III. SELECTED SPECIAL/CAPITAL FUNDS BUDGET PERFORMANCE

This section provides financial information on the 2017-2018 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 2017-2018 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 2017-2018 Modified Budget, which includes fund balance and reserves. The 2017-2018 Estimated Ending Fund Balance and Actual Ending Fund Balance also includes reserves, with the exception of the reserve for encumbrances. The dollar variance compares the Estimated Ending Fund Balance used to develop the 2018-2019 Adopted Budget with the Actual Ending Fund Balance. The Recommended Annual Report Rebudget Adjustments shows 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 2017-2018 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 2017-2018 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; lists related 2018-2019 budget actions (such as rebudgets); calculates the revised expenditure variance due to rebudgets approved as part of the 2018-2019 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 2018-2019 Adopted Budget; discusses variances between these two amounts; and identifies any impact on the 2018-2019 budget related to recommended actions included in this report.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

	2017-2018 Budget	*2017-2018 Actuals*	*Variance*	*% Variance*
Revenues	$69,449	$51,963	($17,486)	(25.2%)
Expenditures	$100,893	$65,939	($34,954)	(34.6%)

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 $52.0 million and were generated primarily from Passenger Facility Charges (PFCs) ($27.0 million), transfers from the Airport Surplus Revenue Fund ($13.6 million) and Airport Revenue Fund ($1.0 million), grant income ($9.6 million), and interest earnings ($677,000). This revenue level was $17.5 million (25.2%) below the modified budget and $12.4 million (31.4%) higher than the prior year level of $39.5 million.

The negative variance to the budget of $17.5 million (25.2%) was due in most part to much lower than expected receipt of grant revenue. Revenue rebudgets of $7.7 million are recommended to recognize anticipated grant revenue associated with projects encumbered in 2017-2018 ($7.4 million) or rebudgeted to 2018-2019 ($265,000). PFC revenue ended the year above estimated levels by $3.9 million (17.1%), partially offsetting the grant revenue variance. Overall, revenues in 2017-2018 of $52.0 million were higher than 2016-2017 revenues of $39.5 million due primarily to increased PFCs, and transfers in from Airport operating funds.

Expenditures totaled $65.9 million and consisted primarily of transfers to other Airport funds for debt service ($24.8 million), various capital renewal and replacement projects ($15.9 million), and several significant airfield and passenger support facility projects, including: Terminal B Gates 29 and 30 ($6.6 million); Terminal B Ramp Rehabilitation ($6.0 million); Southeast Ramp Reconstruction ($2.5 million); and Perimeter Security Technology Infrastructure ($2.3 million) projects. This expenditure level was $35.0 million (34.6%) below the modified budget and $18.8 million (22.2%) below the prior year level of $84.7 million.

After adjusting for rebudgets of $21.6 million included in the 2018-2019 Adopted Budget and $635,000 recommended in this report, expenditure savings of $12.7 million were largely attributed to project savings in Terminal B Gates 29 & 30 ($3.8 million), Perimeter Security Technology Infrastructure ($1.4 million), Terminal B Expansion Ramp ($1.3 million), Terminal Facility Gap Plan ($1.2 million), Trench Drain Restoration ($1.1 million), and Airfield Geometric Implementation ($1.0 million). Expenditures in 2017-2018 were lower than the prior year as the Airport focused on closing out projects that carried over from the prior fiscal year and prepared for the significant projects planned for the next fiscal year.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2017-2018 Modified Budget	***2017-2018 Estimated Ending Fund Balance***	***2017-2018 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustments)***
$115,898	$36,160	$32,367	($3,793)	$7,032	$3,239	2.8%

The **Ending Fund Balance** of $32.4 million was $3.8 million below the estimate used in the development of the 2018-2019 Adopted Budget. Rebudget adjustments recommended as part of the Annual Report include revenue rebudgets of $7.7 million to recognize anticipated grant revenue associated with projects encumbered in 2017-2018 or rebudgeted to 2018-2019 as well as expenditure rebudgets of $635,000. After accounting for the net rebudget adjustments of $7.0 million, the revised fund balance variance is a positive $3.2 million.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT OPERATING FUND - AIRPORT CUSTOMER FACILITY AND TRANSPORTATION FEE FUND

Revenue and Expenditure Performance ($ in Thousands)

	2017-2018 Budget	2017-2018 Actuals	Variance	% Variance
Revenues	$21,165	$22,606	$1,441	6.8%
Expenditures	$20,978	$20,727	($251)	(1.2%)

Revenues totaled $22.6 million and were generated from rental car Customer Facility Charge (CFC) fees ($20.9 million), rental car contributions ($1.6 million), and interest earnings ($152,000). This revenue level was $1.4 million (6.8%) above the modified budget of $21.2 million and $2.43 million (12.1%) above the prior year level of $20.2 million.

The positive variance to the budget of $1.4 million (6.8%) was mainly due to higher than estimated CFC revenue, which was driven by an increase in car rental activities. The increase in revenue from the prior year was due to the contributions from rental car companies to cover the shuttle bus transportation costs in 2017-2018. While the rental car companies did not cover this cost in 2016-2017, it was anticipated that CFC revenue would not be sufficient to cover both debt service payments and transportation costs in 2017-2018. Therefore, the budgeted estimate for Rental Car Contributions was increased in 2017-2018.

Expenditures totaled $20.7 million and were primarily attributed to transfers for debt service payments ($18.5 million) as well as shuttle bus transportation costs ($2.2 million). The small variance to the budget of $251,000 (1.2%) was mainly due to slightly lower than budgeted shuttle bus maintenance and operator costs. This expenditure level was $393,000 (1.9%) above the prior year level of $20.3 million due to increased debt service and shuttle bus driver and maintenance costs.

Ending Fund Balance Performance ($ in Thousands)

2017-2018 Modified Budget	2017-2018 Estimated Ending Fund Balance	2017-2018 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$33,781	$13,886	$14,494	$608	$0	$608	1.8%

The 2017-2018 **Ending Fund Balance** of $14.5 million was $608,000 above the estimate used in the development of the 2018-2019 Adopted Budget. This positive variance from the estimate was largely due to higher than estimated revenues from CFCs and interest earnings as well as slightly lower than estimated non-personal/equipment expenditures.

