2018-2019

MID-YEAR
BUDGET
REVIEW

SECTION
II

SELECTED SPECIAL/ CAPITAL FUNDS STATUS REPORT

2018-2019
MID-YEAR BUDGET REVIEW

II. SELECTED SPECIAL/CAPITAL FUNDS STATUS REPORT

At mid-year, the City Manager’s Budget Office conducts a comprehensive review of expenditure and revenue performance of all operating and capital funds and capital programs through the first six months of the fiscal year. Revenues and expenditures are generally tracking within estimated levels. This section of the report is intended to summarize the results of that review and only discusses selected funds with issues of interest or variances.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT OPERATING FUNDS – AIRPORT MAINTENANCE AND OPERATION FUND & AIRPORT REVENUE FUND

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Revenues – Airport Revenue Fund	173,505,865	85,656,209	49.4%
Expenditures – Airport Maintenance and Operation Fund	103,871,085	29,453,852	28.4%

This section discusses the status of the Airport Revenue Fund and the Airport Maintenance and Operation Fund. The Airport Revenue Fund accounts for all general Airport revenues. The Airport Maintenance and Operation Fund, funded by a transfer from the Airport Revenue Fund, accounts for expenditures incurred for the maintenance and operation of the Norman Y. Mineta San José International Airport.

FUND STATUS

Revenues – General Airport operating revenue categories include Landing Fees, Terminal Rentals, Airfield, Terminal Concessions, Parking and Roadway, and General and Non-Aviation.

Overall revenue performance at the Airport of $85.7 million is tracking at 49.4% of the estimated budget and is slightly above the benchmark through December. Through December 2018, passenger levels of 7.5 million are up 12.3% from the same period last fiscal year (6.7 million). The 2018-2019 budget was built assuming a 3% growth from the 2017-2018 estimated levels of 13.1 million passengers, and the Airport served a total of 13.5 million passengers in 2017-2018. Passenger airline operations (takeoffs and landings) are 10.8% greater than last year. Airfield revenues are exceeding budgeted levels primarily due to higher than anticipated in-flight kitchen, hangar, and ramp space revenues while landing fees are tracking below budgeted levels. Terminal Rentals are tracking slightly below budget primarily in the preferential ticket counters and gates revenue categories. Revenue categories most significantly impacted by increasing passenger levels are Terminal Concessions and Parking and Roadway. The parking and roadway revenue exceeds estimated levels due to the higher than anticipated ground transportation and public parking revenues while terminal concessions revenue is trending greater than budget in the advertising, and food and beverage sectors. Total general and non-aviation revenues, consisting of fees associated with hangars, land and building rentals, petroleum program, general aviation, interest earnings, and other non-aviation (miscellaneous) revenues, are tracking slightly below budgeted levels due to lower than anticipated compressed natural gas (CNG) fuel sales.

Status of Selected Special and Capital Funds

AIRPORT OPERATING FUNDS – AIRPORT MAINTENANCE AND OPERATION FUND & AIRPORT REVENUE FUND

FUND STATUS

Expenditures – Operating expenditures, appropriated in the Airport Maintenance and Operation Fund, include Personal Services, Non-Personal/Equipment, Police and Aircraft Rescue and Fire Fighting Services, direct support, and overhead reimbursements. Overall expenditures are tracking below budget estimates at 28.4% spent. Through December 2018, Airport's Personal Services and Non-Personal/Equipment expenditures are tracking at 35.5% of budgeted levels.

Personal Services expenditures are tracking at 45.7% of budget compared to the benchmark of 46.2%. The minimal savings are due to vacancies across the department. At the close of December 2018, the Department had 25 vacancies or 11.6% of budgeted positions. Overtime expenditures of $186,278, or 47.3% of budget, are tracking slightly above budget and will be closely monitored for the remainder of the fiscal year. Non-Personal/Equipment expenditures (excluding encumbrances) are tracking at 28.6% of budget, with total committed tracking at 71.1% of budgeted levels. It is anticipated that through conservative spending and close monitoring, the Non-Personal/Equipment appropriation will end the year within budgeted levels.

