budget with a variance of \$296,000 (2.3%) due to lower than estimated shuttle bus costs and unused contingency funds. This expenditure level was \$1.1 million (10.1%) above the prior year level of \$11.2 million primarily due to an increase in CFC funded debt service payments.

Ending Fund Balance Performance (\$ in Thousands)						
2023-2024 Modified Budget	2023-2024 Estimated Ending Fund Balance	2023-2024 Actual Ending Fund Balance	Variance	Recommended Annual Report Rebudget Adjustments	Revised Variance	Revised Variance % (incl. Rebudget Adjustment)
\$33,830	\$21,419	\$21,959	\$541	\$0	\$541	2.5%

The 2023-2024 **Ending Fund Balance** of \$22.0 million was \$541,000 above the estimate used in the development of the 2024-2025 Adopted Budget. This positive variance from the estimate resulted from higher than estimated interest earnings and CFC revenue combined with savings in shuttle bus transportation costs and unused contingency funds.

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

Revenue and Expenditure Performance (\$ in Thousands)				
	2023-2024 Budget	2023-2024 Actuals	Variance	% Variance
Revenues	\$240,815	\$233,923	(\$6,892)	-2.9%
Expenditures	\$156,274	\$134,085	(\$22,189)	-14.2%

Revenues in the Airport Revenue Fund totaled \$233.9 million and were primarily generated from Airline Terminal Rental (\$75.5 million), Parking and Roadway (\$61.5 million), Landing Fees (\$28.4 million), Terminal Building Concessions (\$26.8 million), Miscellaneous Revenue (\$24.1 million), Federal Grant revenue (\$10.0 million), Airfield (\$4.3 million), and Transfers from the Airport Fiscal Agent Fund (\$2.6 million). The total revenue level was \$6.9 million (2.9%) below the Modified Budget of \$240.8 million, but 3.2% higher than the prior year level of \$226.6 million.

The negative revenue variance of \$6.9 million primarily resulted from unused federal grant funding (\$10.0 million) from the American Rescue Plan Act. Federal relief funding is received based on expenditure reimbursement requests; Airport received \$10.0 million of the \$20.0 million budgeted. Additionally, lower-than-anticipated revenues in Landing Fees (\$4.6 million) and Parking and Roadway (\$2.1 million) were collected, but were partially offset by positive variances in Terminal Building Concessions (\$3.5 million), Terminal Rentals (\$3.4 million), and Miscellaneous (\$3.2 million) revenue.

The 2023-2024 revenue level (\$233.9 million) was \$7.3 million (3.2%) higher than the 2022-2023 level of \$226.6 million mostly due to improved performance in Terminal Building, Terminal Rentals, and Miscellaneous revenue categories.

Expenditures in the Airport Maintenance and Operation Fund totaled \$134.1 million and were primarily for Airport Department non-personal/equipment (\$57.6 million), Airport personal services (\$41.1 million), transfers to the General Fund for Police and Fire services (\$19.8 million), Overhead (\$5.2 million), and Interdepartmental Services expenditures (\$1.2 million). Additionally, there were Airline Reserve Funds Distribution payments (\$8.8 million) made to distribute the airlines' portion of the net remaining revenue resulting from the 2023-2024 financial performance. Airport's total expenditure level was \$22.2 million (14.2%) below the Modified Budget of \$156.3 million and \$14.9 million (12.5%) above the prior year level of \$119.1 million.

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

The favorable variance to the budget of \$22.2 million was primarily due to a lower-than-expected Airline Reserve Fund Distribution payment (\$13.2 million) and Airport's non-personal/equipment expenditure savings (\$6.9 million) for custodial, customs and border protection, and shuttle bus and parking operations services. In addition, vacancy savings from Airport's personal services (\$1.3 million), unused Operations Contingency funds (\$518,000), and savings in interdepartmental expenses (\$226,000) also contributed to the favorable variance. The \$14.9 million (12.5%) increase over the prior year was primarily due to increased non-personal/equipment costs (\$4.4 million), Airport personal services costs (\$4.2 million), Airline Reserve Funds Distribution (\$3.7 million), and Overhead (\$1.6 million).

Ending Fund Balance Performance (\$ in Thousands)						
<i>2023-2024 Modified Budget</i>	<i>2023-2024 Estimated Ending Fund Balance</i>	<i>2023-2024 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Annual Report Rebudget Adjustments</i>	<i>Revised Variance</i>	<i>Revised Variance % (incl. Rebudget Adjustment)</i>
\$538,283	\$147,032	\$152,130	\$5,098	\$0	\$5,098	0.9%

The 2023-2024 combined **Ending Fund Balance** of \$152.1 million was \$5.1 million above the budgeted estimate used to develop the 2024-2025 Adopted Operating Budget. The variance from the estimate was primarily due to lower than estimated expenses in shuttle bus contractual, customs/border patrol, and custodial services in line with the slight decrease in passenger activity levels.

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BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

Revenue and Expenditure Performance (\$ in Thousands)				
	2023-2024 Budget	2023-2024 Actuals	Variance	% Variance
Revenues	\$95,703	\$44,804	(\$50,899)	(53.2%)
Expenditures	\$143,379	\$57,289	(\$86,090)	(60.0%)

Revenues totaled \$44.8 million and were generated primarily from Building and Structure Construction Tax receipts (\$19.6 million), grant funding (\$21.9 million), interest earnings (\$3.0 million), and other revenue (\$261,000). The revenue level was \$14.8 million (49.5%) above the prior year level of \$30.0 million. The 2023-2024 revenues were lower than the budgeted estimate of \$95.7 million by approximately \$50.9 million, resulting primarily from lower than budgeted grant revenues (\$53.4 million), offset by higher interest earnings (\$1.6 million), Building and Structure Construction Tax (\$625,000), and other revenue (\$261,000).