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)

	2017-2018 Budget	*2017-2018 Actuals*	*Variance*	*% Variance*
Revenues	$155,642	$170,481	$14,839	9.5%
Expenditures	$98,759	$90,348	($8,411)	(8.3%)

Revenues in the Airport Revenue Fund totaled $170.5 million and were generated from Parking and Roadways ($59.6 million), Airline Terminal Rental ($43.5 million), Terminal Building Concessions ($22.4 million), Landing Fees ($19.3 million), Miscellaneous Revenue ($14.2 million), Airfield Area ($8.0 million), Petroleum Products ($3.1 million), transfer from the Airport Fiscal Agent Fund ($240,000), and a transfer from the General Fund for Jet Fuel Sales Tax ($220,000). This revenue level was $14.8 million (9.5%) above the modified budget of $155.6 million and greater than the prior year level of $154.0 million.

The positive revenue variance of $14.8 million resulted from higher than budgeted revenue in several categories: Parking and Roadways ($9.1 million) due to increased ground transportation trip fees and higher revenue from both economy and daily (long-term) parking; Terminal Building concessions revenue ($3.5 million) due to increased passenger volume and usage; miscellaneous revenue ($2.3 million) due to increased interest earnings; and Airfield concessions revenue ($1.1 million) due to the increased revenue received from the in-flight kitchen tenants. Landing fees revenue ($835,000) were higher than expected from a combination of rate increases and growth in the number of flights and passengers.

The 2017-2018 revenue level was $16.5 million (10.7%) higher than the 2016-2017 level of $154.0 million and this growth is primarily attributed to the increased passenger and commercial traffic operations activity.

Expenditures in the Airport Maintenance and Operation Fund totaled $90.3 million and were primarily for Airport Department non-personal/equipment ($43.0 million including encumbrances), Airport personal services ($28.6 million), a transfer to the General Fund for Police and Fire services ($14.3 million), Overhead ($2.8 million), and Interdepartmental Services ($1.4 million) expenditures. This expenditure level was $8.4 million (9.5%) below the modified budget of $98.8 million, but $8.5 million (10.5%) above the prior year level of $81.8 million.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

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

The variance to the budget of $8.4 million was mainly due to personal services vacancy savings ($2.9 million) and non-personal/equipment expenditure savings ($2.1 million) primarily from prioritizing needs in the terminal program, and the elimination of the Airport Reserve for Retiree Healthcare ($893,000). The $8.5 million (10.5%) increase over the prior year was primarily due to higher Airport Department non-personal/equipment costs ($4.5 million including encumbrances), Airport Department personal services costs ($2.6 million) and Police/Fire services costs ($2.1 million). The higher personal services costs reflect the addition of seven positions in the 2017-2018 budget and were necessary to meet increased operational needs resulting from the surge in passenger and commercial flights. Likewise, the non-personal/equipment costs increased due to the higher volume of traffic at the Airport. Costs increased for volume-sensitive items such as water and garbage. Custodial, elevator, and baggage handling system maintenance service levels were also impacted. Passenger and new route marketing that increase with new airline routes and service also contributed to increased expenditures. Higher costs for both Airport Police Division and Aircraft Rescue and Fire Fighting (ARFF) services can be attributed to wage adjustments and increased staffing levels necessary to meet the Airport's increased operational needs.

Ending Fund Balance Performance ($ in Thousands)

2017-2018 Modified Budget	*2017-2018 Estimated Ending Fund Balance*	*2017-2018 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments Impact*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$383,121	$130,382	$128,434	($1,948)	$0	($1,948)	(0.5%)

The 2017-2018 combined **Ending Fund Balance** of $128.4 million was $2.0 million below the budgeted estimate used to develop the 2018-2019 Adopted Operating Budget. The variance from the estimate was largely due to year-end actions of $15.0 million that were not incorporated in the Estimated Ending Fund Balance. The approved year-end actions allowed for payment of $15.0 million in variable rate commercial paper debt. Offsetting these payments were higher than budgeted revenues from Parking and Roadway concession fees ($9.1 million), Terminal Building concessions fees ($3.5 million), Miscellaneous Revenue ($2.3 million), and Airfield concessions fee ($1.1 million) and lower than budgeted Airport Department non-personal/equipment ($3.8 million) and Airport Department personal services expenditures ($2.9 million). The year-end actions taken focused on reducing indebtedness at a lower cost.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

	2017-2018 Budget	2017-2018 Actuals	Variance	% Variance
Revenues	$38,984	$30,022	($8,962)	(23.0%)
Expenditures	$71,555	$44,285	($27,270)	(38.1%)

Revenues totaled $30.0 million and were generated primarily from Building and Structure Tax ($21.5 million), grant funding ($7.4 million), interest earnings ($765,000), and other revenue ($391,000). The revenue level was $3.5 million (13.1%) above the prior level of $26.5 million. The 2017-2018 revenues were lower than the budgeted estimate of $39.0 million by approximately $9.0 million, resulting primarily from lower than budgeted grant ($6.2 million) and other ($3.8 million) revenues, offset by higher Building and Structure Construction Tax receipts ($466,000) and higher interest earnings ($521,000).

At $21.5 million, Building and Structure Construction Tax receipts in 2017-2018 were slightly above the budgeted estimate of $21.0 million but 8.0% lower than in 2016-2017. This lower collection level for Building and Structure Construction Tax revenues is mainly attributable to decreased issuances of permits for commercial and industrial building projects. The total valuation of projects submitted in 2017-2018 was $1.7 billion, 10.9% below the $1.9 billion valuation of projects submitted in 2016-2017. Residential valuation of $631.0 million in 2017-2018 was higher than the 2016-2017 level of $599.1 million. A total of 3,241 new residential units received permits in 2017-2018, which was above 2016-2017 actuals of 2,712 units. Commercial valuation of $617.7 million tracked below the prior year level of $702.6 million. Industrial activity of $423.4 million was also lower than last year's level of $574.5 million. Notable activity that took place in 2017-2018 includes building permits for: the Reserve, two apartment buildings (369 units and 267 units) and a 376,000 square foot podium garage, on South Winchester Boulevard; a new six level parking garage and a three story retail building at the Valley Fair Shopping Mall on Stevens Creek Boulevard; two apartment buildings (165 units and 136 units) that are part of the Fairfield Apartment site; a six story office building (located south of Coleman Avenue and west of Highway 87); the balance of construction for a 318-unit apartment building that is part of the Berryessa Flea Market development project (the foundation permit for the building was filed in January 2017); the balance of a nineteen story, 260-unit apartment building (located on the corner of W. San Carlos Street and S. 3rd Street); two new hotels, including a 151,000 square foot, 174 room project (located on North 1st Street) that is part of the Bay 101 project, and a 49,000 square foot hotel project (located near the intersection of Cherry Avenue and Almaden Expressway); and the balance of a garage and the 320,000 square foot mixed use building for the Santana Row Expansion Lot 9 on Olsen Drive. The 2018-2019 Adopted Budget estimate of $16.0 million allows for a decrease of 25.5% from the actual 2017-2018 collection level.

