III. SELECTED SPECIAL/CAPITAL FUNDS BUDGET PERFORMANCE

This section provides financial information on the 2016-2017 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 2016-2017 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 2016-2017 Modified Budget, which includes fund balance and reserves. The 2016-2017 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 2017-2018 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 2016-2017 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 2016-2017 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 2017-2018 budget actions (such as rebudgets); calculates the revised expenditure variance due to rebudgets approved as part of the 2017-2018 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 2017-2018 Adopted Budget; discusses variances between these two amounts; and identifies any impact on the 2017-2018 budget related to recommended actions included in this report.

PAGE IS INTENTIONALLY LEFT BLANK

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

	2016-2017 Budget	2016-2017 Actuals	Variance	% Variance
Revenues	$69,623	$39,502	($30,121)	(43.3%)
Expenditures	$131,849	$84,731	($47,118)	(35.7%)

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 $39.5 million and were generated from Passenger Facility Charges (PFCs) ($23.1 million), transfers from the Airport Surplus Revenue Fund ($4.0 million) and the Airport Revenue Fund ($1.0 million), grant income ($10.8 million), and interest earnings ($604,000). This revenue level was $30.1 million (43.3%) below the modified budget and $8.4 million (27.1%) higher than the prior year level of $31.1 million.

After adjusting for grant-related revenue rebudgets of $24.2 million included in the 2017-2018 Adopted Budget, the remaining negative variance to the budget of $5.9 million (8.5%) was mainly due to lower than budgeted grant revenue. However, PFC revenue ended the year above the modified budget by $2.3 million (11.0%), partially offsetting the grant revenue variance. Overall, revenues were higher than the prior year due to increased revenue from PFCs, grants, and interest.

Expenditures totaled $84.7 million and consisted primarily of transfers to other Airport funds for debt service ($29.3 million), various capital renewal and replacement projects ($19.9 million), Perimeter Security Technology Infrastructure ($9.4 million), Terminal B Gates 29 and 30 ($12.2 million), Southeast Ramp Reconstruction ($6.9 million), FIS Baggage System Upgrades ($4.0 million), and FIS Curbside Improvements ($3.0 million). This expenditure level was $47.1 million (35.7%) below the modified budget and $18.2 million (27.3%) above the prior year level of $66.6 million.

After adjusting for rebudgets of $32.6 million included in the 2017-2018 Adopted Budget and $1.4 million recommended in this report, the expenditure savings to the budget of $13.1 million (10.0%) was mainly due to savings in the Southeast Ramp Reconstruction, Perimeter Fence Line Upgrades, Landside Program Enhancements, and the Terminal Area Improvement, Phase I projects. Expenditures in the current year were higher than the prior year due to some significant projects to accommodate increased passenger and flight activity levels and enhance customer service, safety, and security at the Airport.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2016-2017 Modified Budget	*2016-2017 Estimated Ending Fund Balance*	*2016-2017 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$147,622	$24,211	$33,188	$8,977	($1,378)	$7,599	5.15%

The **Ending Fund Balance** of $33.2 million was nearly $9.0 million above the estimate used in the development of the 2017-2018 Adopted Budget. The positive variance was a result of lower than budgeted expenditures, offset slightly by lower than anticipated revenues. After accounting for rebudget adjustments recommended in the Annual Report, the revised variance increases to $7.6 million. The remaining fund balance is recommended to be allocated to the 2017-2018 Ending Fund Balance in the Airport Capital Funds for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT OPERATING FUND - AIRPORT CUSTOMER FACILITY AND TRANSPORTATION FEE FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2016-2017 Budget	2016-2017 Actuals	Variance	% Variance
Revenues	$20,528	$20,172	($356)	(1.7%)
Expenditures	$20,520	$20,334	($185)	(0.9%)

Revenues totaled $20.2 million and were generated from rental car Customer Facility Charge (CFC) fees ($20.0 million), rental car contributions ($112,000), and interest earnings ($103,000). This revenue level was $356,000 (1.7%) below the modified budget of $20.5 million and $2.3 million (10.2%) below the prior year level of $22.5 million.

The variance to the budget of $356,000 (1.7%) was mainly due to lower than estimated CFC revenue, which was driven by decreased car rental activities. The reduction in revenue from the prior year was due to the elimination of contributions from rental car companies to cover the shuttle bus transportation costs in 2016-2017. While the rental car companies covered this cost in 2015-2016, CFC revenue was anticipated to cover both debt service payments and transportation costs in 2016-2017.

Expenditures totaled $20.3 million and were primarily attributed to transfers for debt service payments ($18.1 million) as well as shuttle bus transportation costs ($2.2 million). The small variance to the budget of $185,000 (0.9%) was mainly due to slightly lower than budgeted shuttle bus maintenance and operator costs. This expenditure level was $344,000 (1.7%) above the prior year level of $20.0 million due to increased debt service and shuttle bus driver and maintenance costs.

Ending Fund Balance Performance ($ in Thousands)						
2016-2017 Modified Budget	2016-2017 Estimated Ending Fund Balance	2016-2017 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$33,290	$11,282	$12,616	$1,334	$0	$1,334	4.0%

The 2016-2017 **Ending Fund Balance** of $12.6 million was $1.3 million above the estimate used in the development of the 2017-2018 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)				
	2016-2017 Budget	2016-2017 Actuals	Variance	% Variance
Revenues	$146,010	$153,950	$7,940	5.4%
Expenditures	$85,620	$81,788	($3,832)	(4.5%)

Revenues in the Airport Revenue Fund totaled $154.0 million and were generated from Parking and Roadways ($52.4 million), Airline Terminal Rental ($39.8 million), Terminal Building Concessions ($20.2 million), Landing Fees ($18.4 million), Miscellaneous Revenue ($12.7 million), Airfield Area ($7.3 million), Petroleum Products ($3.1 million), and a transfer from the Airport Fiscal Agent Fund ($84,000). This revenue level was $7.9 million (5.4%) above the modified budget of $146.0 million and greater than the prior year level of $143.5 million.

The positive revenue variance of $7.9 million resulted from higher than budgeted revenue in several categories: Parking and Roadways ($764,000) due to increased ground transportation trip fees and rental car concession fees, partially offset by lower than anticipated parking revenue; Miscellaneous Revenue ($1.2 million) due to increased interest earnings; and Airfield Area ($2.4 million) due to the increased revenue received from the in-flight kitchen tenants. Landing fees ($875,000) and Airline Terminal Rental revenue ($1.1 million) were higher than expected from a combination of rate increases and growth in the number of flights and passengers, while Terminal Building Concession revenue exceeded the budget estimate ($1.6 million) due to increased passenger volume and usage.