At \$19.6 million, Building and Structure Construction Tax receipts in 2023-2024 were above the budgeted estimate of \$19.0 million, and 19.8% higher than the 2022-2023 collections of \$16.4 million. During the development of the 2025-2029 Capital Improvement Program, the Building and Structure Construction Tax revenue estimate was kept the same as the \$19.0 million estimate included in the 2023-2024 Modified Budget, based on a steady level of anticipated collections. The year-over-year higher collection level for Building and Structure Construction Tax revenues is primarily attributable to an increase in valuation of permits for building projects in the residential and industrial land-use categories. The total valuation of projects submitted in 2023-2024 was \$1.6 billion, 21.7% above the \$1.3 billion valuation of projects that were received in 2022-2023. Residential valuation of \$547.8 million in 2023-2024 was significantly higher (48.4%) than the 2022-2023 level of \$369.2 million. A total of 2,675 new residential units received permits in 2023-2024, which was significantly above 2022-2023 levels of 1,792 units. Commercial valuation of \$523.9 million ended 2023-2024 at 9.3% below the prior year level of \$577.6 million. Industrial activity of \$514.5 million was significantly higher (44.1%) than the 2022-2023 level of \$357.1 million. The 2024-2025 Adopted Budget estimate of \$17.0 million allows for a decrease of 13.3% from the actual 2023-2024 collection level. Examples of major projects for the year include permits for a six-story, 233-unit apartment building located on Meridian Avenue; a 13,000-square-foot church consisting of a temple building and community building located on Ruby Avenue; and a 220,000 square foot data center, a four-story, 136,000 square foot manufacturing building, and a 174,000 square foot parking garage located on Trade Zone Boulevard.

Grant-related revenues of \$45.7 million, which were not received in 2023-2024 due to project delays, were anticipated and rebudgeted as part of the 2024-2025 budget process. An additional rebudget of grant funding in the amount of \$6.4 million is recommended as part of this report.

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Expenditures including encumbrances totaled \$57.3 million and were \$86.1 million (60.0%) below the modified budget. A significant portion of the expenditure savings (\$73.0 million), excluding reserves, was anticipated and rebudgeted as part of the 2024-2025 budget process. An additional \$11.0 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects to continue in 2024-2025. Once rebudgets are included, expenditures in the Building and Structure Construction Tax Fund approach budgeted levels for 2023-2024. The expenditure level was \$4.0 million (7.5%) above the prior year level of \$53.3 million. This increase is primarily due to expenditures in the following projects: Willow-Keyes Complete Streets Improvements (\$1.8 million), North San José EIR Update (\$1.6 million), Branham and Snell Street Improvements (\$1.1 million), and ATP – Better Bikeways San Fernando (\$934,000).

Ending Fund Balance Performance (\$ in Thousands)						
2023-2024 Modified Budget	2023-2024 Estimated Ending Fund Balance	2023-2024 Actual Ending Fund Balance	Variance	Recommended Annual Report Rebudgets	Revised Variance	Revised Variance % (incl. Rebudgets)
\$197,631	\$78,604	\$89,500	\$10,896	\$4,595	\$6,301	3.1%

The **Ending Fund Balance** of \$89.5 million was \$10.9 million above the estimate used in the development of the 2024-2025 Adopted Budget. After accounting for net rebudget adjustments of \$4.6 million recommended in this report, the positive variance changes to \$6.3 million. Significant expenditure rebudgets include Quiet Zone (\$2.1 million), Vision Zero: Quick Build Improvements (\$1.6 million), McKee Road Safety Corridor Improvements (\$894,000), and Safety – Pedestrian Improvements (\$882,000), and a significant revenue rebudget for the One Bay Area Grant 2 – West San Carlos Urban Villages grant (\$6.5 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 \$5.8 million is recommended to be allocated to the 2024-2025 Ending Fund Balance.

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CONSTRUCTION AND CONVEYANCE TAX FUNDS

Revenue and Expenditure Performance (\$ in Thousands)				
	2023-2024 Budget	2023-2024 Actuals	Variance	% Variance
Revenues	\$56,251	\$55,660	(\$591)	(1.1%)
Expenditures	\$147,315	\$84,223	(\$63,092)	(42.8%)

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 2023-2024 totaled \$55.7 million and were comprised of C&C tax receipts (\$38.2 million), transfers between funds (\$5.8 million), State and federal grants (\$4.0 million), interest earnings (\$3.8 million), and miscellaneous revenue that is primarily related to the 2017 Flood commercial paper, land exchange proceeds, and escheatment proceeds (\$3.8 million). Actual revenue collections are \$591,000 above the budgeted estimate of \$56.3 million, primarily due higher than budgeted C&C tax proceeds (\$3.2 million), transfers between funds (\$1.8 million), and interest earnings (\$248,000). These net positive variances are partially offset by lower miscellaneous revenue (\$3.3 million) and State and federal grants (\$2.6 million).

C&C Tax collections of \$38.2 million were received in 2023-2024, which is \$3.2 million above the 2023-2024 Modified Budget and estimated collection level of \$35.0 million. The tax receipts in 2023-2024 are fairly consistent with the prior year collections (\$37.8 million), which is reflective of a stagnant local real estate market, the primary driver of this revenue source. In 2024-2025, C&C Tax collections are estimated at \$40.0 million, which requires growth of almost 5% from the actual 2023-2024 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 \$84.2 million in 2023-2024 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 \$63.1 million (42.8%) below the budgeted level of \$147.3 million, which is primarily the result of capital projects that did not complete in 2023-2024 and will continue into 2024-2025. A majority of unexpended project funding was rebudgeted as part of the 2024-2025 Adopted Budget or are recommended to be rebudgeted as part of this report. The 2023-2024 expenditure level of \$84.2 million was \$9.5 million (12.8%) above the prior year's level of \$74.7 million.

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Ending Fund Balance Performance (\$ in Thousands)						
2023-2024 Modified Budget	2023-2024 Estimated Ending Fund Balance	2023-2024 Actual Ending Fund Balance	Variance	Recommended Annual Report Rebudgets	Revised Variance	Revised Variance % (incl. Rebudgets)
\$183,568	\$86,955	\$99,656	\$12,701	\$1,920	\$10,780	12.4%

The **Ending Fund Balance** of \$99.7 million was \$12.7 million above the \$87.0 million estimate used to develop the 2024-2025 Adopted Capital Budget. After accounting for net revenue and expenditure rebudgets of \$1.9 million recommended in the Annual Report, the Ending Fund Balance variance decreases to \$10.8 million.