Grant related revenues of $4.9 million, which were not received in 2017-2018 due to project delays, were anticipated and rebudgeted during the development of the 2018-2019 Adopted Budget. An additional $5.2 million of grant funding is recommended to be rebudgeted as part of this report.

Expenditures totaled $44.3 million and were $27.3 million (38.1%) below the modified budget. A significant portion of the expenditure savings ($14.6 million), excluding reserves, was anticipated and rebudgeted as part of the 2018-2019 budget process. An additional $12.2 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2018-2019. Once rebudgets are included, expenditures in the

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

Building and Structure Construction Tax Fund approach budgeted levels for 2017-2018. The expenditure level was $12.3 million (38.5%) above the prior year level of $32.0 million.

Ending Fund Balance Performance ($ in Thousands)						
2017-2018 Modified Budget	***2017-2018 Estimated Ending Fund Balance***	***2017-2018 Actual Ending Fund Balance***	***Variance***	***Recommended Rebudget Adjustments Impact***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustments)***
$95,540	$34,024	$42,406	$8,382	($7,081)	$1,301	1.4%

The **Ending Fund Balance** of $42.4 million was $8.4 million above the estimate used in the development of the 2018-2019 Adopted Budget. After accounting for net rebudget adjustments of $7.1 million recommended in the Annual Report, the positive variance is reduced to $1.3 million. Significant expenditure rebudgets include Route 101/Blossom Hill Interchange ($3,169,000), and Autumn Street Extension ($1,943,000), Route 101/Mabury Road Project Development ($1,663,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2017-2018 Budget	***2017-2018 Actuals***	***Variance***	***% Variance***
Revenues	$81,703	$75,608	($6,095)	(7.5%)
Expenditures	$127,971	$86,506	($41,465)	(32.4%)

The Construction and Conveyance (C&C) Tax Funds consist of the Communications 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 District C&C Tax Funds, and Park Yards C&C Tax Fund.

Revenues generated in the Construction and Conveyance (C&C) Tax Funds in 2017-2018 totaled $75.6 million and were comprised of C&C Tax receipts ($48.1 million), transfers between funds ($20.6 million), interest earnings ($1.2 million), developer contributions and miscellaneous revenue ($3.4 million, which includes commercial paper proceeds in the Parks City-Wide C&C Tax Fund of $2.1 million), and state and federal grants ($2.3 million). This revenue level is $6.1 million below the budgeted estimate of $81.7 million, primarily due to lower Commercial Paper Proceeds ($18.4 million), partially offset by higher than budgeted C&C tax proceeds ($6.1 million) and transfers between funds ($5.8 million).

C&C Tax revenue collections in 2017-2018, which were primarily generated from property transfers, totaled $48.1 million, an increase of $4.8 million (11.2%) from the 2016-2017 collection level of $43.3 million. The 2017-2018 tax receipts of $48.1 million is less than 2% below the highest level of collection experienced for this tax, which was collected in 2005-2006 ($49.0 million). It should be noted that after reaching the historical level in 2005-2006, receipts dropped 14.7% in 2006-2007 ($41.8 million), then dropped an additional 45.0% in 2007-2008 ($26.8 million). Due to the volatile nature of C&C tax revenue, these receipts will be closely monitored in 2018-2019.

Changes in home prices and the number of sales are major drivers of C&C Tax receipts. The median home price for single family homes within the City increased from $996,000 in June 2017 to $1.2 million in June 2018, which represents a 23.0% increase. In addition, the amount of time it takes to sell a home (single-family and multi-family dwelling units) has decreased in the past year from an average of 18 days in June 2017 to an average of 15 days in June 2018. However, the number of home sales (single-family and multi-dwelling units) have decreased over the past year, compared to 2016-2017 activity levels. The number of sales in 2017-2018 totaled 7,513, which is a 4.7% decrease from the 2016-2017 level of 7,883. The available inventory of homes in San José (single-family and multi-dwelling units) have also recently reached a historically low level. In 2017-2018 there was a total of 8,450 new listings, which is over 50% less than the recent peak of 17,419 new listings that occurred in 2005-2006.

The 2017-2018 Adopted Capital Budget was developed with the assumption that C&C Tax receipts would total $38.0 million in 2016-2017 and dip slightly to $36.0 million in 2017-2018. These assumptions were based on historical collection trends and actual receipts received in 2016-2017, allowing for some moderation in activity levels. In the last quarter of 2016-2017, however, tax receipts had a stronger than

CONSTRUCTION AND CONVEYANCE TAX FUNDS

expected performance, which resulted in the 2016-2017 receipts totaling $43.3 million. Due to the higher than expected collections in 2016-2017, the 2017-2018 C&C Tax Adopted Budget estimate of $36.0 million, allowed for a 16.9% decline in tax revenue from the 2016-2017 actual tax collection. Based on monthly collection levels experienced through the first half of 2017-2018, the 2017-2018 Mid-Year Budget Review increased the 2017-2018 revenue estimate from $36.0 million to $42.0 million. The 2018-2019 Adopted Capital Budget was built on the assumption that 2017-2018 receipts would total $42.0 million, then drop by almost 10% to $38.0 million in 2018-2019. However, as previously discussed, the 2017-2018 receipts totaled $48.1 million due to stronger than anticipated performance in the last half of the fiscal year. Therefore, the 2018-2019 revenue estimate of $38.0 million allows for a 21% decline in tax revenue from the 2017-2018 actual tax collection. Receipts in 2018-2019 will be closely monitored to determine in budget adjustments should be brought forward in 2018-2019.

Expenditures totaled $86.5 million 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 $41.5 million (32.4%) below the budgeted expenditure level of $128.0 million, and is primarily the result of unexpended capital project funding. The 2017-2018 expenditure level of $86.5 million was $4.7 million (5.2%) below the prior year level of $91.2 million.

Ending Fund Balance Performance ($ in Thousands)

2017-2018 Modified Budget	*2017-2018 Estimated Ending Fund Balance*	*2017-2018 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments Impact*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$169,078	$69,778	$77,310	$7,532	($272)	$7,260	4.29%

The **Ending Fund Balance** of $77.3 million was $7.5 million above the $69.8 million estimate used to develop the 2017-2018 Adopted Capital Budget. After accounting for net revenue and expenditure rebudget adjustments of $272,000 recommended in the Annual Report, the revised variance totals $7.3 million, or 4.3% of the 2017-2018 Modified Budget.