Through December 2018, interdepartmental expenditures (charges for staff and services located in other City departments including the Police and Fire Departments) total $625,509, which represents approximately 3.7% of the interdepartmental budget. Although interdepartmental expenditures are tracking below budgeted levels, the primary cause is General Fund transfers that have not yet been completed; therefore, this trend is not anticipated to continue through the remainder of the fiscal year. Budget actions are recommended in this report to transfer an additional $312,000 from the Airport Maintenance and Operations Fund to the General Fund to support increased Police overtime hours at the Airport that result from increased passenger activity at the airport and an increase in the police officer hourly rate overtime reimbursement rate. This increase is offset by a decrease to the Operations Contingency appropriation.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT OPERATING FUNDS – AIRPORT MAINTENANCE AND OPERATION FUND & AIRPORT REVENUE FUND

FUND STATUS

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Ending Fund Balance – Airport Revenue Fund	99,812,219	N/A	N/A
Ending Fund Balance – Airport Maintenance and Operation Fund	26,405,288	N/A	N/A

Fund Balance – This report includes adjustments to the Ending Fund Balance in the Airport Revenue Fund resulting from the pay down of Commercial Paper of $3,000,000 and the transfer of reserves of $7,266,296 to the Airport Maintenance and Operation Fund for the Airline Reserve Funds Distribution. After accounting for these actions, the revised Ending Fund Balance in the Airport Revenue Fund is $89.5 million. Further details on the adjustments can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions. No change to the Ending Fund Balance in the Airport Maintenance and Operation Fund is recommended at this time.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Revenues	27,985,000	11,397,229	40.7%
Expenditures	54,059,821	7,756,794	14.3%

FUND STATUS

Revenues – Tax revenue in the Building and Structure Construction Tax Fund, which is a major funding source for the Traffic Capital Program, is tracking at anticipated levels. Through the first half of 2018-2019, Building and Structure Construction Tax receipts totaled $9.1 million through December, which is 57.0% of the 2018-2019 Adopted Budget estimate of $16.0 million, reflecting higher than anticipated commercial and industrial development permit activity. As anticipated, this collection level is below prior year collections ($4.3 million or 32.3%) of $13.5 million for the same period. Should the current level of permitting activity and corresponding collections continue, it is anticipated that tax receipts will meet budgeted levels. Other major revenue sources in the Building and Structure Construction Tax Fund, including grants from federal and local agencies, are generally tracking below estimated levels, corresponding with year-to-date project activity. These variances are largely due to timing differences for grant-supported projects, many of which are funded on a reimbursement basis. Staff will continue to closely monitor these revenue sources as the fiscal year progresses.

Expenditures – Overall expenditures of $7.8 million are tracking at 14.3% of the Modified Budget. In addition, $7.8 million has been encumbered to date, bringing total commitments ($15.6 million) through December to 28.8% of the Modified Budget, excluding reserved funds. Expenditures are tracking below expected levels through December; year-end expenditures are anticipated to reach approximately $40.1 million, or 74.2% of the Modified Budget. Any remaining project balances at year-end are anticipated to be rebudgeted to 2019-2020 as part of the 2019-2020 Adopted Capital Budget for project completion.

Some of the larger projects for which funding is expected to be rebudgeted to 2019-2020 include: Autumn Street Extension, Branham and Snell Street Improvements, and McLaughlin Avenue Pedestrian/Bike Safety Enhancements, W. San Carlos Corridor Safety Improvements, and Highway Soundwalls. Project timelines have been impacted by delayed land and property acquisition, contract awards, and the progression of planning and design phases for these larger-scale, complex projects. This report also includes a limited number of expenditure adjustments, which are described below. Further detail regarding these recommendations can be found in Section III of this report, Recommended Budget Adjustments, and Clean-up Actions.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

FUND STATUS

Included in this report are recommendations to reallocate funding from the Transportation Data, Forecasting and Analysis appropriation to a new appropriation for the Access and Mobility Plan; increase the Autumn Street Extension appropriation to fund utility payments made by the City for properties purchased as part of the project (offset by recognition of rental revenue paid by those properties); and increase the Traffic Signal and Improvement appropriation for Traffic Signal Controller Fees received from developers.

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Unrestricted Ending Fund Balance	1,261,466	N/A	N/A

Ending Fund Balance – A recommendation to increase the Ending Fund Balance by $203,000 is included in this report as a net result of the actions described above. This amount is inclusive of a technical adjustment to increase the Ending Fund Balance by $278,000, due to the reconciliation of the fund to the final audited 2017-2018 Comprehensive Annual Financial Report, which is offset by a use of $75,000 for the Access and Mobility Plan project. After accounting for all these actions, the revised Ending Fund Balance will increase to approximately $1.5 million. Further details on the adjustments can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

Status of Selected Special and Capital Funds

CONSTRUCTION AND CONVEYANCE TAX FUNDS

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Revenues	70,974,775	22,410,889	31.6%
Expenditures	119,592,143	25,248,146	21.1%