The 2016-2017 revenue level was $10.4 million (7.3%) higher than the 2015-2016 level of $143.5 million and is primarily attributed to the increased passenger and commercial traffic operations activity.

Expenditures in the Airport Maintenance and Operation Fund totaled $81.8 million and were primarily for Airport Department non-personal/equipment ($38.5 million including encumbrances), Airport personal services ($26.0 million), a transfer to the General Fund for Police and Fire services ($12.2 million), Overhead ($2.6 million), and Interdepartmental Services ($1.9 million) expenditures. This expenditure level was $3.8 million (4.5%) below the modified budget of $85.6 million, but $5.7 million (7.5%) above the prior year level of $76.1 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 $3.8 million was mainly due to personal services vacancy savings ($1.9 million) and non-personal/equipment expenditure savings ($940,000) primarily in contractual services associated with the parking program. The $5.7 million (7.5%) increase over the prior year was primarily due to higher Airport Department non-personal/equipment costs ($4.0 million including encumbrances), Airport Department personal services costs ($1.3 million) and Police/Fire services costs ($714,000). The higher personal services costs reflect the addition of 17 positions in January 2017 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 gas, electricity, 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 and actions to extend Customs and Border Protection (CBP) service hours also contributed to increased expenditures. Higher costs for Aircraft Rescue and Fire Fighting (ARFF) services can be attributed primarily to wage adjustments, while the increased costs for the Airport Police Division were due to wage adjustments and increased staffing levels.

Ending Fund Balance Performance ($ in Thousands)

2016-2017 Modified Budget	2016-2017 Estimated Ending Fund Balance	2016-2017 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$350,976	$130,894	$127,060	($3,834)	$0	($3,834)	(1.1%)

The 2016-2017 combined **Ending Fund Balance** of $127.1 million was $3.8 million below the budgeted estimate used to develop the 2017-2018 Adopted Operating Budget. The negative variance from the estimate was largely due to year-end actions of $9.9 million that were not incorporated in the Estimated Ending Fund Balance. The approved year-end actions allowed for payment of $6.0 million in variable rate commercial paper debt and $3.9 million in interest on the 2007 bonds. Partially offsetting these payments were higher than estimated revenues from parking and rental car concession fees ($1.0 million), Airfield concession fees ($600,000), and miscellaneous revenue ($850,000) and lower than estimated Airport Department non-personal/equipment ($2.0 million) and Airport Department personal services expenditures ($1.9 million). Additionally, a lower than anticipated adjustment to the Other Post Employment Benefit (OPEB) Reserve that is located in Airport Maintenance and Operation Fund Master Trust Agreement Reserve further reduced actual Ending Fund Balance figures. The anticipated increase in the OPEB Estimated Ending Fund Balance was approximately $3.0 million while the actual adjustment was zero. The year-end actions taken focused on reducing indebtedness at a lower cost.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

In 2016-2017, passenger activity of 11.5 million passengers was up 12.7% from the 2015-2016 level of 10.2 million passengers. Moreover, the percentage growth in annual enplanements at the Airport in 2016-2017 was 12.8%, compared to a 2.5% estimated level, which exceeded the Federal Aviation Administration's (FAA) projection of 2.2% for national enplanement growth for 2016-2017. This increase in passenger enplanements triggered the activation of the Municipally-Funded Air Service Incentive Program, a provision in the Airline-Airport Lease and Operating Agreements that was approved by the City Council in March 2007. Under this provision, if the percentage growth in annual enplanements at the Airport exceeds the growth in annual enplanements nationwide, the City shall reduce the amount of its indirect overhead expenses in the following fiscal year by a corresponding percentage and the money is refunded to the City's airline partners in recognition of their achievement in increasing passenger levels. Budget actions are recommended in this report to reduce the 2017-2018 overhead expenses to the Airport Maintenance and Operation Fund by $1,126,026 to reflect a reduction of the overhead rate by 6.13% (from the adopted overhead rate of 21.13% to the floor rate of 15.00%), offset by the elimination of a reserve in the General Fund for this purpose. The estimated passenger growth for 2017-2018 is 3.0% over the 11.5 million passengers in 2016-2017.

The overhead reduction described above will be offset by an increase in the same amount to the Airport's non-personal/equipment appropriation. These actions are described in further detail in the *Recommended Budget Adjustments and Clean-Up Actions* section of this report.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

	2016-2017 Budget	2016-2017 Actuals	Variance	% Variance
Revenues	$39,438	$26,542	($12,986)	(32.7%)
Expenditures	$59,819	$31,231	($28,588)	(47.8%)

Revenues totaled $26.5 million and were generated primarily from Building and Structure Tax ($23.3 million), grant funding ($2.3 million), interest earnings ($590,000), and developer contributions ($326,000). The revenue level was $4.9 million (22.4%) above the prior level of $21.7 million.

The 2016-2017 revenues were lower than budgeted levels by approximately $13.0 million, resulting primarily from lower than budgeted grant revenue ($12.9 million) and lower Building and Structure Construction Tax receipts ($657,000), offset by higher interest earnings ($390,000) and developer contributions ($326,000). Grant related revenues of $12.7 million, which were not received in 2016-2017 due to project delays, were anticipated and rebudgeted during the development of the 2017-2018 Adopted Budget. An additional $243,000 of grant funding is recommended to be rebudgeted as part of this report.