As described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions*, this report includes recommendations to allocate $1.3 million from various C&C Tax Fund Ending Fund Balances to fund various capital projects, including Forestdale Tot Lot Renovation ($18,000 – Council District 3 C&C Tax Fund), Noble Modular Neighborhood Center Improvements ($20,000 – Council District 4 Tax Fund), TRAIL: Coyote Creek Story Road Intersection Enhancements ($309,000 – Council District 7 C&C Tax Fund), TRAIL: Thompson Creek (Quimby Rd- Aborn Ct) Reserve ($106,000 – Council District 8 C&C Tax Fund), Waterford Park Improvements ($150,000 – Council District 10 C&C Tax Fund), Financing Strategy Feasibility Study ($6,000 – Central C&C Tax Fund), Happy Hollow Park and Zoo Security Improvements ($259,000 – City-Wide C&C Tax Fund), Happy Hollow Park and Zoo Lower Zoo Master Plan and Design ($14,000 – City-Wide C&C Tax Fund), Arcadia Softball Facility, Fixtures, Furnishings, and Equipment ($260,000 – City-Wide C&C Tax Fund), Family Camp Capital Improvements Reserve ($82,000 – City-Wide C&C Tax), and VTA Property Lease ($5,000 – Service Yards C&C Tax Fund). The remaining fund balance is recommended to be allocated to the respective funds' 2017-2018 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

	2017-2018 Budget	*2017-2018 Actuals*	*Variance*	*% Variance*
Revenues	$116,427	$71,431	($44,996)	(38.6%)
Expenditures	$175,212	$97,913	($77,299)	(44.1%)

Revenues totaled $71.4 million and were primarily generated from the Construction Excise Taxes ($29.4 million), grant funding ($23.8 million), traffic impact fees ($14.2 million), interest ($1.6 million), transfers ($0.8 million), miscellaneous revenue ($0.7 million), licenses and permits ($0.6 million), and developer contributions ($0.4 million). The revenue level was $45.0 million (38.6%) below the budget estimate but $13.4 million (23.1%) above the prior year level of $58.0 million.

The 2017-2018 revenue level was lower than the 2107-2018 Modified Budget estimate of $116.4 million, primarily due to lower receipts from grant funds ($46.8 million). However, this shortfall was partially offset by higher than estimated interest earnings ($892,000), miscellaneous revenues and contributions ($644,000), and Construction Excise Tax collections ($359,000). Grant related revenues of $39.0 million, including $23.8 million of anticipated revenue from VTA 2016 Measure B, which were not received in 2017-2018 due to project delays, were anticipated and rebudgeted as part of the development of the 2018-2019 Adopted Budget. An additional $4.1 million is recommended to be rebudgeted as part of this report. The revenue variance to the prior year mainly resulted from higher collections from traffic impact fees ($8.2 million), grant-related revenues ($5.3 million), and interest earnings ($0.6 million), which were partially offset by lower Construction Excise Tax receipts ($0.8 million).

At $29.4 million, Construction Excise Tax receipts in 2017-2018 were 1.2% ($359,000) above the final 2017-2018 Modified Budget estimate of $29.0 million, but 2.7% lower than 2016-2017 collections of $30.2 million. During 2017-2018, the Construction Excise Tax revenue estimate was increased by $5.0 million, from the $24.0 million estimate included in the 2017-2018 Adopted Budget, to align with higher than anticipated collections. This additional revenue was programmed for pavement maintenance. Relative to the recent high collections for 2016-2017, the lower Construction Excise Tax collection level for 2017-2018 is primarily attributable to decreased issuances of permits for commercial building projects. The total valuation of residential and commercial projects submitted in 2017-2018 was $1.25 billion, 3.9% below the $1.30 billion valuation of residential and commercial projects submitted in 2016-2017 (the Construction Excise Tax does not apply to industrial projects). Residential valuation of $631.0 million in 2017-2018 was higher than the 2016-2017 level of $599.1 million. A total of 3,241 new residential units received permits in 2017-2018, which was above 2016-2017 actuals of 2,712 units. Commercial valuation of $617.7 million tracked below the prior year level of $702.6 million. Notable activity that took place in 2017-2018 includes building permits for: the Reserve, two apartment buildings (369 units and 267 units) and a 376,000 square foot podium garage, on South Winchester Boulevard; a new six level parking garage and a three story retail building at the Valley Fair Shopping Mall on Stevens Creek Boulevard; two apartment buildings (165 units and 136 units) that are part of the Fairfield Apartment site; a six story office building (located south of Coleman Avenue and west of Highway 87); the balance of construction for a 318-unit apartment building that is part of the Berryessa Flea Market development project (the foundation permit for the building was filed in January 2017); the balance of a nineteen story, 260-unit apartment building (located on the corner of W. San Carlos Street and S. 3rd Street); two new hotels,

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

including a 151,000 square foot, 174 room project (located on North 1st Street) that is part of the Bay 101 project, and a 49,000 square foot hotel project (located near the intersection of Cherry Avenue and Almaden Expressway); and the balance of a garage and the 320,000 square foot mixed use building for the Santana Row Expansion Lot 9 on Olsen Drive.

When the 2018-2019 Adopted Budget was developed, it was assumed that Construction Excise Tax receipts would total $27.0 million in 2017-2018 and drop to $21.0 million (22.2%) in 2018-2019 as the recent higher rates of development begin to taper off. Based on higher actual receipts of $29.4 million in 2017-2018, Construction Excise Tax revenue can now drop 28.5% in 2018-2019 and still meet the budgeted estimate of $21.0 million. Given the volatility of this revenue category, the Administration will continue to be closely monitor revenues throughout 2018-2019 for potential adjustment.

Expenditures totaled $97.9 million and were $77.3 million (44.1%) below the 2017-2018 Modified Budget. A portion of the expenditure savings ($48.6 million) was anticipated and rebudgeted as part of the 2018-2019 budget process, in addition to the rebudgeting of reserves ($40.3 million). These actions included the rebudgeting of $1.5 million of the additional $5.0 million recognized during 2017-2018 from Construction Excise Tax proceeds. The balance of this additional funding was allocated in 2017-2018 to fully award and deliver the entire scope of work planned for the Major Street Network for the 2018 pavement maintenance program, avoiding potential reductions due to higher than anticipated construction bids. The majority of this funding was committed in 2017-2018, as year-ending expenditures totaled $32.7 million, or 97.8% of the 2017-Modified Budget level of $33.4 million, requiring reconciling adjustment for 2018-2019. An additional $5.1 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2018-2019. In addition, excess Construction Excise Tax receipts above the 2017-2018 Modified Budget ($359,000) are recommended to be allocated to pavement maintenance. The expenditure level was $20.0 million above the prior year level of $77.9 million, primarily due to the progression of pavement maintenance projects during 2017-2018.