As described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions*, this report includes recommendations to allocate funding from a number of C&C Tax Fund Ending Fund Balances to fund various capital projects, including Parks and Community Facilities Development Office (\$875,000; Parks Central C&C Tax Fund), Personal Protective Equipment Program (\$200,000; Fire C&C Tax Fund), Capital Infrastructure Team (\$190,000; Parks Central C&C Tax Fund), Happy Hollow Park and Zoo Lower Zoo Electrical Improvements (\$106,000; Parks City-Wide C&C Tax Fund), Fire Training Center Repair (\$55,000; Fire C&C Tax Fund), Family Camp Infrastructure Renovations (\$46,000; Parks City-Wide C&C Tax Fund), and Volunteer Management (\$10,000; Parks Central C&C Tax Fund). 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*.

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CONSTRUCTION EXCISE TAX FUND

Revenue and Expenditure Performance (\$ in Thousands)				
	2023-2024 Budget	2023-2024 Actuals	Variance	% Variance
Revenues	\$139,313	\$88,083	(\$51,230)	(36.8%)
Expenditures	\$187,686	\$129,745	(\$57,941)	(30.9%)

Revenues totaled \$88.1 million and were primarily generated from grant funding (\$64.6 million), Construction Excise Tax receipts (\$18.4 million), interest earnings (\$3.2 million), traffic impact and other fees (\$1.2 million), developer contributions (\$394,000), and miscellaneous revenues (\$341,000). The majority of grant funding consists of allocations for pavement maintenance from the State of California and the Valley Transportation Authority (VTA) (\$46.0 million). The revenue level was \$51.2 million (36.8%) below the budgeted estimate but \$2.2 million (2.6%) above the prior year level of \$85.9 million.

The 2023-2024 revenue level was lower than the 2023-2024 Modified Budget estimate of \$139.3 million, primarily due to lower receipts from grant funds (\$50.5 million), miscellaneous revenue (\$6.5 million), and developer contributions (\$106,000), and partially offset by higher than estimated Construction Excise Tax receipts (\$3.4 million), interest earnings (\$1.3 million), and traffic impact fees (\$1.2 million). Grant-related revenues of \$11.2 million that were not received in 2023-2024 due to project delays were anticipated and rebudgeted as part of the development of the 2024-2025 Adopted Budget. An additional \$46.6 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 2023-2024. The revenue variance to the prior year is \$2.2 million greater, which mainly resulted from higher collections from Construction Excise Tax receipts (\$7.5 million), interest earnings (\$497,000), and traffic impact fees (\$297,000), which were partially offset by lower collections from grant funding (\$5.7 million), miscellaneous revenues (\$254,000), and developer contributions (\$95,000).

At \$18.4 million, Construction Excise Tax receipts in 2023-2024 were 22.4% above the budgeted estimate of \$15.0 million and above 2022-2023 collections of \$10.9 million. Residential permit valuations were significantly higher than 2022-2023, while commercial permit valuations in 2023-2024 were slightly lower than 2022-2023. The total valuation of residential and commercial projects submitted in 2023-2024 was \$1.1 billion, 13.2% above the \$946.8 million valuation of residential and commercial projects submitted in 2022-2023 (the Construction Excise Tax does not apply to industrial projects).

Residential valuation of \$547.8 million in 2023-2024 was significantly higher (48.4%) than the 2022-2023 level of \$369.2 million. A total of 2,675 new residential units received permits in 2023-2024, which was significantly above 2022-2023 actuals of 1,792 units. Commercial valuation ended the year at \$523.9 million, which was 9.3% below the prior year's level of \$577.6 million.

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Examples of major projects for the year include permits for a six story, 233-unit apartment building located on Meridian Avenue; a six story, 119-unit apartment building located on Alum Rock Avenue; and a 13,000 square foot church consisting of a temple building and community building located on Ruby Avenue. The 2024-2025 Adopted Budget estimate of \$16.0 million allows for a decrease of 12.8% from the actual 2023-2024 collection level for Construction Excise.

Expenditures including encumbrances totaled \$129.7 million and were \$57.9 million (30.9%) below the 2023-2024 Modified Budget. A portion of the expenditure savings (\$31.6 million) was anticipated and rebudgeted as part of the 2024-2025 budget process, in addition to the rebudgeting of reserves (\$44.3 million). An additional \$24.7 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2024-2025. The expenditure level was \$13.4 million below the prior year level of \$143.1 million, primarily due to lower expenditures on pavement maintenance and road repair projects.

Ending Fund Balance Performance (\$ in Thousands)						
<i>2023-2024 Modified Budget</i>	<i>2023-2024 Estimated Ending Fund Balance</i>	<i>2023-2024 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Annual Report Rebudgets</i>	<i>Revised Variance</i>	<i>Revised Variance % (incl. Rebudgets)</i>
\$239,886	\$73,959	\$62,122	(\$11,837)	(\$21,920)	\$10,083	4.2%

The **Ending Fund Balance** of \$62.1 million was \$11.8 million below the estimate used in the development of the 2024-2025 Adopted Budget. However, after accounting for net revenue and expenditure rebudgets of a negative \$21.9 million recommended in the Annual Report, this variance increases to \$10.1 million above the estimate. Significant revenue rebudgets include Pavement Maintenance – VTA Measure B 2016 (\$35.9 million), TDA – Bicycle and Pedestrian Facilities (\$3.7 million), Measure B Highway Bridge Program (\$3.9 million), Airport Connector (\$2.4 million), and Pavement Cost Share (\$1.1 million). Significant expenditure rebudgets include Pavement Maintenance – VTA Measure B 2016 (\$11.8 million), Pavement Maintenance SB1 Road Repair and Accountability Act 2017 (\$3.2 million), Route 101/Trimble/De La Cruz Interchange Improvement (\$2.0 million), Pavement Maintenance – VTA Measure B VRF (\$1.7 million), and Bicycle and Pedestrian Facilities (\$1.5 million).

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CONSTRUCTION EXCISE TAX FUND

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 2024-2025 Ending Fund Balance is recommended to be decreased by approximately \$2.6 million.