At $23.3 million, Building and Structure Construction Tax receipts in 2016-2017 were 20.4% higher than 2015-2016 collections of $19.4 million. The higher collections in Building and Structure Construction Tax revenues is primarily attributable to increased issuances of permits for commercial and residential building projects. The total valuation of projects submitted in 2016-2017 was $1.9 billion, 24.3% above the $1.5 billion valuation of projects that were received in 2015-2016. Total valuation for all land use categories ended the year above estimates. Though industrial activity of $574.5 million fell below last year's level of $594.7 million, commercial valuation increased to $702.6 million from the prior year level of $474.0 million and residential valuation rose to $599.1 million from $440.9 million. A total of 2,712 new residential units received permits in 2016-2017, which was above 2015-2016 actuals of 1,692 units. Notable activity that took place in 2016-2017 includes: building permits for Silvery Towers, a 640 unit condominium and loft high rise on St. James Street; Hanover Cannery Park Apartment Building, a 403 unit apartment complex on Taylor Street; Ohlone Block C Apartment Building; a 268 unit apartment building on Sunol Street; Marshall Squares Apartment Building, a 190 unit apartment building on North 1st Street; Balbach Condos, a 101 unit condominium complex on Balbach Street; and two Hyatt Hotels, a 7-story building on Karina Court and a 5-story building on North 1st Street. Based on the extremely strong growth experienced during 2016-2017, the budgeted revenue estimate was increased by $11.0 million, from $13.0 million to $24.0 million; however, actual receipts fell short of the revised budget by $657,000.

When the 2016-2017 Adopted Budget was developed, it was assumed that Building and Structure Construction Tax receipts would total $24.0 million in 2016-2017 and drop to $18.0 million (22.9%) in 2017-2018 as the current batch of projects move through the development pipeline. Since 2016-2017 Building and Structure Construction Tax receipts fell slightly below the budgeted estimate by $657,000, this volatile revenue category will continue to be closely monitored throughout 2017-2018 to determine if budget actions are necessary to revise the revenue estimate. Any necessary adjustments will be brought forward in 2017-2018.

Expenditures totaled $31.2 million and were $28.6 million (47.8%) below the modified budget. A significant portion of the expenditure savings ($20.7 million) was anticipated and rebudgeted as part of the 2017-2018 budget process. An additional $6.6 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2017-2018. After adjusting for rebudgets, the net savings total $1.3 million, or 2.2% of the modified budget. The expenditure level was $12.6 million (68.0%) above the prior year level of $18.6 million.

Ending Fund Balance Performance ($ in Thousands)

2016-2017 Modified Budget	*2016-2017 Estimated Ending Fund Balance*	*2016-2017 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments Impact*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$90,425	$39,902	$46,547	$6,645	($6,381)	$264	0.3%

The **Ending Fund Balance** of $46.5 million was $6.6 million above the estimate used in the development of the 2017-2018 Adopted Budget. After accounting for net revenue and expenditure rebudgets of $6.4 million recommended in the Annual Report, the positive variance decreases to $264,000. Significant expenditure rebudgets include Route 101/Mabury Road Project Development ($1,639,000), Autumn Street Extension ($955,000), McLaughlin Avenue Pedestrian/Bike Safety Enhancements ($534,000), Grants Refunds ($500,000), and Park Avenue Multimodal Improvements ($499,000).

As described in the *Recommended Budget Adjustments and Clean-Up/Rebudget Actions* section, a limited number of revisions to existing projects are recommended in this report. After accounting for all recommended adjustments, a reduction of $62,000 to the 2017-2018 Ending Fund Balance is recommended.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2016-2017 Budget	*2016-2017 Actuals*	*Variance*	*% Variance*
Revenues	$67,998	$79,537	$11,539	17.0%
Expenditures	$114,074	$91,237	($22,837)	(20.0%)

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 Districts C&C Tax Funds, and Park Yards C&C Tax Fund.

Revenues generated in the Construction and Conveyance (C&C) Tax Funds in 2016-2017 totaled $79.5 million and were comprised of C&C Tax receipts ($43.3 million), revenue from the sale of the old Main Yard ($17.5 million), transfers between funds ($16.5 million), state and federal grants ($1.2 million), and interest earnings and other miscellaneous revenue ($1.0 million). This revenue level is $11.5 million higher than the budgeted estimate of $68.0 million, primarily due to higher than budgeted C&C Tax receipts ($7.3 million), transfers between funds ($3.1 million), and state and federal grants ($1.2 million). The 2016-2017 revenue level of $79.5 million is $20.9 million (35.6%) higher than the prior year level of $58.7 million. This variance is primarily due to the sale of the Main Yard ($17.5 million), increased transfers between funds ($1.7 million), higher grant revenue ($994,000) and C&C Tax receipts ($601,000), compared to 2015-2016 collections.

C&C Tax revenue collections in 2016-2017, which were primarily generated from property transfers, totaled $43.3 million, an increase of $601,000 (1.4%) from the 2015-2016 collection level of $42.7 million. This amount is $7.3 million above the budgeted estimate of $36.0 million and $5.3 million above the above the $38.0 million forecast used to develop the 2017-2018 Adopted Capital Budget. These estimates allowed for the potential tapering off of this revenue category as it can experience significant changes from year to year. The 2016-2017 tax receipts represent the highest collection level since the peak years of 2003-2004 through 2006-2007 (when annual collections exceeded $38 million in each of those years, peaking at $49 million in 2005-2006). 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 $920,000 in June 2016 to $966,000 in June 2017, which represents a 5.0% increase. However, the number of home sales (single-family and multi-dwelling units) decreased 4.1% from 8,223 in 2015-2016 to 7,883 in 2016-2017. Finally, the amount of time it takes to sell a home (single-family and multi-family dwelling units) slightly increased from an average 25 days in 2015-2016 to 26 days in 2016-2017.

The 2017-2018 C&C Tax estimate of $36.0 million now allows for a 16.9% decline in tax revenue from the 2016-2017 actual tax collection. Receipts in 2017-2018 will be closely monitored, and an upward adjustment to the estimated revenue may be recommended at a later date, with corresponding adjustments to fund balances as appropriate. It is important to note that tax receipts in this category have been volatile in the past with large swings in collections based on economic conditions.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Expenditures totaled $91.2 million and were primarily for 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 $22.8 million (20.0%) below the budgeted expenditure level of $114.1 million, and is primarily the result of unexpended capital project funding that was rebudgeted to 2017-2018. The 2016-2017 expenditure level of $91.2 million was $26.9 million (41.7%) above the prior year level of $64.4 million.

Ending Fund Balance Performance ($ in Thousands)						
2016-2017 Modified Budget	*2016-2017 Estimated Ending Fund Balance*	*2016-2017 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments Impact*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$155,746	$70,196	$76,221	$6,025	($445)	$5,580	3.58%

The **Ending Fund Balance** of $76.2 million was $6.0 million above the $70.2 million estimate used to develop the 2017-2018 Adopted Capital Budget. This variance was primarily due to higher than estimated C&C Tax receipts ($5.3 million), transfers between funds ($1.5 million) and state and federal grants ($997,000), partially offset by higher than estimated project expenditures ($1.8 million). After accounting for all rebudget adjustments recommended as part of this report, the revised variance to the Ending Fund Balance is decreased to $5.6 million.