FUND STATUS

Revenues – A total of 17 Construction and Conveyance (C&C) Tax Funds are budgeted throughout the Capital Budget. Most of these funds (13) support the Parks and Community Facilities Development Capital Program, with the remaining four funds supporting the Public Safety Capital Program, Library Capital Program, Service Yards Capital Program, and Communications Capital Program. Revenues in the C&C Tax Funds are comprised of C&C Tax receipts, sale of surplus property, transfer revenue, grant funding, and other miscellaneous revenue. The Parks C&C Funds also include significant revenues related to the 2017 Flood recovery projects, including $4.0 million anticipated from the Federal Emergency Management Agency (FEMA)/California Office of Emergency Services (CalOES), $7.6 million from insurance reimbursements, and commercial paper proceeds of $6.7 million. Receipt of these funds will track closely with actual project costs. Through December 2018, revenue in the C&C Tax Funds totaled $22.4 million, which is 31.6% of the 2018-2019 Modified Budget of $71.0 million.

Through December 2018, C&C Tax receipts totaled $20.1 million, which represents 52.9% of the 2018-2019 Adopted Budget estimate ($38.0 million). This collection level is slightly above the prior year receipts of $19.0 million through the same period. The 2018-2019 Adopted Capital Budget was built on the assumption that C&C Tax receipts in 2017-2018 would total $42.0 million, then drop by almost 10% to $38.0 million in 2018-2019. However, due to stronger than anticipated performance in the last half of the fiscal year, 2017-2018 receipts totaled $48.1 million. 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. While receipts to date are above the prior year level, recent months have experienced declines of over 20% when compared to prior year, including the month of January. The City has received the January 2019 Conveyance receipts from Santa Clara County, which total $3.0 million, a 23.8% decrease from the January 2018 collection level. Based on actual receipts and current downward collection trends, it is estimated that 2018-2019 year-end receipts will fall short of the 2017-2018 actuals, but will exceed the budgeted estimate. Barring any major change in revenues, the 2019-2020 Proposed Capital Budget will be built on the assumption that C&C receipts will reach $42.0 million by year-end, which represents a 12.7% decrease from 2017-2018 receipts.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

FUND STATUS

Over 99% of the total C&C Taxes are comprised of conveyance receipts, a tax based on the value of property transfers (sales). After seven years of year-over-year home price growth, the local real estate market is beginning to slow down. According to data from the Santa Clara County Association of Realtors, the single-family home price peaked at $1.3 million in May 2018, which represented a 30.0% increase from the May 2017 home price, but has steadily decreased each month since May. In December 2018, the median single-family home price totaled $1.05 million, which is 7.9% below the December 2017 price of $1.14 million but 21.7% above the December 2016 price of $863,000. In addition to the median home price decreasing from the prior year level, the number of property transfers has also continued to steadily decline. The number of property transfers in December 2018 totaled 449, which represents a 3.9% drop from the 467 transfers that occurred in December 2017. In addition, the total number of property transfers that occurred through the first half of the fiscal year has dropped 11% compared to the first half of 2017-2018. In addition, while homes are continuing to sell quickly, they are on the market significantly longer than the prior year. The average days-on-market for single-family and multi-family dwellings in December 2018 totaled 35 days, which is more than double the 16 days experienced in December 2017.

Expenditures – Overall, expenditures in the various C&C Tax Funds are anticipated to end the year within budgeted levels. Through December, expenditures totaled $25.2 million, 21.1% of the 2018-2019 Modified Budget ($119.6 million). An additional $11.9 million has been encumbered through December, bringing the total amount committed to $37.2 million, or 31.1% of the 2018-2019 Modified Budget. To the extent funding is not expended this fiscal year for any particular project that may occur over multiple years, it is likely that a rebudget of those funds will be recommended for City Council consideration later this year. This report recommends expenditure adjustments to the following projects:

- Bramhall Park Improvements ($55,000 – Council District 6 C&C Tax Fund)
- Playa Del Rey Shade Structure ($50,000 – Council District 10 C&C Tax Fund)
- Capital Program and Public Works Department Support Staff ($10,000 – Fire C&C Tax Fund)
- Fire Station 37 (Construction) Reserve (-$900,000 – Fire C&C Tax Fund)
- Fire Station 37 Construction ($900,000 – Fire C&C Tax Fund)
- Self-Contained Breathing Apparatus (SCBA) Equipment ($45,000 – Fire C&C Tax Fund)
- Capital Program and Public Works Department Support Service Costs ($3,000 – Service Yards C&C Tax Fund)