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III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

DEVELOPMENT FEE PROGRAM FUNDS

Revenue and Expenditure Performance (\$ in Thousands)				
	2023-2024 Budget	2023-2024 Actuals	Variance	% Variance
Revenues				
<i>Building:</i>	\$39,029	\$38,419	(\$609)	(1.6%)
<i>Fire:</i>	\$8,976	\$9,138	\$162	1.8%
<i>Planning:</i>	\$7,770	\$8,088	\$318	4.1%
<i>Public Works:</i>	\$16,925	\$17,654	\$729	4.3%
Expenditures				
<i>Building:</i>	\$46,093	\$40,865	(\$5,228)	(11.3%)
<i>Fire:</i>	\$11,116	\$9,776	(\$1,340)	(12.1%)
<i>Planning:</i>	\$9,231	\$8,201	(\$1,030)	(11.2%)
<i>Public Works:</i>	\$19,663	\$19,336	(\$328)	(1.7%)

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 \$73.3 million in 2023-2024, higher than the total budget of \$72.7 million. Revenues exceeded budgeted levels in the Planning, Fire, and Public Works Development Fee Program Funds, while revenues ended the year below budgeted levels in the Building Development Fee Program Fund due to lower than anticipated activity across all major revenue generating Building Permits. Total revenues were also approximately 4.1% above the prior year, with the Building Development Fee Program experiencing the smallest increase (1.1%).

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

Expenditures totaled \$78.2 million and were primarily for the Personal Services and Non-Personal/Equipment expenditures in all four Development Fee Program Funds. This expenditure level was \$7.9 million (9.2%) below the modified budget of \$86.1 million, primarily due to vacancy savings experienced in all four Development Fee Program Funds.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

DEVELOPMENT FEE PROGRAM FUNDS

Ending Fund Balance Performance (\$ in Thousands)							
<i>Development Fee Program</i>	<i>2023-2024 Modified Budget</i>	<i>2023-2024 Estimated Ending Fund Balance</i>	<i>2023-2024 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Annual Report Rebudgets</i>	<i>Revised Variance</i>	<i>Revised Variance % (incl. Rebudgets)</i>
Building	\$76,727	\$31,783	\$35,263	\$3,480	\$120	\$3,360	4.4%
Fire	\$11,734	\$1,588	\$2,120	\$532	(\$140)	\$672	5.7%
Planning	\$11,864	\$3,483	\$3,981	\$498	\$10	\$488	4.1%
Public Works	\$24,572	\$4,259	\$5,965	\$1,706	\$22	\$1,684	6.9%

The total **Ending Fund Balance** for all four Development Fee Program Funds of \$47.3 million was \$6.22 million above the estimate used in the development of the 2024-2025 Adopted Budget. After accounting for the recommended rebudgets included in this report, the 2024-2025 Ending Fund Balance variance for the Development Fee Program Funds falls slightly to \$6.20 million. These funds will be spent down in future years as projects proceed through the development process.

As described in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions*, revisions to Information Technology Department’s Personal Services appropriations funded by the Development Fee Program Funds are recommended in this report (\$244,000). After accounting for all recommended adjustments, the 2024-2025 Ending Fund Balance is recommended to be increased by \$6.4 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Revenue and Expenditure Performance (\$ in Thousands)				
	2023-2024 Budget	2023-2024 Actuals	Variance	% Variance
Revenues	\$205,391	\$208,082	\$2,691	1.3%
Expenditures	\$211,269	\$197,132	(\$14,137)	(6.7%)

Revenues totaled \$208.1 million and were generated primarily from Recycle Plus collection charges (\$196.1 million), AB939 Fees (\$5.0 million), a State of California 2024 CalRecycle grant (\$2.5 million), lien-related revenues (\$1.4 million), interest earnings (\$1.2 million), and unclaimed Construction, and Demolition Diversion Deposit revenue (\$880,000). This revenue level was \$2.7 million (1.3%) above the Modified Budget of \$205.4 million and \$10.8 million (5.5%) above the prior year level of \$197.3 million.

The variance to the budget was mainly due to higher than anticipated revenue from Recycle Plus collection charges (\$2.2 million), interest revenues (\$534,000), and Las Plumas Tenant Utility Reimbursement (\$291,000), offset by lower than anticipated revenues from Santa Clara County for household hazardous waste activities (\$400,000). The overall increase compared to the prior year was due primarily to increased Recycle Plus collection charges (\$7.7 million) and funds received from the SB1383 2024 CalRecycle grant for the continued implementation of the requirements of SB1383 involving organic waste recycling and food recovery (\$2.5 million).

Expenditures totaled \$197.1 million and were primarily for Single-Family Dwelling (SFD) Recycle Plus contracts (\$86.9 million) to pay for hauling services for single-family dwellings across the City, yard trimmings/street sweeping contract (\$33.3 million), MFD Recycle Plus contracts (\$28.7 million), SFD back-end processing (\$21.0 million) which pays for post-collection processing of solid waste to recover organics and recyclables, Environmental Services Department (ESD) personal services costs (\$9.5 million), the International Disposal Corporation of California, Inc. (IDC) disposal agreement (\$5.2 million), ESD non-personal/equipment costs (\$4.9 million), reimbursement of citywide overhead expenses (\$2.5 million), and costs for the County Revenue Collection Fee (\$1.5 million). This expenditure level was \$14.1 million (6.7%) below the Modified Budget of \$211.3 million and \$5.9 million (2.9%) below the prior year level of \$203.0 million.

The variance to the budget was mainly due to savings in SFD Recycle Plus (\$6.1 million) costs, CalRecycle grants expenditures (\$3.3 million), MFD Recycle Plus (\$1.3 million), and ESD non-personal/equipment expenses (\$722,000). The lower expenditure level compared to the prior year was due primarily to lower costs for SFD Recycle Plus (\$7.6 million), MFD Recycle Plus (\$1.7 million), offset primarily by higher costs in ESD non-personal/equipment expenses (\$1.0 million) and ESD personal services expenses (\$1.0 million).

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Ending Fund Balance Performance (\$ in Thousands)						
<i>2023-2024 Modified Budget</i>	<i>2023-2024 Estimated Ending Fund Balance</i>	<i>2023-2024 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Rebudget Adjustments</i>	<i>Revised Variance</i>	<i>Revised Variance as % of Modified Budget</i>
\$231,876	\$30,813	\$43,817	\$13,004	(\$13)	\$13,017	5.6%

The **Ending Fund Balance** of \$43.8 million was \$13.0 million above the estimate used in the development of the 2024-2025 Adopted Budget primarily due to the higher than estimated revenues for Recycle Plus collection charges and lower than estimated expenditures in SFD Recycle Plus, offset by higher than estimated Yard Trimming Collection/Processing. After accounting for adjustments recommended in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2024-2025 Ending Fund Balance in the Integrated Waste Management Fund is recommended to be increased by \$13.0 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL FUNDS

Revenue and Expenditure Performance (\$ in Thousands)				
	2023-2024 Budget	2023-2024 Actuals	Variance	% Variance
Revenues	\$39,080	\$39,193	\$113	0.3%
Expenditures	\$80,128	\$36,328	(\$43,800)	(54.7%)

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

Revenues totaled \$39.2 million and were generated from a transfer from the Sewer Service and Use Charge Fund (\$35.0 million), interest revenue (\$3.9 million), and connection fees (\$494,000), partially offset by joint participation payment reimbursements to Cupertino and the West Valley Sanitation District (\$173,000). This revenue level was \$113,000 (0.3%) above the Modified Budget and \$883,000 (2.3%) above the prior year's level of \$38.3 million.