As described in the *Recommended Budget Adjustments and Clean-up/Rebudget Actions* section, this report includes recommendations to allocate $1.25 million from various C&C Tax Fund Ending Fund Balances to fund various capital projects and reserves, including Fire Station 37 (Construction) Reserve ($300,000 – Fire), Calabazas Community Center Feasibility Study ($205,000 – Council District 1 C&C Tax Fund), Guadalupe Creek (Almaden Expwy) Pedestrian Bridge Reimbursement ($184,000 – Parks City-Wide C&C Tax Fund), Communications Maintenance ($101,000 – Communications C&C Tax Fund), Family Camp Repairs – Rim Fire ($100,000 - Parks City-Wide C&C Tax Fund), Plata Arroyo Park Improvements ($90,000 - Council District 4 C&C Tax Fund), Alum Rock Avenue and 31st Street Park Phase II ($77,000 - Council District 4 C&C Tax Fund), Environmental Mitigation Maintenance and Monitoring ($70,000 - Parks City-Wide C&C Tax Fund), Happy Hollow Park & Zoo Lactation Station ($70,000 – Parks City-Wide C&C Tax Fund), and GIS Mapping Support ($50,000 – Parks Purposes C&C Central 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

	2016-2017 Budget	2016-2017 Actuals	Variance	% Variance
Revenues	$73,827	$58,184	($15,643)	(21.2%)
Expenditures	$112,222	$78,601	($33,621)	(30.0%)

Revenues totaled $58.2 million and were primarily generated from the Construction Excise Tax ($30.2 million), grant funding ($18.1 million), developer contributions ($5.9 million), miscellaneous revenue ($2.0 million), interest ($1.2 million), and transfers ($0.9 million). The revenue level was $7.2 million (14.2%) above the prior year level of $51.0 million.

The 2016-2017 revenue level was $15.6 million lower than the budgeted level of $73.8 million due to lower than budgeted receipts of grant funds ($16.1 million) and lower Construction Excise Tax receipts ($1.8 million) relative to the revised budgeted estimate for 2016-2017. However, this shortfall was partially offset by increased traffic impact fees ($1.0 million), interest earnings ($746,000) and developer contributions ($443,000). Grant related revenues of $9.2 million, which were not received in 2016-2017 due to project delays, were anticipated and rebudgeted as part of the development of the 2017-2018 Adopted Budget, and an additional $7.4 million is recommended to be rebudgeted as part of this report.

At $30.2 million, Construction Excise Tax receipts in 2016-2017 were 34.4% higher than 2015-2016 collections of $22.5 million. The higher collections in Construction Excise Tax revenues is primarily attributable to increased issuances of permits for commercial and residential building projects. The total valuation of commercial and residential projects submitted in 2016-2017 was $1.3 billion, 24.3% above the $915.0 million valuation of projects that were received in 2015-2016. Commercial valuation increased to $702.6 million from the prior year level of $474.0 million and residential valuation rose to $599.1 million from $440.9 million. A total of 2,712 new residential units received permits in 2016-2017, which was above 2015-2016 actuals of 1,692 units. Notable activity that took place in 2016-2017 includes: building permits for Silvery Towers, a 640 unit condominium and loft high rise on St. James Street; Hanover Cannery Park Apartment Building, a 403 unit apartment complex on Taylor Street; Ohlone Block C Apartment Building; a 268 unit apartment building on Sunol Street; Marshall Squares Apartment Building, a 190 unit apartment building on North 1st Street; Balbach Condos, a 101 unit condominium complex on Balbach Street; and two Hyatt Hotels, a 7-story building on Karina Court and a 5-story building on North 1st Street. Based on the extremely strong growth experienced during 2016-2017, the budgeted revenue estimate was increased by $15.0 million, from $17.0 million to $32.0 million; however, actual receipts fell short of the revised budget by $1.8 million.

When the 2017-2018 Adopted Budget was developed, it was assumed that Construction Excise Tax receipts would total $32.0 million in 2016-2017 and drop to $24.0 million (25.0%) in 2017-2018 as

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

current projects move through the development pipeline. The additional 2016-2017 Construction Excise Tax receipts estimated at $15.0 million were also programmed for pavement maintenance in the 2017-2018 Adopted Capital Budget per City Council direction on the use of excess Construction Excise Tax revenue. Since 2016-2017 Construction Excise Tax receipts fell below the budgeted estimate by $1.8 million, expenditure savings were necessary to offset this lower collection level. Budget actions are recommended to reduce the Developer Refunds appropriation by approximately $700,000, as the potential for refunding overpayment of construction taxes is anticipated to be lower in 2017-2018, to help absorb the shortfall within the fund without a reduction to pavement maintenance.

This volatile revenue category will continue to be closely monitored throughout 2017-2018 to determine if budget actions are necessary to revise the revenue estimate. Any necessary adjustments will be brought forward in 2017-2018.

Expenditures totaled $78.6 million and were $33.6 million (30.0%) below the modified budget. A portion of the expenditure savings ($24.6 million) was anticipated and rebudgeted as part of the 2017-2018 budget process. An additional $8.6 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2017-2018. After adjusting for rebudgets, the net savings total approximately $400,000, or 0.5% of the modified budget. The 2016-2017 expenditure level was $9.0 million below the prior year level of $87.6 million, primarily due to the progression of pavement maintenance projects during 2016-2017.

