2016-2017

MID-YEAR BUDGET REVIEW

SECTION II

# SELECTED SPECIAL/ CAPITAL FUNDS STATUS REPORT

# 2016-2017
# 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

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Revenues – Airport Revenue Fund*** | 146,009,620 | 71,710,726 | 49.1% |
| ***Expenditures – Airport Maintenance and Operation Fund*** | 81,057,743 | 36,378,705 | 44.9% |

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 $71.7 million is tracking at 49.1% of the estimated budget and is slightly above the benchmark through December. All revenue categories are tracking at or above estimated levels. Through December 2016, passenger levels are 11.3% greater than the same period last fiscal year and compared to the 2016-2017 Adopted Budget estimate of 2.25%, while passenger airline operations (takeoffs and landings) are 13.9% greater than last year and compared to the 2016-2017 Adopted Budget estimate of 2.25%. Airfield revenues are exceeding budgeted levels due to higher than anticipated in-flight kitchen revenues and ground support concession revenues while landing fee revenue exceeds estimated levels due to the increased number of landings. 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 above budgeted levels due to higher than anticipated interest earnings and compressed natural gas (CNG) tax rebates. While parking and roadway revenue is on target, it is not reflecting increases commensurate with the passenger growth rates. Overall, revenues are tracking to exceed budget estimates by year-end.

## 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 Fire, direct support, and overhead reimbursements. Overall expenditures are tracking below budget estimates at 44.9% spent. Through December 2016, Airport's Personal Services and Non-Personal/Equipment expenditures are tracking at 40.4% of budgeted levels. Historically, this fund has spent approximately 89% of the budget by year-end.

Personal Services expenditures are tracking at 44.2% of budget compared to the benchmark of 47.2%. Savings are due to vacancies in most divisions of the department. At the close of December, the Department had 21 vacancies or 11.2% of budgeted positions. Recruitment for 11 Airport positions is currently underway, with the remaining positions being evaluated for appropriate realignment. The Airport expects the majority of active recruitments to be finalized in early spring 2017. Recently, the Airport Staffing Plan was approved by City Council which added 17 ongoing positions in the Airport Department to help address current and projected increases in passenger activity levels. Recruitment for the new positions is underway with seven job opportunities posted and the remaining utilizing active pools. Overtime expenditures of $138,538 or 40.8%, are tracking within budget and will be closely monitored for the remainder of the fiscal year.

Non-Personal/Equipment expenditures (excluding encumbrances) are tracking at 32.8%, with total committed tracking at 70.8% 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.

Interdepartmental expenditures (charges for staff and services located in other City departments including the Police and Fire Departments) total $9.4 million through December 2016, aligning with the budget.

## STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

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

### FUND STATUS

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Ending Fund Balance – Airport Revenue Fund*** | 95,712,258 | N/A | N/A |
| ***Ending Fund Balance – Airport Maintenance and Operation Fund*** | 30,855,832 | N/A | N/A |

*Fund Balance* – This report includes an adjustment to the Ending Fund Balance in the Airport Revenue Fund in order to transfer an additional $1.0 million to the Airport Fiscal Agent Fund for augmenting the Reserve for Debt Service. After accounting for this action, the revised Ending Fund Balance in the Airport Revenue Fund is $94.7 million. 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

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Revenues*** | 28,438,000 | 13,436,941 | 49.8% |
| ***Expenditures*** | 59,052,817 | 5,588,965 | 9.5% |

### 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 above anticipated levels. Through the first half of 2016-2017, Building and Structure Construction Tax receipts totaled $13.3 million, which is 102.6% of the 2016-2017 Adopted Budget estimate of $13.0 million and reflects much higher than anticipated residential permit activity and development activity in commercial areas. This collection level is up significantly (75.0% or $5.7 million) from prior year collections through December of $7.6 million. If strong collections continue (although at a slightly lower level), it is anticipated tax receipts will exceed the budgeted estimate by at least $11.0 million. Federal and State grants are the other major revenue sources in the Building and Structure Construction Tax Fund and are generally tracking below estimated levels. Variances in collections are due to timing differences for grant-supported projects.