Further detail regarding the above recommendations can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Unrestricted Ending Fund Balances	24,441,305	N/A	N/A

<u>*Ending Fund Balance*</u> – This report includes recommendations to decrease the various C&C Tax Funds Ending Fund Balances by $373,000 as a net result of the actions cited above and other technical clean-up actions as detailed in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Revenues	119,898,000	29,563,172	24.7%
Expenditures	188,299,241	43,753,753	23.2%

FUND STATUS

Revenues – The Construction Excise Tax, the largest local funding source for both the Construction Excise Tax Fund and Traffic Capital Program, is tracking at or slightly above anticipated levels. Through the first half of 2018-2019, Construction Excise Tax receipts totaled $11.7 million through December, 55.5% of the 2018-2019 Adopted Budget estimate of $21.0 million, reflecting higher than anticipated commercial development permit activity. As anticipated, this collection level is below prior year collections ($6.7 million or 36.5%) of $18.4 million for the same period. When the 2018-2019 Adopted Capital Budget was developed it was assumed that high collection receipts experienced in 2016-2017 ($30.2 million) and 2017-2018 (estimated at $27.0 million) would not be sustainable, therefore, the 2018-2019 estimate was decreased by 22.2%, to $21.0 million. However, since 2017-2018 receipts of $29.4 million ended the year above the estimated level, the 2018-2019 budgeted estimate allows for a 28.5% drop from the prior year collection level. While this tax is extremely volatile, and it is currently anticipated receipts will meet budgeted levels. Other major revenue sources in the Construction Excise Tax Fund, including grants from Federal and local agencies, are generally tracking consistent with year-to-date project activity.

Disbursement of the projected $23.8 million of funding from the VTA 2016 Measure B referendum is on hold pending resolution of an ongoing lawsuit challenging the measure which is anticipated by April 2019. As described in the 2018 Pavement Maintenance Program Information Memorandum issued on January 23, 2018, the planned series of sealing and resurfacing projects on the City's Local and Neighborhood Street Network for 2018 is on hold pending resolution of the current appeal to the Court of Appeals, with no expenditures incurred to date for proposed projects. However, the Department of Transportation is continuing to prepare for project implementation, with it likely that funding will become available during fiscal year 2018-2019. Other variances are largely due to timing differences for grant-supported projects, many of which are funded on a reimbursement basis. Staff will continue to closely monitor these revenue sources as the fiscal year progresses.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

FUND STATUS

Included in this report are several revenue adjustments, including recommendations to:

- Establish an estimate for Other Revenue in the amount of $192,700 for an insurance company reimbursement for a truck destroyed by fire;

- Increase Revenue from Local Agencies by $953,000 for higher than anticipated Pavement Maintenance – Measure B receipts from vehicle registration fees ($575,000); a reimbursement from Santa Clara County for pavement resurfacing on Bascom Avenue between City and County maintained road segments ($265,000), and revenues from the Valley Transportation Authority for the City's participation in the Bay Area Bike Share Pilot Program ($113,000);

- Increase Revenue from the State of California by $350,000 for a CalRecycle grant for rubberized pavement,

- Increase the Fees, Rates, and Charges revenue estimate by $343,000 to recognize Evergreen Traffic Impact Fees received from developers;

- Increase Developer Contributions by $271,000 for Fiber Optic Permit and Signal Modification Fees.

- Decrease revenue from the State of California for pavement maintenance by $5.0 million due to a reduction in the State Gas Tax allocation to cities and counties ($4.3 million) and lower than anticipated estimates for revenue from Senate Bill (SB) 1 Road Repair and Accountability program ($704,000). The latest estimates from the State of California for State Gas Tax are lower than the original estimate because the State Department of Finance did not adjust the Section 2103 variable gas tax rate as anticipated. Senate Bill 1 removed the discretionary rate setting role over Section 2103 variable rate; as a result the 2019-2020 Gas Tax allocation is expected to return to approximately $8 million. Revenues for SB1 are lower than the original estimate because of lower than predicted fuel consumption.