Ending Fund Balance Performance ($ in Thousands)						
2016-2017 Modified Budget	*2016-2017 Estimated Ending Fund Balance*	*2016-2017 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments Impact*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$174,972	$76,720	$82,854	$6,135	($1,296)	$4,839	2.8%

The **Ending Fund Balance** of $82.9 million was $6.1 million above the estimate used in the development of the 2017-2018 Adopted Budget. After accounting for net revenue and expenditure rebudgets of $1.3 million recommended in the Annual Report, this positive variance drops to $4.8 million. However, the majority ($4.3 million) of the remaining balance of funding, generated from developer traffic impact fees, state gas tax and vehicle registration fee revenue is restricted and therefore reallocated to respective reserves and for pavement maintenance. Significant expenditure rebudgets include Montague Expressway – County/Santa Clara Settlement ($1.5 million), LED Traffic Signal Lamp Replacement ($1.2 million), and Pavement Maintenance – City ($969,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

As described in the *Recommended budget Adjustments and Clean-Up Actions* section, 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 $65,000 is recommend to be allocated to the 2017-2018 Ending Fund Balance.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2016-2017 Budget	*2016-2017 Actuals*	*Variance*	*% Variance*
Revenues	$127,287	$129,073	$1,787	1.4%
Expenditures	$133,930	$130,070	($3,860)	(2.9%)

Revenues totaled $129.1 million and were generated primarily from Recycle Plus collection charges ($118.9 million), AB939 Fees ($4.0 million), Recycle Plus negotiated hauler payments ($2.7 million), and Household Hazardous Waste (HHW) revenue from the County ($1.1 million). This revenue level was $1.8 million above the modified budget of $127.3 million (1.4%) and $3.5 million (2.6%) below the prior year level of $132.6 million.

The variance to the budget was mainly due to higher HHW revenue from the County ($1.1 million) as this revenue stream is not budgeted due to its volatility, higher AB939 fees ($485,000), and higher Recycle Plus collection charges ($208,000). The variance to the prior year was due primarily to lower lien-related charges, partially offset by higher Recycle Plus collection charges.

Expenditures totaled $130.1 million and were primarily for Single-Family Dwelling (SFD) Recycle Plus contracts ($52.7 million), yard trimmings/street sweeping contract ($23.1 million), Multi-Family Dwelling (MFD) Recycle Plus contracts ($20.4 million), SFD back-end processing ($10.1 million), Environmental Services Department (ESD) personal services ($6.6 million), and International Disposal Corporation of California, Inc. (IDC) disposal agreement ($5.1 million). This expenditure level was $3.9 million (2.9%) below the modified budget of $133.9 million and $4.5 million (3.6%) above the prior year level of $125.6 million.

The variance to the budget was mainly due to vacancy savings in ESD ($1.2 million), savings in the IDC disposal agreement ($700,000), project savings in the Household Hazardous Waste Las Plumas Facility allocation ($486,000, of which $44,000 is recommended to be rebudgeted elsewhere in this report), the Customer Information System Transition project ($346,000), and vacancy savings in the Finance Department. The higher expenditure level compared to the prior year was due primarily to higher costs for Single Family Dwelling Processing ($5.1 million), the third (of four) phase of which occurred in 2016-2017, and SFD Recycle Plus contracts ($1.9 million), partially offset by lower expenditures for the IDC disposal agreement ($1.9 million) and lower HHW Las Plumas Facility project costs, as the majority of these costs were incurred in 2015-2016.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Ending Fund Balance Performance ($ in Thousands)						
2016-2017 Modified Budget	***2016-2017 Estimated Ending Fund Balance***	***2016-2017 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$153,316	$23,932	$27,260	$3,328	($45)	$3,282	2.1%

The **Ending Fund Balance** of $27.3 million was $3.3 million above the estimate used in the development of the 2017-2018 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the variance remains roughly the same. This ending fund balance was higher than the estimate largely due to higher than estimated revenues from Recycle Plus collections ($369,000), lien-related charges ($205,000), and AB 939 fees ($184,000), as well as lower than estimated HHW Las Plumas Facility costs ($356,000), SFD Recycle Plus contracts ($322,000), and CIS transition costs ($265,000).

After accounting for all recommended rebudgets, the 2017-2018 Ending Fund Balance will be increased by approximately $3.3 million, which includes increases of $3.3 million to the Unrestricted Ending Fund Balance (from $6.9 million to $10.1 million) and $27,000 to the Operations and Maintenance Reserve (remaining around $11.4 million), in order to keep this reserve at its target of one month of operating expenditures.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SELF-INSURED MEDICAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2016-2017 Budget	*2016-2017 Actuals*	*Variance*	*% Variance*
Revenues	$7,550	$6,697	($853)	(11.3%)
Expenditures	$7,077	$6,613	($464)	(6.6%)

Revenues totaled $6.7 million and were generated from Reimbursements from City Funds ($800,000), Reimbursements from Retirement Funds ($5 million), Participant Contributions ($845,000), and COBRA Revenues ($15,000). The total revenue level was $853,000 (11.3%) below the modified budget.

The variance to the budget of $853,000 (11.3%) was due primarily to the assumption of the additional month of retiree contributions ($861,000). When the fund was established, it was assumed that Retirement contributions would start being received in December 2016 for the new health plan that was effective in January, providing an extra month of receipts to the fund and mitigating the need for any potential pre-funding. However, at the end of the fiscal year, it was realized that the retiree receipts into the fund for the month of July (received in June) would have to be deferred to align the revenues with the appropriate fiscal year.

Expenditures totaled $6.6 million and consisted primarily of Payment of Claims ($5.9 million), Stop Loss Premium ($448,000), Provider Administration Fee ($158,000), and Personal and Non-Personal Services ($64,000). This expenditure level was $464,000 (6.6%) below the modified budget.

The expenditure variance to the budget of $464,000 (6.6%) was due primarily to lower than projected level of Payment of Claims for employees, based on actual claim experience in 2016-2017.

Ending Fund Balance Performance ($ in Thousands)						
2016-2017 Modified Budget	*2016-2017 Estimated Ending Fund Balance*	*2016-2017 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$7,550	$946	$84	($861)	$0	($861)	(11.4%)

The **Ending Fund Balance** of $84,000 was $861,000 below the estimate of $946,000 used in the development of the 2017-2018 Adopted Budget ($695,000 for the Claims Reserve and $250,500 for the Ending Fund Balance).

In order to increase the fund balance in 2017-2018 to healthier levels, a planned 10% rate increase for the self-funded PPO starting January 1, 2018 is recommended. According to actuaries, the 10% rate increase may result in an estimated 2% decrease to the enrollment starting January 1, 2018. Based on these assumptions and year-to-date data through August, as well as fund performance in 2016-2017, a series of budget actions are recommended to bring the budget in line with projected performance in 2017-2018 as described in *Section IV - Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2016-2017 Budget	*2016-2017 Actuals*	*Variance*	*% Variance*
Revenues	$76,697	$74,523	($2,174)	(2.8%)
Expenditures	$277,926	$232,942	($44,984)	(16.2%)

Revenues totaled $74.5 million and were generated primarily from a transfer from the Sewer Service and Use Charge Fund ($35.7 million), contributions from Santa Clara and the tributary agencies for projects and debt service payments ($31.7 million), a transfer from the Treatment Plant Connection Fee Fund ($3.1 million), and interest income ($2.3 million). This revenue level was $2.2 million (2.8%) below the modified budget and $5.9 million (8.7%) above the prior year level of $68.6 million.