*Expenditures* – Overall, expenditures through December in the Building and Structure Construction Tax Fund totaled $5.6 million, or 9.5% of the modified budget. In addition, $9.2 million has been encumbered, bringing overall commitments through December to 25.1% of the modified budget. Expenditures are tracking below expected levels through December; by year-end expenditures are anticipated to reach approximately $44.3 million, or 75.0% of the modified budget. Any remaining project balances at year-end are anticipated to be reallocated to 2017-2018 as part of the 2017-2018 Proposed Capital Budget to complete those projects. Some of the larger projects that are expected to be rebudgeted to 2017-2018 include Route 101/Blossom Hill Road Interchange, Autumn Street Extension, and East Santa Clara Bridge at Coyote Creek. Project timelines have been impacted by a delay in receiving Caltrans authorization, delays in awarding contracts, and the reallocation of staffing resources to higher priority projects. This report 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.

Included in this report are recommendations to decrease the Regional Policy and Legislation appropriation to reallocate staff to support the Safety-Pedestrian Improvements project and to decrease the Miscellaneous Multimodal Projects appropriation to support an expanded project scope in the Ocala Avenue Pedestrian Improvements project.

## STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

### BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

### FUND STATUS

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Unrestricted Ending Fund Balance*** | 1,608,365 | 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

### CONSTRUCTION AND CONVEYANCE TAX FUNDS

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Revenues*** | 67,736,618 | 16,479,116 | 24.3% |
| ***Expenditures*** | 108,439,872 | 19,351,632 | 17.9% |

### FUND STATUS

Revenues – A total of 17 Construction and Conveyance (C&C) Tax Funds are budgeted throughout the Capital Budget. A majority 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. Through December 2016, revenue in the C&C Tax Funds totaled $16.5 million, which is 24.3% of the 2016-2017 Modified Budget of $67.7 million. Year-to-date revenues are tracking below budgeted levels primarily due to the Modified Budget including revenue for the sale of the Central Service Yard ($17.5 million) and transfers between funds ($10.7 million) that have not yet occurred, but are anticipated to occur by year-end. However, C&C Tax collections, which is the biggest source of revenue for these funds, are tracking slightly higher than budgeted through the first half of the fiscal year. In addition, due to interest earnings received through December 2016 in the C&C Tax Funds being higher than anticipated, an increase to the Revenue from the Use of Money/Property estimate of $262,000 (across five C&C Tax Funds) is recommended. Consistent with annual budget practices, a corresponding action to transfer this revenue to the General Fund is also recommended in this report.

Through December, C&C Tax revenues totaled $13.5 million, or 37.5% of the budgeted estimate of $36.0 million. However, due to a timing issue, the December Conveyance receipts of $3.9 million is not accounted for in this figure. After adjusting for the December tax collection, the revised year-to-date receipts total $17.4 million, or 48.3% of the budgeted estimate. The 2016-2017 Adopted Capital Budget was developed with the assumption that C&C Tax receipts would total $38.0 million in 2015-2016 and drop slightly to $36.0 million in 2016-2017. In the last quarter of 2015-2016, however, tax receipts had an extremely strong performance, which resulted in the 2015-2016 receipts totaling $42.7 million. Due to the unanticipated high collections in 2015-2016, the 2016-2017 C&C Tax estimate of $36.0 million, allows for a 15.7% decline in tax revenue from the 2015-2016 actual tax collection. Receipts through December 2016 of $17.4 million, are slightly lower than the same time period in the prior year (1.1%) and Conveyance receipts received in January 2017 show additional declines (37.0%) when compared to January 2016 receipts. Overall, collections are down 10.4 % through January 2017 when compared to the same period in 2015-2016; this drop is below the 15.7% decline allowed in the 2016-2017 budgeted

## STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

### CONSTRUCTION AND CONVEYANCE TAX FUNDS

### FUND STATUS

estimate. If current collection trends continue, a revised 2016-2017 C&C Tax estimate of $38.0 million is now anticipated, which represents an 11.0% decline in tax revenue compared to the 2015-2016 actual collections of $42.7 million. Though budget adjustments are not recommended as part of this report, the $38.0 million estimate for 2016-2017 will be used in the development of the 2017-2018 Proposed Capital Budget and 2018-2022 Capital Improvement Program. This revenue will continue to be monitored to determine if additional changes to the estimate may be necessary at a later date.