The corresponding expenditure adjustment for these actions and further detail regarding these recommendations can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

Expenditures – Overall expenditures of $43.8 million total 23.2% of the Modified Budget. In addition, $27.8 million has been encumbered to date, bringing total commitments ($71.5 million) through December to 38.0% of the Modified Budget, excluding reserved funds. Year-end expenditures are anticipated to reach approximately $181.1 million, or 96.2% of the Modified Budget, and any remaining

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

FUND STATUS

project balances at year-end are anticipated to be reallocated to 2019-2020 as part of the 2019-2020 Adopted Capital Budget for project completion. Some of the larger projects for which funding is expected to be rebudgeted to 2018-2019 include: Better Bikeways Program (OBAG), LED Traffic Signal Lamp Replacement, Route 101/Trimble/De La Cruz Interchange Improvements, and Mount Pleasant Schools Area Bike/Ped Safety Improvements. Project timelines have been affected by project re-scoping and coordination with partner agencies, ongoing litigation, and staffing for the completion of electrical work.

This report also includes a limited number of expenditure adjustments. Notable adjustments are primarily to the pavement maintenance program and are described below.

- Decrease the Pavement Maintenance - State Gas Tax appropriation by $4.3 million (from $9.7 million to $5.4 million) due to a reduction in the State Gas Tax allocation to cities and counties. The latest estimates from the State of California are lower than the original estimate because the State Department of Finance did not adjust the Section 2103 variable gas tax rate as anticipated. SB 1 removed the discretionary rate setting role over Section 2103 variable rate; as a result the 2019-2020 Gas Tax allocation is expected to return to approximately $8 million. A corresponding decrease to the estimate for Revenue from the State of California is recommended in this report to offset this action.

- Decrease the Pavement Maintenance - SB1 Road Repair and Accountability Act 2017 appropriation by $704,000 (from $18.8 million to $18.1 million) due to a reduction in the allocation to cities and counties. The latest estimates from the State of California are lower than the original estimate because of lower than predicted fuel consumption. A corresponding decrease to the estimate for Revenue from the State of California is recommended in this report to offset this action.

- Increase the Pavement Maintenance – VTA Measure B VRF appropriation by $1.2 million (from $9.0 million to $10.2 million) for revenue received in excess of the 2018-2019 Adopted revenue estimate ($575,160) and as a result of liquidating encumbrances for pavement maintenance contracts that have unused balances (642,000). The liquidated funds will be used for the 2019 construction year projects. A corresponding action to increase the estimate for Revenue from State of California for the Pavement Maintenance - Measure B and a decrease to Ending Fund Balance are recommended in this report to offset this action.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

FUND STATUS

- Increase the Pavement Maintenance - City appropriation by $1.7 million (from $5.5 million to $7.2 million) for the following: appropriate revenue from CalRecycle in the amount of $350,000; appropriate reimbursement from Santa Clara County in the amount of $265,000 for pavement resurfacing of Bascom Ave between City and County maintained road segments; allocate $1.7 million of unused carry over encumbrance balances for pavement maintenance contracts to the 2019 construction year projects; and reallocate $600,000 from Pavement Maintenance - City to the Pavement Maintenance - Complete Street Project Development appropriation to fund the repair of traffic detection cameras at six intersections ($150,000) and complete streets work on Almaden/Vine Downtown Couplet project ($450,000). Corresponding actions to increase the estimates for Revenue from State of California and Revenue from Local Agencies, increase the Pavement Maintenance - Complete Street Project Development appropriation, and decrease Ending Fund Balance are recommended in this report to offset this action.

- Increase the Pavement Maintenance - Complete Street Project Development appropriation by $600,000 ($2.6 million to $3.2 million) for repair of signal detection cameras at six intersections ($150,000) and for installation of complete streets infrastructure on the Almaden/Vine Downtown Couplet project ($450,000). A corresponding decrease to the Pavement Maintenance - City appropriation is recommended in this report to offset this action.

Further detail regarding these and other expenditure recommendations can also be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Unrestricted Ending Fund Balance	10,939,997	N/A	N/A

<u>Fund Balance</u> – A recommendation to decrease Ending Fund Balance by $2.7 million is included in this report as a net result of the actions described above. This includes technical adjustments recommended to increase the Ending Fund Balance by a net $48,363 as a result of a reconciliation of the fund to the final audited 2017-2018 Comprehensive Annual Financial Report, which is offset by a use of fund balance of $2,723,300, primarily for pavement maintenance. After accounting for all these actions, the revised Ending Fund Balance will be $8.3 million. Further details on the adjustments can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Revenues	138,223,133	115,167,752	83.3%
Expenditures	142,512,983	44,747,538	31.4%

FUND STATUS

Revenues – Budgeted revenues in the Integrated Waste Management Fund include payments received from residential solid waste generators under the Recycle Plus Integrated Waste Management Program (Recycle Plus Collection Charges) ($127.7 million); AB 939 fees ($3.4 million); Recycle Plus Negotiated Savings ($2.7 million); New Market Tax Credit (NMTC) Reimbursements ($1.2 million); payments received from the Construction and Demolition Diversion Deposit (CDDD) Program ($865,000); interest earnings ($679,000); Recycle Plus Late Fees ($600,500); Las Plumas Tenant Utility Reimbursements ($526,000); and SB332 Beverage Container Recycling payments ($250,000).