The negative revenue variance to the budget was due primarily to lower contributions from the tributary agencies for projects ($2.7 million), as a result of the reconciliation for actual Treatment Plant expenditures and encumbrances over the course of the prior year, and 2005 Bond Series A debt service ($1.1 million), partially offset by higher South Bay Water System capacity improvement fee revenue ($1.2 million). The variance to the prior year was due primarily to a higher transfer from the Sewer Service and Use Charge Fund ($5.0 million) for capital projects, South Bay Water System capacity improvement fee revenue ($1.2 million), and higher contributions from Santa Clara and the tributary agencies ($4.9 million), partially offset by lower United States Bureau of Reclamation (USBR) grant revenues ($5.0 million).

Expenditures totaled $232.9 million and were primarily attributed to capital improvement projects ($226.9 million) and debt service payments ($6.0 million). The largest expenditures included the Digester and Thickener Facilities Upgrade ($131.5 million), Energy Generation Improvements ($36.7 million), Program Management ($8.7 million), Aeration Tanks and Blower Rehabilitation ($7.9 million), and Iron Salt Feed Station ($6.9 million). This expenditure level was $45.0 million (16.2%) below the modified budget and $25.3 million (12.2%) above the prior year level of $207.6 million.

After accounting for all project rebudgets, including those in the 2017-2018 Adopted Budget and those recommended in this report, the $45.0 million expenditure variance drops to $3.3 million, or 1.2% below the budget. The majority of this variance is due to unspent balance in three ongoing appropriations: Equipment Replacement ($1.7 million), Urgent and Unscheduled Treatment Plant Rehabilitation ($500,000), and Preliminary Engineering ($216,000). Additional savings were realized in the Capital Program and Public Works Department Support Service Costs ($349,000) appropriation. Expenditures were above the prior year due primarily to the Energy Generation Improvements ($13.6 million), Aeration Tanks and Blower Rehabilitation ($6.6 million), and Digester and Thickener Facilities Upgrade ($5.1 million) projects.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

Ending Fund Balance Performance ($ in Thousands)						
2016-2017 Modified Budget	*2016-2017 Estimated Ending Fund Balance*	*2016-2017 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance (incl. Rebudget Adjustments)*	*Revised Variance As % of Modified Budget*
$294,489	$57,180	$60,388	$3,208	($1,501)	$1,707	0.6%

The **Ending Fund Balance** of $60.4 million was $3.2 million above the estimate used in the development of the 2017-2018 Adopted Budget. This ending fund balance was higher than the estimate largely due to expenditure savings from the following ongoing allocations: Equipment Replacement ($1.7 million), Urgent and Unscheduled Treatment Plant Rehabilitation ($500,000), and Preliminary Engineering ($216,000). After accounting for all recommended rebudgets, approximately $1.7 million is recommended to be allocated to the 2017-2018 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)				
	2016-2017 Budget	***2016-2017 Actuals***	***Variance***	***% Variance***
Revenues	$239,968	$242,984	$3,015	1.3%
Expenditures	$262,138	$248,708	($13,430)	(5.1%)

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 $243.0 million and were generated primarily from sewer service and use charges for residential ($119.3 million), commercial ($22.2 million), and industrial ($4.3 million) users; a transfer from the SSUC Fund to the Plant Operating Fund ($53.5 million); contributions from tributary agencies ($17.1 million) and the City of Santa Clara ($12.3 million); recycled water sales and rebates ($9.7 million); and Connection Fees ($2.5 million). This revenue level was $3.0 million (1.3%) above the modified budget and $14.7 million (6.5%) above the prior year level of $228.5 million.

The variance to the budget of $3.0 million (1.3%) was mainly due to higher contributions from the City of Santa Clara ($1.6 million), higher recycled water sales and rebates ($1.7 million), higher residential SSUC charges ($1.2 million), and higher connection fees ($760,000), partially offset by lower commercial SSUC charges ($2.9 million). Revenues also came in higher than the prior year due primarily to higher residential SSUC charges ($7.1 million), an increase to the transfer from the SSUC Fund to the Plant Operating Fund ($6.0 million), and higher recycled water sales and rebates ($1.8 million), partially offset by lower commercial SSUC charges ($1.4 million) and lower contributions from the tributary agencies ($567,000).

Expenditures totaled $248.7 million and were primarily for the following: transfers from the SSUC Fund to the Plant Operating Fund ($53.5 million), San José-Santa Clara Treatment Plant Capital Fund (Plant Capital Fund) ($38.8 million), and Sewer Service and Use Charge Capital Fund ($32.0 million); Environmental Services Department (ESD) personal services ($52.0 million) and non-personal/equipment ($32.3 million) costs; overhead reimbursements ($14.5 million); and Department of Transportation (DOT) personal services ($12.0 million) and non-personal/equipment ($5.7 million) costs. This expenditure level was $13.4 million (5.1%) below the modified budget, but $15.9 million (6.8%) above the prior year level of $232.8 million.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Expenditures ended the year $13.4 million (5.1%) below the budget primarily due to non-personal/equipment ($6.2 million) and personal services ($3.6 million) expenditure savings in ESD, largely a result of vacancy savings and rescheduling some of the contractual services for routine maintenance repair projects due to an unusually long wet winter season 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 2016-2017; and non-personal/equipment ($597,000) and personal services ($467,000) expenditure savings in DOT. Expenditures tracked $15.9 million above the prior year due primarily to higher transfers from the SSUC Fund to the Plant Operating Fund ($6.0 million) and Plant Capital Fund ($5.0 million), higher ESD personal services costs ($2.7 million), and higher overhead reimbursements ($1.7 million).