The variance to the budget was due to higher than budgeted interest revenue (\$2.4 million) offset primarily by lower joint participation payments (\$2.2 million) 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 (\$1.5 million), offset by lower joint participation payments (\$625,000).

Expenditures totaled \$36.3 million due to the progress on a variety of capital projects, the largest of which were: Infrastructure – Sanitary Sewer Condition Assessment (\$8.3 million), Urgent Rehabilitation and Repair Projects (\$7.0 million), Condition Assessment Sewer Repairs (\$4.5 million), Immediate Replacement and Diversion Projects (\$4.2 million), McLaughlin Ave-Idlewood Dr. Sanitary Sewer Improvement (\$2.8 million), Cast Iron Pipe – Remove and Replace (\$2.5 million), and Capital Program and Public Works Department Support Service Costs (\$2.2 million). This expenditure level was \$43.8 million (54.7%) below the Modified Budget and \$7.6 million (26.3%) above the prior year's level of \$28.8 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL FUNDS

Expenditures were below the budget by \$43.8 million (54.7%) as a result of savings across a number of projects, including: Sanitary Sewer Interceptor Management Program (\$9.0 million), North 1st Street Sanitary Sewer Improvements (\$6.0 million), Fourth Major Interceptor Phase VIIA (\$5.5 million), Blossom Hill and Leigh Sanitary Improvements (\$4.3 million), Almaden Supplement Sewer Rehabilitation (North) (\$3.1 million), Coleman Road Sanitary Sewer Improvement - Phase III (\$2.2 million), Cast Iron Pipe - Remove and Replace (\$1.7 million), Rehabilitation of Sanitary Sewer Pump Stations (\$1.7 million), Tisch Way Sanitary Sewer Improvement (\$1.5 million), Fontaine Road Sanitary Sewer Improvement (\$1.4 million), and Condition Assessment Sewer Repairs (\$1.4 million). Most of these projects are continuing and are recommended to be rebudgeted to 2024-2025 in this report or were previously rebudgeted in the 2024-2025 Adopted Budget.

The higher expenditure level compared to the prior year is largely attributed to higher costs for Infrastructure - Sanitary Sewer Condition Assessment (\$4.5 million), McLaughlin Ave-Idlewood Dr. Sanitary Sewer Improvement (\$2.6 million), Immediate Replacement and Diversion Projects (\$1.7 million), and Condition Assessment Sewer Repairs (\$1.6 million), offset primarily by lower expenditures in Urgent Rehabilitation and Repair Projects (\$1.8 million), and Cast Iron Pipe - Remove and Replace (\$913,000).

Ending Fund Balance Performance (\$ in Thousands)						
2023-2024 Modified Budget	2023-2024 Estimated Ending Fund Balance	2023-2024 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance as % of Modified Budget
\$137,279	\$92,123	\$101,064	\$8,941	\$497	\$8,444	6.2%

The **Ending Fund Balance** of \$101.1 million was \$8.9 million above the estimate used in the development of the 2024-2025 Adopted Budget. The actual Ending Fund Balance was above the estimate largely due to lower than anticipated expenditures across several projects, including Cast Iron Pipe – Remove and Replace (\$1.7 million), Condition Assessment Sewer Repairs (\$1.4 million), Master Planning Updates (\$777,000), and 60" Brick Interceptor, Phase VIA and VIB (\$723,000), as well as higher than estimated interest revenue (\$1.1 million). This fund balance is anticipated to be spent down as projects move through the development and construction process. After accounting for all recommended adjustments in the Annual Report as included in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2024-2025 Ending Fund Balance is recommended to be increased by \$7.3 million for the Sewer Service and Use Charge Capital Improvement Fund and \$1.0 million for the Sanitary Sewer Connection Fee Fund.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE CLEAN ENERGY OPERATING FUND

Revenue and Expenditure Performance (\$ in Thousands)				
	2023-2024 Budget	2023-2024 Actuals	Variance	% Variance
Revenues	\$524,160	\$550,088	\$25,928	4.9%
Expenditures	\$502,738	\$478,436	(\$24,302)	(4.8%)

Revenues totaled \$550.1 million and were generated from the sale of electricity (\$521.3 million), payments from energy suppliers who did not meet their agreed upon delivery commitments (categorized as Miscellaneous Revenue, \$19.0 million), interest earnings (\$7.1 million), and grant revenue (\$2.2 million). This revenue exceeded (by \$25.9 million or 4.9%) the Modified Budget of \$524.2 million and outperformed by \$28.5 million (5.5%) prior year actuals.

The 2023-2024 variance to budget (\$25.9 million) was largely due to unanticipated payments from energy suppliers (\$19.0 million), higher interest revenue (\$5.1 million) and higher energy sales (\$3.8 million), offset slightly by lower State grant revenues (\$2.0 million) that is primarily attributable to an inadvertently overstated estimate.

On February 6, 2024, City Council approved San José Clean Energy’s (SJCE) power mix and rate package for 2024 inclusive of PG&E’s added fees. SJCE’s product mix remains the same at 60% renewable for its GreenSource standard product and 100% renewable for its premium service Total Green. New rates began on February 15, 2024; rates for GreenSource service were set at 6.5-9% below PG&E rates, inclusive of the Power Charge Indifference Adjustment (PCIA) and Franchise Fee Surcharge, depending on customer class and usage. On June 27, 2024, the CPUC approved PG&E’s mid-year rate drop – after approval of an 18% rate increase implemented on January 1, 2024 to recover a \$256 million revenue shortfall from 2023. On August 13, 2024, City Council approved SJCE’s mid-year rate drop of 7% for its GreenSource product, setting updated rates at 1-3% below PG&E, depending on customer class and usage.