Ending Fund Balance Performance ($ in Thousands)						
2017-2018 Modified Budget	***2017-2018 Estimated Ending Fund Balance***	***2017-2018 Actual Ending Fund Balance***	***Variance***	***Recommended Rebudget Adjustments Impact***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustments)***
$225,667	$64,483	$82,760	$18,277	($1,017)	$17,259	7.6%

The **Ending Fund Balance** of $82.8 million was $18.3 million above the estimate used in the development of the 2017-2018 Adopted Budget. After accounting for net revenue and expenditure rebudgets of $1.0 million recommended in the Annual Report, this positive variance drops to $17.3 million. Significant expenditure rebudgets include Pavement Maintenance – State Gas Tax ($3,632,000), North San José Improvement – 101/Zanker ($2,678,000), and North San José Improvement – 880/Charcot ($1,169,000).

As described in *Section IV – Recommended budget Adjustments and Clean-Up 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, approximately $692,000 is recommend to be allocated to the 2018-2019 Ending Fund Balance.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2017-2018 Budget	*2017-2018 Actuals*	*Variance*	*% Variance*
Revenues	$131,669	$134,358	$2,689	2.0%
Expenditures	$138,308	$135,445	($2,863)	(2.1%)

Revenues totaled $134.4 million and were generated primarily from Recycle Plus collection charges ($124.0 million), AB939 Fees ($4.0 million), and Recycle Plus negotiated hauler payments ($2.7 million). This revenue level was $2.7 million above the modified budget of $131.7 million (2.0%) and $5.1 million (3.9%) above the prior year level of $129.3 million.

The variance to the budget was mainly due to higher Recycle Plus collection charges ($1.1 million), lien-related charges ($444,000), higher Household Hazardous Waste Revenue from County ($429,000) as this revenue stream is not budgeted due to its volatility, and higher AB939 fees ($414,000). The variance to the prior year was due primarily to both increased lien-related charges and significantly increased Recycle Plus collection charges.

Expenditures totaled $135.4 million and were primarily for Single-Family Dwelling (SFD) Recycle Plus contracts ($54.7 million), yard trimmings/street sweeping contract ($23.3 million), Multi-Family Dwelling (MFD) Recycle Plus contracts ($20.8 million), SFD back-end processing ($12.3 million), Environmental Services Department (ESD) personal services ($7.5 million), and International Disposal Corporation of California, Inc. (IDC) disposal agreement ($4.5 million). This expenditure level was $2.9 million (2.1%) below the modified budget of $138.3 million and $5.4 million (4.1%) above the prior year level of $130.1 million.

The variance to the budget was mainly due to savings in SFD back-end processing ($2.0 million), SFD Recycle Plus contracts ($1.1 million), ESD personal services ($623,000), the yard trimmings/street sweeping contract ($305,000), and MFD Recycle Plus contracts ($301,000). The higher expenditure level compared to the prior year was due largely to higher costs for SFD Recycle Plus ($2.4 million), and SFD back-end processing ($2.2 million), partially offset by lower expenditures for personal services from the Information Technology Department ($614,000), and lower costs for the IDC disposal agreement ($610,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Ending Fund Balance Performance ($ in Thousands)

2017-2018 Modified Budget	*2017-2018 Estimated Ending Fund Balance*	*2017-2018 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$160,416	$30,105	$30,745	$640	$16	$656	0.4%

The **Ending Fund Balance** of $30.7 million was $640,000 above the estimate used in the development of the 2018-2019 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the variance remains roughly the same at $656,000. This ending fund balance was slightly higher than the estimate largely due to higher than estimated revenues from lien-related charges ($414,000) and higher Household Hazardous Waste Revenue from County ($279,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2017-2018 Budget	*2017-2018 Actuals*	*Variance*	*% Variance*
Revenues	$180,938	$101,648	($79,290)	(43.8%)
Expenditures	$378,118	$317,923	($60,195)	(15.9%)

Revenues totaled $101.6 million and were generated primarily from Revenue from Local Agencies, including contributions from Santa Clara and the tributary agencies for projects and debt service payments ($50.7 million); a transfer from the Sewer Service and Use Charge Fund ($26.1 million); Wastewater Revenue Notes ($18.5 million); a transfer from the Sewage Treatment Plant Connection Fee Fund ($3.1 million); and interest income ($3.0 million). This revenue level was $79.3 million (43.8%) below the modified budget and $27.4 million (37.0%) above the prior year level of $74.2 million.

The negative revenue variance to the budget was due primarily to a delay in issuing wastewater revenue notes ($71.5 million) and lower contributions from the tributary agencies for projects ($7.4 million), as a result of the reconciliation for actual Treatment Plant expenditures and encumbrances over the course of the prior year. The variance to the prior year was due primarily to higher contributions from Santa Clara and the tributary agencies ($18.9 million), the issuance of Wastewater Revenue Notes ($18.5 million) for capital projects; partially offset by a lower transfer from the Sewer Service and Use Charge Fund ($9.6 million) for capital projects. It is anticipated that the Wastewater Revenue Notes will now be issued in 2018-2019 to cover the project costs and a rebudget of these funds is recommended as part of the Annual Report actions.

Expenditures totaled $317.9 million and were primarily attributed to capital improvement projects ($307.6 million) and debt service payments ($10.3 million). The largest expenditures included Digester and Thickener Facilities Upgrade ($146.0 million), Energy Generation Improvements ($98.0 million), Advanced Facility Control and Meter Replacement ($8.9 million), Program Management ($8.4 million), Aeration Tanks and Blower Rehabilitation ($7.3 million), and New Headworks ($6.1 million). This expenditure level was $60.2 million (15.9%) below the modified budget but $117.5 million (58.6%) above the prior year level of $200.4 million.