Ending Fund Balance Performance ($ in Thousands)						
2016-2017 Modified Budget	*2016-2017 Estimated Ending Fund Balance*	*2016-2017 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance (incl. Rebudget Adjustments)*	*Revised Variance As % of Modified Budget*
$336,836	$90,784	$92,684	$1,901	($200)	$1,701	0.5%

The **Ending Fund Balance** of $92.7 million was $1.9 million above the estimate used in the development of the 2017-2018 Adopted Budget. After accounting for rebudget adjustments recommended in this Annual Report, the variance drops to $1.7 million. This ending fund balance was higher than the estimate due to a variety of factors: higher than estimated sewer service and use charges for commercial ($427,000), residential ($214,000), and industrial ($129,000) users, connection fee revenue ($360,000), and rental income at the treatment plant ($160,000); lower than estimated non-personal/equipment costs in DOT ($356,000) and ESD ($235,000); lower workers' compensation claims ($343,000); and lower Customer Information System transition costs ($229,000), partially offset by higher personal services costs in ESD ($1.4 million) and DOT ($523,000). Another significant impact to fund balance was a liquidation of $1.5 million in ESD non-personal/equipment prior year carryover encumbrances in the Plant Operating Fund for annual service and supplies contracts. With replacement contracts commencing in the new fiscal year, these carryover encumbrances were no longer needed.

The additional fund balance of $1.7 million is recommended to be distributed to the 2017-2018 Ending Fund Balance allocations in the various funds. Of this amount, it is recommended that $130,000 be set aside in the SSUC Fund's Operations and Maintenance Reserve and $11,000 in the Plant Operating Fund's Operations and Maintenance Reserve that are included in the Ending Fund Balances, in order to bring those reserves up to the goal of reserving 60 days of operating expenditures. Additionally, of this Ending Fund Balance allocation, it is recommended that the Treatment Plant Expansion Reserve in the Connection Fee Fund be increased by $415,000 and the Unrestricted Ending Fund Balances be increased by a total of $1.1 million across the Plant Operating Fund ($582,000), SSUC Fund ($402,000), and Plant Income Fund ($161,000) for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2016-2017 Budget	*2016-2017 Actuals*	*Variance*	*% Variance*
Revenues	$34,489	$34,370	($119)	(0.3%)
Expenditures	$115,065	$74,499	($40,566)	(35.3%)

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 $34.4 million and were generated from a transfer from the Sewer Service and Use Charge (SSUC) Fund ($32.0 million), interest income ($984,000), connection fees ($798,000), joint participation payments ($580,000), and miscellaneous revenue ($8,000). This revenue level was $119,000 (0.3%) below the modified budget and $676,000 (2.0%) above the prior year level of $33.7 million.

The negative variance to the budget was mainly due to lower joint participation payments ($820,000), partially offset by higher interest ($545,000) and connection fee ($148,000) 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 has been rebudgeted to 2017-2018, causing a delay in payments from WVSD for this project. In addition, cost sharing evaluations that are necessary to account for various annexations of County pockets into the City's jurisdiction have not yet been completed, which is also delaying payments from the County Sanitation Districts; however, these evaluations are anticipated to be completed in 2018. The positive variance to the prior year was due primarily to higher joint participation payments ($574,000) for cost-sharing projects in 2016-2017.

Expenditures totaled $74.5 million and were for several capital projects, the largest of which were: Urgent Rehabilitation and Repair Projects ($13.2 million), Condition Assessment Sewer Repairs ($9.9 million), Immediate Replacement and Diversion Projects ($7.8 million), Cast Iron Pipe – Remove and Replace ($7.3 million), and Infrastructure – Sanitary Sewer Condition Assessment ($6.2 million). This expenditure level was $40.6 million (35.3%) below the modified budget and $8.3 million (12.5%) above the prior year level of $66.2 million.

Expenditures were below the budget by $40.6 million (35.3%) as a result of project savings, unexpended project funds, and project delays across a number of projects, including: 60" Brick Interceptor, Phase VIA and VIB ($28.9 million, all of which was rebudgeted in the 2017-2018 Adopted Budget), 30" Old Bayshore Supplement ($1.2 million, most of which was rebudgeted in the 2017-2018 Adopted Budget), Rehabilitation of Sanitary Sewer Pump Stations ($1.1 million, of which $1.0 million was rebudgeted in the 2017-2018 Adopted Budget), and Immediate Replacement and Diversion Projects ($1.1 million). 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 in large part to Urgent Rehabilitation and Repair Projects ($5.6 million) and Condition Assessment Sewer Repairs ($4.8 million), which saw more projects completed in 2016-2017 due to more experienced staff and less turnover in the capital program.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2016-2017 Modified Budget	*2016-2017 Estimated Ending Fund Balance*	*2016-2017 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance (incl. Rebudget Adjustments)*	*Revised Variance As % of Modified Budget*
$129,805	$52,238	$56,201	$3,963	$569	$4,532	3.5%

The **Ending Fund Balance** of $56.2 million was $4.0 million above the estimate used in the development of the 2017-2018 Adopted Budget. After accounting for net negative rebudget adjustments recommended in the Annual Report, the variance increases to $4.5 million. This ending fund balance was above the estimate largely due to higher than anticipated interest income ($545,000) and lower than anticipated expenditures across several ongoing allocations, including Immediate Replacement and Diversion Projects ($1.1 million) and Reinforced Concrete Pip Rehabilitation Program ($500,000), as well as minimally lower than anticipated expenditures across many other projects in the program.

After accounting for all recommended adjustments, approximately $4.8 million is recommended to be allocated to the SSUC Fund 2017-2018 Ending Fund Balance for future use and $282,000 removed from the Connection Fee Fund 2017-2018 Ending Fund Balance.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2016-2017 Budget	*2016-2017 Actuals*	*Variance*	*% Variance*
Revenues	$5,386	$5,398	$12	0.2%
Expenditures	$12,968	$10,126	($2,842)	(21.9%)

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

Revenues totaled $5.4 million and were generated from a Transfer from the Water Utility Fund ($4.0 million), Commercial Paper proceeds ($1.2 million), interest income ($162,000), and fees paid by developers ($60,000). The fees consist of Major Facilities Fees ($40,000), Meter Installation Fees ($11,000), Service Connection Fees ($7,000), and Advanced System Design Fees ($2,000). This revenue level was $12,000 (0.2%) above the modified budget due primarily to the receipt of major facilities fees ($40,000), as these fees are not assumed due to the highly volatile nature of this revenue stream, and interest income ($52,000), partially offset by lower than anticipated Service Connection Fees ($43,000) and Advance System Design Fees ($23,000). Revenues were also $2.0 million (26.8%) below the prior year level of $7.4 million, due primarily to a lower transfer from the Water Utility Fund for capital projects ($2.7 million) and lower developer fees ($571,000), partially offset by Commercial Paper proceeds ($1.2 million).