Energy sales of \$521.3 million exceeded the Modified Budget estimate of \$517.5 million and were up moderately (0.91%) from prior year totals of \$516.6 million. However, of this total amount, it is important to note that \$50.0 million was deferred and placed into the Rate Stabilization Reserve, as authorized by revisions to City Council Policy 1-24 that were approved by the City Council at their meeting on August 13, 2024. While this \$50.0 million is not technically received as revenue in accordance with Governmental Accounting Standards Board Statement (GASB No. 62), it is discussed here and will be displayed in the Source and Use Statement and within audited financial statements to ensure maximum transparency.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE CLEAN ENERGY OPERATING FUND

Expenditures including encumbrances totaled \$478.4 million and consisted primarily of Cost of Energy expenditures (\$426.6 million), Commercial Paper Debt Service principal and interest payments (\$20.0 million), Energy Department non-personal/equipment (\$10.2 million) and personal services (\$9.9 million) expenditures, City overhead reimbursement (\$2.5 million), and letter of credit fees (\$2.4 million). This expenditure level was \$24.3 million (4.8%) below the Modified Budget of \$502.7 million and reflected savings in the Cost of Energy (\$14.5 million), Energy Department non-personal/equipment (\$3.6 million) and personal services (\$1.4 million) expenditures, Energy Efficiency (\$1.9 million) and Disadvantaged Communities Green Tariff (\$462,000) grant programs, and Municipal Microgrid program costs (\$994,000) allocated to explore the feasibility of installing solar and energy storage facilities at critical City infrastructure. Overall, this expenditure level was 5.6% above the prior year's level of \$453.2 million, primarily attributable to higher Cost of Energy expenditures (\$42.6 million).

Ending Fund Balance Performance (\$ in Thousands)						
2023-2024 Modified Budget	2023-2024 Estimated Ending Fund Balance	2023-2024 Actual Ending Fund Balance	Variance	Recommended Annual Report Rebudgets	Revised Variance	Revised Variance % (incl. Rebudgets)
\$720,616	\$272,801	\$268,140	(\$4,661)	\$331.0	(\$4,992)	(0.6%)

The **Ending Fund Balance** of \$268.1 million was just \$4.7 million below the estimate used in the development of the 2024-2025 Adopted Budget. The variance can primarily be attributed to higher unanticipated payments from energy suppliers (\$12.1 million), higher interest earnings (\$1.6 million), higher State grant revenue (\$1.5 million) and lower than estimated cost of energy expenditures (\$2.8 million) and Energy Department non-personal/equipment expenditures (\$364,000), offset by a higher encumbrance balance (\$17.9 million), slightly lower than estimated energy sales (\$3.7 million), higher than estimated Energy Department personal services expenditures (\$774,000) and Energy Efficiency grant program costs (\$683,000). After accounting for \$331,000 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 \$5.0 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE CLEAN ENERGY OPERATING FUND

The City Council Financial Reserve Policy for the SJCE Operating Fund authorizes an Operations and Maintenance Reserve that sets a goal to build and maintain at least 180 days of operating reserves to achieve financial resiliency, and allows for a Rate Stabilization Reserve to ensure customer rates are competitive and affordable while also maintaining debt service coverage requirements and credit ratings. The Operating Reserve's current budgeted estimate in 2024-2025 is \$219.0 million, the equivalent of approximately 168 days of coverage. A total of \$50.0 million of revenue was deferred in 2023-2024 and placed in the Rate Stabilization Reserve.

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III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

Revenue and Expenditure Performance (\$ in Thousands)				
	2023-2024 Budget	2023-2024 Actuals	Variance	% Variance
Revenues	\$196,201	\$124,319	(\$71,882)	(36.6%)
Expenditures	\$358,333	\$296,154	(\$62,179)	(17.4%)

Revenues totaled \$124.3 million and were generated primarily from a transfer from the Sewer Service and Use Charge (SSUC) Fund (\$49.6 million), financing proceeds from the issuance of Wastewater Revenue Notes (\$40.0 million), Revenue from Local Agencies for projects and debt service payments (\$28.0 million), and interest income (\$6.5 million). This revenue level was \$71.9 million (36.6%) below the Modified Budget and \$317.2 million (71.8%) below the prior year's level of \$441.5 million.

The variance to the budget was due primarily to postponing the issuance of a portion of the authorized wastewater revenue notes (\$70.0 million) to align with the timing of project spending. The decrease from the prior year was due primarily to financing proceeds from the issuance of bonds that were received in 2022-2023 (\$301.4 million) and a lower amount of Wastewater Revenue Notes issued in 2023-2024 compared to the prior year (\$23.2 million), partially offset by an increased transfer from the Sewer Service and Use Charge Fund (\$4.2 million).

Expenditures totaled \$296.2 million and were primarily attributed to the following projects and allocations: Digested Sludge and Dewatering Facilities (\$101.0 million), Facility Wide Water Systems Improvements (\$72.3 million), Yard Piping and Road Improvements (\$23.6 million), Filter Rehabilitation (\$21.1 million), RWF Bond Debt Service 2022A (\$17.3 million), Plantwide Security Systems Upgrade (\$11.3 million), and Program Management - Water Pollution Control (\$9.7 million). This expenditure level was \$62.2 million (17.4%) below the Modified Budget and \$326.5 million (52.4%) lower than the prior year's level of \$622.7 million.

The variance between the Modified Budget and actual expenditures is \$62.2 million, with a majority of the variance attributed to savings in the Support Building Improvements (\$8.8 million), Aeration Tanks and Blower Rehabilitation (\$8.3 million), East Primary Rehabilitation, Seismic Retrofit, and Odor Control (\$6.2 million), Flood Protection (\$5.5 million), Plantwide Security Systems Upgrade (\$4.4 million), Final Effluent Pump Station and Stormwater Channel Improvements (\$4.3 million), Preliminary Engineering (\$4.1 million), and Owner Controlled Insurance Program (\$2.5 million). Most of these savings were anticipated and rebudgeted as part of the 2024-2025 Adopted Budget process, with an additional \$1.3 million recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2024-2025.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

Expenditures were lower by \$324.5 million compared to the prior year, with the most significant decreases year-over-year being Debt Service Repayment for Plant Capital Improvement Projects (\$308.5 million), Digested Sludge Dewatering Facility (\$39.5 million), New Headworks (\$21.7 million), Filter Rehabilitation (\$15.5 million), and Nitrification Clarifier Rehabilitation (\$14.5 million), offset primarily by increases in Facility Wide Water Systems Improvements (\$70.0 million), RWF Bond Debt Service 2022A (\$17.3 million), and Plantwide Security Systems Upgrade (\$9.4 million).