Through December, revenues totaled $115.2 million, or 83.3% of budget, and were generated primarily from Recycle Plus Collection Charges ($110.7 million); Recycle Plus Negotiated Savings ($1.3 million); AB 939 fees ($1.1 million); interest earnings ($325,000); and SB332 Beverage Container Recycling payments ($258,000). Overall, revenues are expected to end the year slightly above the budget. Unbudgeted revenues received from Santa Clara County ($697,000) related to household hazardous waste programs contribute to the slightly higher revenue estimate.

Expenditures – Through December, $44.7 million (31.4%) was expended, with an additional $84.0 million (59.0%) encumbered. The year-to-date expenditures and encumbrances of $128.8 million are attributed primarily to the Recycle Plus contracts for Single-Family Dwelling ($55.6 million), Yard Trimmings/Street Sweeping ($24.6 million), and Multi-Family Dwelling ($22.0 million). Additional expenditures include Single Family Dwelling Processing ($14.7 million), IDC Disposal Agreement ($4.1 million), Environmental Services Department (ESD) Personal Services ($3.6 million), and ESD Non-Personal/Equipment ($2.1 million) appropriations.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

FUND STATUS

Overall, savings of approximately $2.3 million are projected by the end of the year across various appropriations, with the largest estimated savings in the Recycle Plus Single-Family Dwelling contracts ($629,000) primarily due to lower than estimated costs for hauler payments, ESD Personal Services ($405,000) due to vacancies in the department, Yard Trimming Contracts ($320,000), ESD Non-Personal/Equipment ($287,000) due to savings in contractual services, Recycle Plus Multi-Family Dwelling contracts ($276,000), and savings in Personal Services and Non-Personal/Equipment appropriations for other City departments ($194,000).

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Unrestricted Ending Fund Balance	4,770,207	N/A	N/A

Ending Fund Balance – This report includes an adjustment to the Ending Fund Balance to offset an increase to the Workers' Compensation Claims – ESD appropriation ($45,000) due to higher than anticipated settlement activities and medical treatment costs through December 2018. After accounting for these actions, the Ending Fund Balance is approximately $4.7 million.

Status of Selected Special and Capital Funds

SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Revenues	184,585,000	20,760,088	11.2%
Expenditures	379,852,411	56,219,273	14.8%

FUND STATUS

Revenues – Budgeted revenue for the San Jose-Santa Clara Treatment Plant Capital Fund consists of financing proceeds ($110.5 million); contributions from the City of Santa Clara and other Tributary Agencies ($33.6 million); transfers from the City of San José Sewer Service and Use Charge (SSUC) Fund ($34.2 million) and the Sewage Treatment Plant Connection Fee Fund ($1.2 million); interest earnings ($4.4 million); Calpine Metcalf Energy Center Facilities Repayments ($389,000); and a U.S. Bureau of Reclamation (USBR) Grant ($250,000). Through December, $20.8 million, or 11.2%, has been received.

This relatively low level of revenue received to-date is primarily driven by timing of payments, transfers, and financing proceeds. By June 30, 2019, financing proceeds of $38 million are anticipated; though significantly lower than the budgeted estimate, these revenues align with anticipated project expenditures. Based on the reconciliation of prior year project expenditures, it is anticipated that contributions from the tributary agencies may end the year $1.6 million lower than the budgeted estimate, though prior year fund balance is available to offset this shortfall. Each year, adjustments to contributions from the tributary agencies are made to true up for actual Treatment Plant expenditures and encumbrances from the prior year. Interest revenue for this fund may end the year approximately $500,000 lower than the budgeted estimate. The other revenue sources for this fund are anticipated to end the year at the budgeted estimate.

Expenditures – Expenditures in this fund represent the costs of improvements and rehabilitation of the San José-Santa Clara Water Pollution Control Plant. Through December, $56.2 million, or 14.8%, of the budget was expended and an additional $188.0 million, or 49.5%, was encumbered, bringing overall commitments through December to 64.3%.