Expenditures totaled $10.1 million and were for several capital projects, the largest of which were Infrastructure Improvements ($1.8 million), Meter Replacements ($1.6 million), Cadwallader Reservoir Rehabilitation ($1.6 million), System Maintenance/Repairs ($1.2 million), and Edenvale Reservoir Rehabilitation ($1.1 million). This expenditure level was $2.8 million (21.9%) below the modified budget, but $2.1 million (25.6%) above the prior year level of $8.1 million.

Expenditures were below the budget by $2.8 million (21.9%) as a result of project savings and unexpended project funds across a number of projects, some of which have been delayed, including: North San José Well #5 Development and Construction ($1.6 million, which was rebudgeted in the 2017-2018 Adopted Budget), Meter Replacements ($251,000), North San José Water Well Evaluation and Rehabilitation ($209,000, all of which was rebudgeted to 2017-2018 or is recommended to be rebudgeted in this report), and Service Installations ($175,000, all of which is recommended to be rebudgeted in this report). Expenditures were above the prior year due primarily to higher expenses for the Edenvale Reservoir Rehabilitation ($1.1 million), North San José Water Well Evaluation and Rehabilitation ($602,000), and Safety and Security Improvements ($403,000) projects, as they were larger projects that occurred in 2016-2017, as well as repayment of Commercial Paper ($627,000), which started in 2016-2017, partially offset by the Meter Replacements project, as that project occurred primarily in 2015-2016.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2016-2017 Modified Budget	*2016-2017 Estimated Ending Fund Balance*	*2016-2017 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance (incl. Rebudget Adjustments)*	*Revised Variance As % of Modified Budget*
$19,441	$8,462	$9,686	$1,224	($417)	$807	4.2%

The **Ending Fund Balance** of $9.7 million was $1.2 million above the estimate used in the development of the 2017-2018 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the variance drops to $807,000. This revised variance from the estimate was due largely to lower expenses across several capital projects, the largest of which were for Meter Replacements ($481,000), Service Installations ($175,000), and Infrastructure Improvements ($171,000), partially offset by higher interest income ($28,000).

After accounting for all recommended rebudgets, approximately $773,000 is recommended to be allocated to the Water Utility Capital Fund 2017-2018 Ending Fund Balance and $34,000 to the Major Facilities Fund 2017-2018 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2016-2017 Budget	*2016-2017 Actuals*	*Variance*	*% Variance*
Revenues	$42,245	$44,732	$2,486	5.9%
Expenditures	$45,387	$43,256	($2,131)	(4.7%)

Revenues totaled $44.7 million and were generated from potable ($38.7 million) and recycled water ($5.2 million) sales, late fees ($552,000), miscellaneous revenues ($207,000), and interest earnings ($101,000). This revenue level was $2.5 million (5.9%) above the modified budget and $7.9 million (21.4%) above the prior year level of $36.8 million.

Revenues ended the year above the budget primarily due to higher than anticipated potable water sales ($2.8 million), partially offset by lower than anticipated recycled water sales ($275,000). The higher water sales revenue was due primarily to a change to the accrual methodology from a modified accrual basis to a full accrual basis, which provided the 2016-2017 fiscal year with a one-time increase to its revenue stream. The positive variance to the prior year was due primarily to higher potable water sales ($7.1 million), which was a result of the 3.0% average rate increase combined with higher consumption and the accrual methodology change, as well as higher late fee revenue ($552,000), since no late fees were collected in 2015-2016 as the City transitioned water utility billing to the new Customer Information System. The higher than anticipated late fee revenue in 2016-2017 reflects late fees collected in 2016-2017 as well as some late fees that had not been collected in 2015-2016.

Expenditures totaled $43.3 million and were primarily for Environmental Services Department (ESD) non-personal/equipment costs ($30.2 million, of which $22.3 million was attributed to the purchase of wholesale potable water and $3.6 million to wholesale recycled water), a Transfer to the Water Utility Capital Fund ($4.0 million), and ESD personal services costs ($5.7 million). This expenditure level was $2.1 million (4.7%) below the modified budget, but $2.2 million (5.4%) above the prior year level of $41.0 million.

The negative variance to the budget was mainly due to lower non-personal/equipment expenditures in ESD ($1.6 million), which was largely a result of lower than budgeted recycled water ($1.1 million) and potable water ($309,000) purchases. Expenditures were above the prior year due primarily to higher non-personal/equipment ($3.2 million) and personal services ($787,000) expenditures in ESD, as well as a higher transfer to the General Fund for late fee revenues ($552,000), partially offset by a decreased transfer to the Water Utility Capital Fund ($2.7 million).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

Ending Fund Balance Performance ($ in Thousands)						
2016-2017 Modified Budget	*2016-2017 Estimated Ending Fund Balance*	*2016-2017 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance (incl. Rebudget Adjustments)*	*Revised Variance As % of Modified Budget*
$53,395	$8,708	$13,099	$4,391	($215)	$4,176	7.8%

The **Ending Fund Balance** of $13.1 million was $4.4 million above the estimate used in the development of the 2017-2018 Adopted Budget. After accounting for rebudgets recommended in the Annual Report of $215,000, the variance decreases to $4.2 million. The 2016-2017 ending fund balance was higher than the estimate primarily due to higher than estimated revenues from potable water sales ($3.2 million), lower than estimated ESD non-personal/equipment expenditures ($886,000), and a lower transfer to the General Fund for late fees ($123,000), partially offset by higher ESD personal services costs ($170,000).

After accounting for all recommended rebudgets, the 2017-2018 Ending Fund Balance will be increased by approximately $4.2 million. Of this amount, $3.5 million is recommended in this report to adjust the Operations and Maintenance Reserve upward to maintain no more than 90 days of operating expenditures in reserves, in line with the recently adjusted Municipal Code regulating the Water Utility Fund. While the fund balance is not yet at levels to fully fund all the recommended reserves, another $300,000 is recommended in this report to partially replenish the Rate Stabilization Reserve, which was used in the 2015-2016 Annual Report as a temporary funding source for the fund. The remaining balance of $329,000 is recommended to be placed in the Unrestricted Ending Fund Balance.