Ending Fund Balance Performance (\$ in Thousands)						
2023-2024 Modified Budget	2023-2024 Estimated Ending Fund Balance	2023-2024 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance as % of Modified Budget
\$374,467	\$60,580	\$13,390	(\$47,190)	(\$68,658)	\$21,468	5.7%

The **Ending Fund Balance** of \$13.4 million was \$47.2 million below the estimate used in the development of the 2024-2025 Adopted Budget. The decrease to Ending Fund Balance is primarily attributable to \$170.0 million that has been encumbered to various construction projects but not spent and the corresponding deferral of issuing \$70.0 million in Wastewater Revenue Notes to 2024-2025 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 Revenue Notes in the amount of \$70.0 million and \$1.3 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 2024-2025. 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 increased by \$21.5 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Revenue and Expenditure Performance (\$ in Thousands)				
	2023-2024 Budget	2023-2024 Actuals	Variance	% Variance
Revenues	\$321,108	\$322,111	\$1,003	0.3%
Expenditures	\$351,743	\$332,389	(\$19,354)	(5.5%)

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 \$322.1 million and were generated primarily from sewer service and use charges for residential (\$159.1 million), commercial (\$26.3 million), and industrial (\$5.0 million) users; a transfer from the SSUC Fund to the Plant Operating Fund (\$82.8 million); contributions from tributary agencies (\$23.1 million) and the City of Santa Clara (\$18.0 million); interest and rental revenues (\$4.8 million); and connection fees (\$1.8 million). This revenue level was \$1.0 million (0.3%) above the Modified Budget and \$2.5 million (0.8%) above the prior year's level of \$319.6 million.

The variance to the budget of \$1.0 million (0.3%) was mainly due to higher SSUC charges (\$3.0 million) offset primarily by lower contributions from tributary agencies (\$2.5 million) and the City of Santa Clara (\$576,000). Revenues came in \$2.5 million (0.8%) higher than the prior year primarily due to higher interest revenues (\$1.7 million), higher contributions from the City of Santa Clara (\$2.7 million) and tributary agencies (\$903,000), and higher SSUC charges (\$781,000), offset by a lower transfer from the SSUC Fund to the Plant Operating Fund (\$4.1 million).

Expenditures totaled \$332.4 million and consisted primarily of transfers to the Treatment Plant Operating Fund (\$82.8 million), the Treatment Plant Capital Fund (\$49.6 million), the Sewer Service and Use Charge Capital Fund (\$35.0 million); Environmental Services Department (ESD) personal services (\$65.2 million) and non-personal/equipment (\$44.6 million) costs; overhead reimbursements (\$19.1 million); and Transportation Department personal services (\$17.8 million) and non-personal/equipment (\$10.0 million) costs. This expenditure level was \$19.4 million (5.5%) below the Modified Budget, and \$4.1 million (1.3%) above the prior year's level of \$328.3 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Expenditures ended the year \$19.4 million (5.5%) below the budget primarily due to savings in: Transportation Department non-personal/equipment costs (\$5.9 million) in the Sewer Service and Use Charge Fund, the Legacy Lagoons Remediation project (\$5.8 million), and ESD non-personal/equipment costs in the Plant Operating Fund (\$3.2 million). Expenditures ended the year \$4.1 million (1.3%) above the previous year's expenditures due primarily to increased ESD personal services (\$4.1 million) expenditures in the SSUC and San José-Santa Clara Treatment Plant Operating Funds as a result of filling vacancies.

Ending Fund Balance Performance (\$ in Thousands)						
<i>2023-2024 Modified Budget</i>	<i>2023-2024 Estimated Ending Fund Balance</i>	<i>2023-2024 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Rebudget Adjustments</i>	<i>Revised Variance</i>	<i>Revised Variance as % of Modified Budget</i>
\$491,131	\$136,722	\$161,734	\$25,012	\$1,118	\$23,894	4.9%

The **Ending Fund Balance** of \$161.7 million was \$25.0 million above the estimate used in the development of the 2024-2025 Adopted Budget primarily due to higher than estimated revenues for contributions from tributary agencies (\$4.2 million) and the City of Santa Clara (\$3.0 million), savings from the Legacy Lagoon Remediation project (\$4.0 million) and ESD non-personal/equipment costs (\$4.0 million) in the San José-Santa Clara Treatment Plant Operating Fund, sewer service and use charges (\$4.5 million), and interest revenues (\$1.2 million).

After accounting for rebudget adjustments, the 2023-2024 Ending Fund Balance variance falls to \$23.9 million. The recommended various actions in *Section IV – Recommended Budget Adjustments and Clean-Up Actions* result in the following changes to the 2024-2025 Ending Fund Balance: an increase of \$7.5 million in the Sewer Service and Use Charge Fund, an increase of \$15.8 million in the San José-Santa Clara Treatment Plant Operating Fund, an increase of \$201,000 in the San José-Santa Clara Treatment Plant Income Fund, and an increase of \$415,000 in the Sewage Treatment Plant Connection Fee Fund.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL FUNDS

Revenue and Expenditure Performance (\$ in Thousands)				
	2023-2024 Budget	2023-2024 Actuals	Variance	% Variance
Revenues	\$60,438	\$10,070	(\$50,368)	(83.3%)
Expenditures	\$72,435	\$35,181	(\$37,254)	(51.4%)

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

Revenues totaled \$10.1 million and were generated primarily from a transfer from the Water Utility Fund (\$8.8 million), interest income (\$1.0 million), and fees paid by developers (\$236,000). The fees consist of Major Facilities Fees (\$171,000), Service Connection Fees (\$29,000), Advanced System Design Fees (\$22,000), and Meter Installation Fees (\$13,000). Commercial Paper was budgeted in 2023-2024 to support the construction of the Water Resources Administration and Operations Facility and the Advanced Metering Infrastructure Improvements projects. However, the financing proceeds for these two projects was not necessary, resulting in revenues being \$50.4 million (83.3%) below the Modified Budget. The lower revenues in these funds were offset by higher than budgeted interest revenue (\$432,000) and developer fee revenue (\$201,000). The proceeds from commercial paper financing have been reprogrammed as part of the 2025-2029 Adopted Capital Improvement Program to be received in 2024-2025 through 2026-2027 based on a revised schedule of project expenditures. Revenues were \$1.5 million (17.4%) above the prior year's level of \$8.6 million, due to increased transfer revenue from the Water Utility Fund (\$1.0 million), interest revenue (\$346,000), and developer fee revenues (\$146,000).