Staff anticipates continuing to make significant progress on large efforts in 2018-2019, such as the Digester and Thickener Facilities Upgrade ($103.0 million), Energy Generation Improvements ($88.0 million), Aeration Tanks and Blower Rehabilitation ($54.8 million), Digested Sludge Dewatering Facility ($13.3 million), Program Management ($13.0 million), Advanced Facility Control and Meter Replacement ($10.9 million), New Headworks ($8.3 million), and Support Building Improvements ($8.1 million). A large portion of the budget is currently anticipated to be expended or encumbered on projects and related expenses by the end of the year. No significant rebudgets to 2019-2020 are anticipated at this time.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

FUND STATUS

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Unrestricted Ending Fund Balance	13,689,152	N/A	N/A

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

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUND

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Revenues	83,825,000	19,246,774	23.0%
Expenditures	100,737,416	35,940,499	35.7%

FUND STATUS

Revenues – Budgeted revenue for the San José-Santa Clara Treatment Plant Operating Fund consists primarily of transfers from the Sewer Service and Use Charge Fund ($53.4 million), contributions from the City of Santa Clara ($12.3 million) and participating tributary agencies ($17.5 million), and interest earnings ($220,000). With the creation of the South Bay Water Recycling Operating Fund in the 2018-2019 Adopted Budget, recycled water sales revenue ($12.5 million in 2018-2019) will no longer be received by the San José-Santa Clara Treatment Plant Operating Fund. Through December, revenues totaled $19.2 million, or 23.0% of the budgeted estimate, due primarily to the timing of payments.

The largest source of revenue, the transfer from the Sewer Service and Use Charge Fund ($53.4 million), has not yet been received. This transfer occurs in two installments at the beginning of February and the beginning of June. Contributions from Santa Clara and other agencies are estimated to come in higher than budgeted levels. These contributions are made in four installments based on the amounts provided in the 2018-2019 Proposed Budget. However, after the Comprehensive Annual Financial Report is released and prior year actuals are determined, the amounts owed by the agencies are adjusted accordingly. As a result of the final reconciliation for 2017-2018, this year's agency reimbursement revenue is projected to come in above budget by approximately $900,000. Interest revenue is also expected to exceed budgeted levels by approximately $150,000. Overall, revenues are estimated to end the year above the budget by approximately $1.1 million.

Expenditures – Expenditures in this fund represent a majority of the costs required for the operation and maintenance of the San José-Santa Clara Water Pollution Control Plant and associated regulatory activities. Through December, $35.9 million (35.7%) has been expended, and an additional $11.6 million (11.5%) has been encumbered, bringing the total commitments to 47.2%. Across Personal Services appropriations within the fund, expenditure levels are generally tracking in line with expectations with $25.3 million (46.0%) expended – with the exception of the Human Resources Department which is tracking to slightly exceed their budgeted allocation – and are projected to end the year at budgeted levels ($55.0 million). Non-Personal/Equipment commitments are slightly below the previous year's levels with $20.7 million (63.5%) expended in 2018-2019, compared to $25.1 million (68.1%) in 2017-2018. Overall, expenditures are projected to end the year at budgeted levels.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUND

FUND STATUS

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Unrestricted Ending Fund Balance	3,286,946	N/A	N/A

Ending Fund Balance – Actions are included in this report to increase the Ending Fund Balance by $58,917 as an offset to a net expenditure reduction resulting from 1) a decrease to the Environmental Services Department's Non-Personal/Equipment appropriation by $90,917 to account for the reallocation of the Fats, Oils and Grease (FOG) program to the Sewer Service and Use Charge Fund, and 2) an increase to the Human Resources Department's Personal Service appropriation in the amount of $32,000.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SEWER SERVICE AND USE CHARGE CAPITAL IMPROVEMENT FUND

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Revenues	41,428,000	11,285,348	27.2%
Expenditures	108,694,177	19,541,031	18.0%

FUND STATUS

Revenues – Budgeted revenue for the Sewer Service and Use Charge Capital Improvement Fund consists of transfers from the Sewer Service and Use Charge Fund ($32.3 million), reimbursements from the West Valley Sanitation District (WVSD) for joint projects ($8.4 million), and interest earnings ($749,000). This year includes a significant increase in budgeted revenue for reimbursements from the WVSD (up from $1.4 million in 2017-2018), as the Fourth Major Interceptor, Phase VIIA; Rincon Avenue – Virginia Avenue Sanitary Sewer Improvements; and the Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements projects within the District are now underway.