After accounting for all project rebudgets, including those recommended in this report, the $60.2 million expenditure variance drops to $3.9 million, or 1.0% below the budget. The majority of this variance is due to unspent balance in two ongoing appropriations: Plant Infrastructure Improvements ($1.8 million), and Equipment Replacement ($1.7 million). Additional savings were realized in the Capital Program and Public Works Department Support Service Costs ($311,000) appropriation. Expenditures were above the prior year due primarily to the Energy Generation Improvements ($75.0 million), Digester and Thickener Facilities Upgrade ($19.5 million), Advanced Facility Control and Meter Replacement ($7.8 million), and Aeration Tanks and Blower Rehabilitation ($5.9 million) projects.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

Ending Fund Balance Performance ($ in Thousands)						
2017-2018 Modified Budget	***2017-2018 Estimated Ending Fund Balance***	***2017-2018 Actual Ending Fund Balance***	***Variance***	***Recommended Rebudget Adjustments***	***Revised Variance (incl. Rebudget Adjustments)***	***Revised Variance As % of Modified Budget***
$396,481	$61,668	$301	($61,367)	$64,130	$2,763	0.7%

The **Ending Fund Balance** of $301,000 was $61.4 million below the estimate used in the development of the 2018-2019 Adopted Budget. This ending fund balance was lower than the estimate primarily due to a delay in issuing Wastewater Revenue Notes ($71.5 million) offset by lower than estimated expenditures from the following ongoing allocations: Urgent and Unscheduled Treatment Plant Rehabilitation ($4.5 million), Plant Infrastructure Improvements ($1.8 million), and Equipment Replacement ($1.7 million). Along with expenditure rebudgets, budget actions are included in the Annual Report to rebudget the Wastewater Revenue Notes to 2018-2019 ($71.5 million).

After accounting for rebudget adjustments recommended in the Annual Report, the fund balance variance drops to $2.8 million, which is recommended to be allocated to the 2018-2019 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2017-2018 Budget	*2017-2018 Actuals*	*Variance*	*% Variance*
Revenues	$247,170	$250,607	$3,437	1.4%
Expenditures	$254,610	$244,812	($9,798)	(3.8%)

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 $250.6 million and were generated primarily from sewer service and use charges for residential ($128.2 million), commercial ($22.5 million), and industrial ($4.1 million) users; a transfer from the SSUC Fund to the Plant Operating Fund ($49.0 million); contributions from tributary agencies ($17.8 million) and the City of Santa Clara ($12.5 million); recycled water sales and rebates ($11.2 million); and Connection Fees ($3.4 million). This revenue level was $3.4 million (1.4%) above the modified budget and $7.6 million (3.1%) above the prior year level of $243.0 million.

The variance to the budget of $3.4 million (1.4%) was mainly due to higher connection fees ($1.9 million), contributions from the City of Santa Clara ($1.1 million), residential SSUC charges ($774,000), and recycled water sales and rebates ($211,000), partially offset by lower commercial ($910,000) and industrial ($393,000) SSUC charges. Revenues also came in higher than the prior year due primarily due to higher residential SSUC charges ($8.9 million), recycled water sales and rebates ($1.5 million), connection fees ($959,000), and contributions from tributary agencies ($712,000), partially offset by a lower transfer from the SSUC Fund to the Plant Operating Fund ($4.5 million), and lower industrial SSUC charges ($230,000).

Expenditures totaled $244.8 million and were primarily for the following: transfers to the Sewer Service and Use Charge Capital Fund ($32.0 million) and San José-Santa Clara Treatment Plant Capital Fund (Plant Capital Fund) ($26.1 million); Environmental Services Department (ESD) personal services ($55.8 million) and non-personal/equipment ($30.3 million) costs; overhead reimbursements ($17.2 million); and Department of Transportation (DOT) personal services ($12.2 million) and non-personal/equipment ($5.3 million) costs. This expenditure level was $9.8 million (3.8%) below the modified budget, and $3.9 million (1.6%) below the prior year level of $248.7 million.

Expenditures ended the year $9.8 million (3.8%) below the budget primarily due to personal services ($3.7 million) and non-personal/equipment ($3.1 million) expenditure savings in ESD, largely a result of vacancy savings and coordinating various maintenance repairs projects with several ongoing capital improvement projects; expenditure savings from the major litigation costs allocation ($600,000), which was not used in 2017-2018; and non-personal/equipment ($722,000) and personal services ($613,000) expenditure savings in DOT.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2017-2018 Modified Budget	***2017-2018 Estimated Ending Fund Balance***	***2017-2018 Actual Ending Fund Balance***	***Variance***	***Recommended Rebudget Adjustments***	***Revised Variance (incl. Rebudget Adjustments)***	***Revised Variance As % of Modified Budget***
$344,421	$104,720	$105,992	$1,272	($340)	$932	0.3%

The **Ending Fund Balance** of $106.0 million was $1.3 million above the estimate used in the development of the 2018-2019 Adopted Budget. After accounting for rebudget adjustments recommended in this Annual Report, the variance drops to $932,000. The ending fund balance was higher than the estimate due to a variety of factors: higher than estimated connection fees ($620,000), higher than estimated sewer and service use charges for industrial ($181,000), and interest ($161,000); lower than estimated personal services costs in ESD ($870,000); and partially offset by higher than estimated non-personal/equipment costs in ESD ($1.4 million). This higher ending fund balance of $932,000 is recommended to be distributed across the 2018-2019 Ending Fund Balance allocations in the various funds.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2017-2018 Budget	*2017-2018 Actuals*	*Variance*	*% Variance*
Revenues	$34,808	$34,994	$185	0.5%
Expenditures	$118,697	$105,156	($13,541)	(11.4%)

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

Revenues totaled $35.0 million and were generated from a transfer from the Sewer Service and Use Charge (SSUC) Fund ($32.0 million), interest income ($1.3 million), connection fees ($1.1 million), joint participation payments ($584,000), and miscellaneous revenue ($15,000). This revenue level was $185,000 (0.5%) above the modified budget and $624,000 (1.8%) above the prior year level of $34.4 million.

The variance to the budget was mainly due to lower joint participation payments ($926,000), partially offset by higher interest ($659,000) and connection fee ($438,000) revenues. Joint participation payments, which reflect the West Valley Sanitation District's (WVSD) and County Sanitation Districts' share of costs for projects in their jurisdictions, came in lower than budgeted primarily due to a delay of the 60" Brick Interceptor, Phase VIA and VIB project, which was awarded and encumbered in June 2018, causing a delay in payments from WVSD for this project. The positive variance to the prior year was due primarily to higher connection fees ($340,000) and interest income ($274,000) in 2017-2018.