Expenditures totaled \$35.2 million for several capital projects, the largest of which were the Water Resources Administration and Operations Facility (\$29.1 million), North San José Reliability Well Construction (\$1.2 million), System Maintenance and Repairs (\$1.2 million), North San José Well Development and Construction (\$957,000), and Infrastructure Improvements (\$953,000). This expenditure level was \$37.3 million (51.4%) below the Modified Budget and \$24.8 million (240.3%) above the prior year's level of \$10.3 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL FUNDS

Expenditures were below the budget by \$37.3 million as a result of savings and unexpended funds across a number of projects, including Advanced Metering Infrastructure Implementation (\$13.7 million), the Water Resources Administration and Operations Facility (\$12.6 million), Annual Water Main Replacement (\$3.9 million), North San José Well Development and Construction (\$3.6 million), and North San José Reliability Well Construction (\$1.6 million). Several of these projects have been fully or partially rebudgeted in the 2024-2025 Adopted Budget or are recommended to be rebudgeted in this report because of project delays. Expenditures were above the prior year’s level primarily due to significantly higher expenses for the Water Resources Administration & Operations Facility project (\$26.9 million) which consist mainly of a large contract encumbrance (\$20.0 million) that will be spent as the project proceeds through construction, and North San José Reliability Well Construction (\$1.1 million), offset by lower expenditures in Annual Water Main Replacement (\$4.0 million).

Ending Fund Balance Performance (\$ in Thousands)						
2023-2024 Modified Budget	2023-2024 Estimated Ending Fund Balance	2023-2024 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments	Revised Variance	Revised Variance as % of Modified Budget
\$86,044	\$20,333	\$1,580	(\$18,753)	(\$19,067)	\$314	0.4%

The **Ending Fund Balance** of \$1.6 million was \$18.8 million below the estimate used in the development of the 2024-2025 Adopted Budget. This variance was primarily driven by significant progress made on the Water Resources Administration & Operations Facility project which is higher than the estimated expenditures used in the development of the 2024-2025 Proposed Budget. This negative impact on the fund balance is offset by a corresponding negative rebudget against the Water Resources Administration & Operations Facility project budget as recommended in this report. Accordingly, as included in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the recommended budget actions result in increases of \$110,000 in the Water Utility Capital Fund and \$204,000 in the Major Facilities Fund.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

Revenue and Expenditure Performance (\$ in Thousands)				
	2023-2024 Budget	2023-2024 Actuals	Variance	% Variance
Revenues	\$72,735	\$73,626	\$891	1.2%
Expenditure	\$69,155	\$69,903	\$748	1.1%

Revenues totaled \$73.6 million and were primarily generated from potable (\$61.8 million) and recycled water (\$8.3 million) sales, late fees (\$1.8 million), and the Water Arrearages Program from the State of California (\$1.3 million). This revenue level was \$891,000 (1.2%) above the Modified Budget and \$12.6 million (20.6%) above the prior year's level of \$61.0 million.

Revenues ended the year above the budget primarily due to higher than anticipated late fee revenues (\$1.5 million), offset by lower than anticipated water sales (\$817,000). The increase over the prior year was due primarily to higher potable water sales (\$8.5 million), recycled water sales (\$2.2 million) and the Water Arrearages Program revenues (\$1.3 million).

Expenditures totaled \$69.9 million and were primarily for Environmental Services Department (ESD) non-personal/equipment costs of \$48.1 million (\$32.6 million was attributed to the purchase of wholesale potable water and \$7.2 million to wholesale recycled water), ESD personal services costs (\$9.2 million), a transfer to the Water Utility Capital Fund (\$8.8 million), and the reimbursement of overhead costs (\$1.9 million). This expenditure level was \$748,000 (1.1%) above the Modified Budget mainly due to higher than budgeted expenditures in ESD non-personal/equipment (\$1.2 million), which is expected to be remedied through the ratification process, offset by savings from the Customer Information System Transition allocation (\$150,000) and Information Technology Department non-personal/equipment expenses (\$138,000). The non-personal/equipment allocation to ESD exceeded the Modified Budget due to unexpectedly high year-end accruals for the purchase of wholesale water, as well as a late adjustment to reduce the non-personal/equipment budget by \$400,000 to offset higher than anticipated personal services costs because of higher overtime and retirement contributions costs throughout the fiscal year. Overall, the expenditure level was \$8.4 million (13.5%) above the prior year's level of \$61.5 million primarily due to higher ESD non-personal/equipment expenditures (\$7.2 million), a higher transfer to the Water Utility Capital Fun (\$1.0 million), higher ESD personal services costs (\$473,000), offset by a lower transfer of Late Fee revenues to the General Fund (\$300,000).

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

Ending Fund Balance Performance (\$ in Thousands)						
<i>2023-2024 Modified Budget</i>	<i>2023-2024 Estimated Ending Fund Balance</i>	<i>2023-2024 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Rebudget Adjustments</i>	<i>Revised Variance</i>	<i>Revised Variance as % of Modified Budget</i>
\$89,093	\$17,781	\$20,093	\$2,312	\$0	\$2,312	2.6%

The **Ending Fund Balance** of \$20.1 million was \$2.3 million above the estimate used in the development of the 2024-2025 Adopted Budget. The Ending Fund Balance was higher than the estimate primarily due to higher than estimated revenue from late fees (\$1.5 million), water sales (\$1.1 million), and lower ESD personal services costs (\$305,000), offset by higher than estimated ESD non-personal/equipment costs (\$470,000). As described in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, after accounting for all recommended adjustments, the 2024-2025 Ending Fund Balance in the Water Utility Fund is recommended to be increased by \$1.4 million.