Revenue through the end of December totals $11.3 million (27.2%), consisting mainly of the first of three equal installments of the transfer from the Sewer Service and Use Charge Fund ($10.7 million). Interest revenue totaling $614,000 has also been received through December, nearly meeting the estimated year-end total. WVSD reimbursement revenue has not yet been received, as projects within the District have incurred relatively little year-to-date expenses. As funds are expended on projects within the WVSD, invoices are processed and issued to the Sanitary District, for which reimbursements are received. Overall, revenues are expected to meet required levels.

Expenditures – Overall, expenditures in this fund represent the costs of improvements and rehabilitation of the Sanitary Sewer System. Including encumbrances carried over from 2017-2018, the largest expenditure items funded by the Sewer Service and Use Charge Capital Improvement Fund are the 60" Brick Interceptor Rehabilitation project ($43.7 million), the Condition Assessment Sewer Repairs annual allocation ($11.1 million), and the Urgent Rehabilitation and Repair Projects annual allocation ($8.2 million). A wide variety of additional sewer system repair and rehabilitation projects are also supported by this fund ($43.0 million).

Through December, $19.5 million (18.0%) of the budget was expended and an additional $50.3 million (46.3%) was encumbered, bringing the total amount committed to 64.2%. Overall, expenditures are expected to meet budgeted levels.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SEWER SERVICE AND USE CHARGE CAPITAL IMPROVEMENT FUND

FUND STATUS

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Unrestricted Ending Fund Balances	8,405,241	N/A	N/A

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

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY FUND

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Revenues	50,418,125	24,618,037	48.8%
Expenditures	51,865,172	22,619,534	43.6%

FUND STATUS

Revenues – Revenue for the Water Utility Fund consists primarily of Metered Sales of water to residents of jurisdictions served by the San José Municipal Water System ($43.5 million). Additional sources of revenue include Metered Sales of recycled water ($6.4 million), Late Fees associated with Metered Sales of recycled and non-recycled water ($250,000), interest revenue ($209,000), and miscellaneous revenue associated with the sale of water ($100,000).

The largest source of revenue in this fund, Metered Sales, is tracking close to the budget estimate with $20.3 million (46.7%) received through the end of December. Metered Sales of recycled water are tracking above expectations with $3.8 million (60.0%) received through the end of December. Late Fee revenue and miscellaneous revenue have both met budgeted levels with $283,000 and $158,000 received, respectively, through the end of December. Metered non-recycled water sales are expected to end the year at $43.6 million, approximately $100,000 above budgeted expectations. Overall, revenue is projected to end the year at $50.1 million, just below budgeted expectations. Historical and seasonal trends have shown that fluctuations in water consumption rates during the second half of the fiscal year can have significant impacts on year-end revenues. Close attention will be paid to Metered Sales revenues through the remainder of the year to ensure any necessary budgetary actions will be taken.

Expenditures – Expenditures in this fund represent the costs of the operation, maintenance, and improvement of the Municipal Water System, including transfers to the Water Utility Capital Fund for capital improvements. The majority of the budget is allocated to the Non-Personal/Equipment appropriation to the Environmental Services Department ($36.4 million) for the purchase of water and related operational needs. Beyond that, Personal Services appropriations to the Environmental Services Department ($7.0 million) and other City departments ($785,000) account for the next largest segment of expenditures, followed by transfers to other funds, primarily the Water Utility Capital Fund ($5.4 million).

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY FUND

FUND STATUS

Through December, $22.6 million (43.6%) has been expended, and an additional $1.6 million (3.2%) has been encumbered, bringing the total commitments to 46.8%. Across Personal Services appropriations, expenditure levels ($3.4 million) are tracking slightly below expectations with 43.3% expended, and are projected to end the year below budgeted levels by $465,000. Non-Personal/Equipment commitments are slightly above the previous year's levels with $17.8 million (48.5%) expended in 2018-2019, compared to $17.3 million (51.2%) in 2017-2018. Overall, expenditures are projected to end the year below budgeted levels by approximately $500,000 primarily due to expected vacancy savings within the Environmental Services Department ($341,000).

	2018-2019 Current Modified	2018-2019 YTD Actual	2018-2019 % of Budget
Unrestricted Ending Fund Balance	3,436,726	N/A	N/A

Ending Fund Balance – This report includes an adjustment to the Ending Fund Balance to offset an increase to the Non-Personal/Equipment appropriation to the Environmental Services Department ($140,000) to allocate funds for the replacement of four vehicles in the Municipal Water Fleet. After accounting for this actions, the Ending Fund Balance is approximately $3.3 million.