Expenditures totaled $105.2 million due to the progress on a variety of capital projects, the largest of which were: 60" Brick Interceptor, Phase VIA and VIB ($42.0 million), Condition Assessment Sewer Repairs ($11.5 million), Immediate Replacement and Diversion Projects ($10.4 million), Urgent Rehabilitation and Repair Projects ($9.5 million), and Cast Iron Pipe – Remove and Replace ($6.1 million). This expenditure level was $13.5 million (11.4%) below the modified budget and $30.7 million (41.2%) above the prior year level of $74.5 million.

Expenditures were below the budget by $13.5 million (11.4%) as a result of project savings and unexpended project funds across a number of projects. Several of these projects are recommended to be rebudgeted to 2018-2019 in this report as a result of project delays or were rebudgeted in the 2018-2019 Adopted Budget: Urgent Rehabilitation and Repair Projects ($1.9 million), Cast Iron Pipe – Remove and Replace ($935,000), 30" Old Bayshore Supplement ($911,000, of which $250,000 was rebudgeted in the 2018-2019 Adopted Budget), Rehabilitation of Sanitary Sewer Pump Stations ($871,000), and Public Art ($881,000, of which $800,000 was rebudgeted in the 2018-2019 Adopted Budget). Aside from the standard year-to-year variances across projects that occur in capital funds, the higher expenditure level compared to the prior year can be attributed primarily to the 60" Brick Interceptor, Phase VIA and VIB ($41.2 million) project, which was awarded in 2017-2018.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2017-2018 Modified Budget	***2017-2018 Estimated Ending Fund Balance***	***2017-2018 Actual Ending Fund Balance***	***Variance***	***Recommended Rebudget Adjustments***	***Revised Variance (incl. Rebudget Adjustments)***	***Revised Variance As % of Modified Budget***
$123,679	$9,238	$19,329	$10,091	($353)	$9,738	7.9%

The **Ending Fund Balance** of $19.3 million was $10.1 million above the estimate used in the development of the 2018-2019 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the variance decreases to $9.7 million. This ending fund balance was above the estimate largely due to higher than anticipated interest income ($659,000) and lower than anticipated expenditures across several ongoing allocations, including Urgent Rehabilitation and Repair Projects ($2.0 million), Cast Iron Pipe – Remove and Replace ($935,000), Montgomery-Riverside Relief Sanitary Sewer Improvements ($670,000), and 30” Old Bayshore Supplement ($661,000), as well as minimally lower than anticipated expenditures across many other projects in the program.

After accounting for all recommended adjustments, approximately $9.2 million is recommended to be allocated to the SSUC Fund 2018-2019 Ending Fund Balance and $847,000 allocated to the Connection Fee Fund 2018-2019 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SELF-INSURED MEDICAL FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2017-2018 Budget	*2017-2018 Actuals*	*Variance*	*% Variance*
Revenues	$14,000	$13,865	($135)	(1.0%)
Expenditures	$14,042	$13,478	($564)	(4.0%)

The Self-Insured Medical Fund was established in November 2016, with a plan effective date of January 1, 2017, to account for the City-insured Preferred Provider Organization (PPO) plan. On June 21, 2016, the City Council authorized the City Manager to enter an agreement with Blue Shield of California to provide a City-insured PPO medical insurance plan for employees, pre-65 retirees, and dependents. In 2016, the City issued an off-cycle Request for Proposal to identify a health care provider with rates competitive with Kaiser to create a more sustainable non-Kaiser option. Sutter Health Plus offered a Health Maintenance Organization (HMO) plan that could compete with Kaiser but did not offer a PPO plan. Blue Shield would provide a City-insured PPO plan but would not offer a fully insured PPO plan. To retain a PPO and offer active employees and retirees options, the Administration recommended the City-insured PPO plan.

Revenues totaled $13.9 million and were generated from Reimbursements from Retirement Funds ($9.1 million), a Transfer from the General Fund ($1.65 million), Participant Contributions ($1.6 million), Reimbursements from City Funds ($1.4 million), and Miscellaneous Revenues ($128,000). The total revenue level was $135,000 (1.0%) below the modified budget. The variance to the budget of $135,000 (1.0%) was mainly due to lower participant contributions.

As of January 1, 2018, the Fund and associated medical insurance had been in operation for one year. During the open enrollment period for the 2018 calendar year, enrollees in the plan declined 14.4%, including a 10.7% drop for active employees and a 15.4% drop for retirees. This loss far exceeded the estimated decline of 2% expected from rate increases implemented effective January 2018. This drop in enrollment resulted in lower City, Retirement, and participant contributions. Given this drop in revenues along with higher than anticipated expenditures, a shortfall was projected in this fund for 2017-2018. To offset this projected shortfall, a $1.65 million transfer from the General Fund was budgeted. With this additional funding, the Self Insured Medical Fund ended the year in a positive position.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SELF-INSURED MEDICAL FUND

Expenditures totaled $13.5 million and consisted primarily of Payment of Claims ($12.3 million), Stop Loss Premium ($824,000), Provider Administration Fee ($285,000), and Personal and Non-Personal Services ($77,000). This expenditure level was $564,000 (4.0%) below the modified budget. Most of the savings were realized in the Payment of Claims appropriation that ended the year $435,000 below the modified budget. However, a year-end increase to this appropriation of $936,000 was approved to ensure the Payment of Claims remained within budget.

Ending Fund Balance Performance ($ in Thousands)

2017-2018 Modified Budget	*2017-2018 Estimated Ending Fund Balance*	*2017-2018 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$14,085	$43	$472	$429	$0	$429	3.0%

The **Ending Fund Balance** of $472,000 was $429,000 above the estimate used in the development of the 2018-2019 Adopted Budget. The positive variance was primarily a result of lower than anticipated Payment of Claims expenditures. The additional fund balance better positions the fund for 2018-2019.

The 2018-2019 Adopted Budget includes a $3.0 million transfer from the General Fund to the Self-Insured Medical Fund to offset the projected imbalance between revenues and expenditures within this Fund. This transfer provides the resources to sustain the fund while the Administration evaluates potential alternatives to this fund, all of which would require stakeholder involvement to assess cost, timeliness, impact to employees and retirees, and any associated risk. No recommended adjustments are included in this report.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2017-2018 Budget	*2017-2018 Actuals*	*Variance*	*% Variance*
Revenues	$4,638	$5,229	$591	12.7%
Expenditures	$9,481	$6,233	($3,248)	(34.3%)

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

Revenues totaled $5.2 million and were generated from a Transfer from the Water Utility Fund ($4.4 million), fees paid by developers ($550,000), and interest income ($228,000). The fees consist of Major Facilities Fees ($303,000), Meter Installation Fees ($105,000), Advanced System Design Fees ($86,000), and Service Connection Fees ($56,000). This revenue level was $591,000 (12.7%) above the modified budget due to the receipt of Major Facilities Fees ($303,000), as these fees are not assumed due to the highly volatile nature of this revenue stream, meter connection and design fees ($172,000), and interest income ($116,000). Revenues were $169,000 (3.1%) below the prior year level of $5.4 million, due primarily to a lack of Commercial Paper proceeds ($1.2 million), partially offset by strong fee-related revenue ($550,000) and a higher transfer from the Water Utility Fund for capital projects ($450,000).

Expenditures totaled $6.2 million and were for several capital projects, the largest of which were the Gumdrop Drive Main Replacement ($1.6 million), System Maintenance/Repairs ($819,000), Infrastructure Improvements ($783,000), North San José Water Well Evaluation and Rehabilitation ($670,000), the repayment of Commercial Paper ($588,000), and Service Installations ($307,000). This expenditure level was $3.2 million (34.3%) below the modified budget and $3.9 million (38.4%) below the prior year level of $10.1 million.

Expenditures were below the budget by $3.2 million (34.3%) as a result of project savings and unexpended project funds across a number of projects. Several of these projects are recommended to be rebudgeted to 2018-2019 in this report as a result of project delays or were rebudgeted in the 2018-2019 Adopted Budget, which included: Safety and Security Improvements ($195,000), Public Art ($115,000), North San José Water Well Evaluation and Rehabilitation ($85,000), Gumdrop Drive Main Replacement ($70,000), and Fowler Pump Station Replacement ($45,000). Expenditures were below the prior year primarily due to lower expenses for Cadwallader Reservoir Rehabilitation ($1.4 million), Infrastructure Replacement ($969,000), and Edenvale Reservoir Rehabilitation ($845,000); the completion of the Meter Replacements project in 2016-2017, which had expenditures of $1.6 million; partially offset by the commencement of the Gumdrop Drive Main Replacement in 2017-2018 ($1.6 million).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2017-2018 Modified Budget	***2017-2018 Estimated Ending Fund Balance***	***2017-2018 Actual Ending Fund Balance***	***Variance***	***Recommended Rebudget Adjustments***	***Revised Variance (incl. Rebudget Adjustments)***	***Revised Variance As % of Modified Budget***
$16,232	$11,418	$11,944	$526	($818)	($292)	(1.8%)

The **Ending Fund Balance** of $11.9 million was $526,000 above the estimate used in the development of the 2018-2019 Adopted Budget. After accounting for rebudget adjustments of $818,000 recommended in the Annual Report, the fund balance ends the year below the estimate by $292,000. The fund balance fell below the estimate because, when the 2018-2019 Adopted Budget was developed, it was assumed that $700,000 from the Gumdrop Drive Main Replacement project would be reallocated for other purposes. However, that funding was required for the project's completion and was encumbered in 2017-2018. This negative impact was partially offset by the receipt of Major Facilities Fees of $303,000, which is unbudgeted due to this revenue category's highly volatile nature.

After accounting for all recommended adjustments, approximately $352,000 is recommended to be allocated to the Major Facilities Fund 2018-2019 Ending Fund Balance for future use and $644,000 will be reallocated from the Water Utility Capital Fund 2018-2019 Ending Fund Balance to projects currently in process.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2017-2018 Budget	***2017-2018 Actuals***	***Variance***	***% Variance***
Revenues	$47,471	$48,300	$829	1.8%
Expenditures	$48,394	$47,669	($725)	(1.5%)

Revenues totaled $48.3 million and were generated from potable ($42.3 million) and recycled water ($5.4 million) sales, late fees ($342,000), miscellaneous revenues ($176,000), and interest earnings ($130,000). This revenue level was $829,000 (1.8%) above the modified budget and $3.6 million (8.0%) above the prior year level of $44.7 million.

Revenues ended the year above the budget primarily due to higher than anticipated potable water sales ($1.2 million), partially offset by lower than anticipated recycled water sales ($568,000). The positive variance to the prior year was due primarily to higher potable water sales ($3.6 million), which was a result of updated retail rates that led to an overall 9.0% rate adjustment, combined with higher customer consumption, as well as higher recycled water sales ($215,000), partially offset by lower late fees revenue ($211,000).

Expenditures totaled $47.7 million and were primarily for Environmental Services Department (ESD) non-personal/equipment costs ($32.7 million, of which $25.5 million was attributed to the purchase of wholesale potable water and $3.9 million to wholesale recycled water), a Transfer to the Water Utility Capital Fund ($4.5 million), and ESD personal services costs ($6.5 million). This expenditure level was $725,000 (1.5%) below the modified budget, but $4.4 million (10.2%) above the prior year level of $43.3 million.

The negative variance to the budget was mainly due to lower expenditures for customer information system ($283,000), personal services in ESD ($186,000), and non-personal/equipment in the Information Technology Department ($100,000). Expenditures were above the prior year due primarily to higher non-personal/equipment ($3.3 million) and personal services ($827,000) expenditures in ESD, as well as a higher transfer to the Water Utility Capital Fund ($474,000), partially offset by a decreased transfer to the General Fund for late fee revenues ($302,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

Ending Fund Balance Performance ($ in Thousands)						
2017-2018 Modified Budget	***2017-2018 Estimated Ending Fund Balance***	***2017-2018 Actual Ending Fund Balance***	***Variance***	***Recommended Rebudget Adjustments***	***Revised Variance (incl. Rebudget Adjustments)***	***Revised Variance As % of Modified Budget***
$60,977	$13,473	$14,559	$1,086	$0	$1,086	1.8%

The **Ending Fund Balance** of $14.6 million was $1.1 million above the estimate used in the development of the 2018-2019 Adopted Budget. The 2017-2018 ending fund balance was higher than the estimate primarily due to higher than estimated revenues from potable water sales ($1.0 million) and late fees ($92,000), as well as lower than estimated expenditures for the customer information system ($62,000) and ESD personal services ($42,000), partially offset by higher than estimated ESD non-personal/equipment costs ($230,000).

The 2017-2018 Annual Report includes budget actions to transfer the additional late fees ($92,000) received in 2017-2018 over the budgeted estimate to the General Fund. After this adjustment, the 2017-2018 Unrestricted Ending Fund Balance will be increased by approximately $1.0 million

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