Over 99% of the total C&C Taxes are comprised of conveyance receipts, a tax based on the value of property transfers (sales). Similar to the current trend with C&C collection levels, the local real estate market is seeing declines in property transfers compared to prior year levels. The December 2016 number of property transfers totaled 561, a decrease of 17.6% compared to the 681 sales that occurred in December 2015. The number of new listings for single-family and multi-family dwellings has also decreased (27.0%), from 322 listings in December 2015 to 235 listings in December 2016. However, the median single-family home price in December 2016 totaled $863,000, which is an increase of 4.6% from the $825,000 median single-family home price in December 2015. In addition, it took less time to sell these homes, with the average days on the market for single-family and multi-family dwellings in December 2016 totaling 34 days, a 13.0% decrease from December 2015 (39 days).

*Expenditures* – Overall, expenditures in the various C&C Tax Funds are tracking within expected levels and are anticipated to end the year within budgeted levels. Through December, expenditures totaled $19.4 million, 17.9% of the 2016-2017 Modified Budget ($108.4 million). An additional $9.3 million has been encumbered through December, bringing the total amount committed to $28.7 million, or 26.5% of the 2016-2017 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:

- Acquisition of Materials ($96,000 – Library C&C Tax Fund);
- Almaden Lake Park Playground Improvements ($150,000 – Council District 10 C&C Tax Fund);
- Buena Vista Park Improvements ($120,000 – Council District 6 C&C Tax Fund);
- Capital Program and Public Works Department Support Services Costs ($5,000 – Service Yards C&C Tax Fund);
- Del Monte Park Expansion Phase II (-$175,000 – Council District 6 C&C Tax Fund);
- Del Monte Park Expansion Phase III Land Acquisition ($188,000 – Council District 6 C&C Tax Fund);
- Guadalupe Gardens Soccer Facility Feasibility Study ($30,000 – Parks City-Wide C&C Tax Fund);

## STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

### CONSTRUCTION AND CONVEYANCE TAX FUNDS

### FUND STATUS

- Guadalupe Gardens Soccer Facility Reserve (-$30,000 – Parks City-Wide C&C Tax Fund);
- Parks Maintenance District Feasibility Study ($25,000 – Parks Central C&C Tax Fund);
- Phase II Commercial Paper ($400,000 – Service Yards C&C Tax Fund);
- Self-Contained Breathing Apparatus (SCBA) Equipment ($42,000 – Fire C&C Tax Fund); and
- Transfer to the General Fund – Interest Earnings ($262,000 – Parks Central C&C Tax Fund, Fire C&C Tax Fund, Library C&C Tax Fund, Service Yards C&C Tax Fund, and Park 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.

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Unrestricted Ending Fund Balances*** | 23,837,627 | N/A | N/A |

*Ending Fund Balance* – This report includes recommendations to decrease the various C&C Tax Funds Ending Fund Balances by $755,000 as a net result of the actions previously discussed and 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

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Revenues*** | 53,313,798 | 39,506,686 | 74.1% |
| ***Expenditures*** | 112,701,140 | 26,694,484 | 23.7% |

### FUND STATUS

Revenues – Construction Excise Tax receipts are the single largest source of revenue in the Traffic Capital Program. Through December, Construction Excise Tax receipts totaled $18.5 million, or 108.9% of the budgeted estimate of $17.0 million, reflecting much higher than anticipated residential activity and development and commercial activity. This collection level is up significantly (96.8% or $9.1 million) from the prior year level of $9.4 million through December. Due to extremely high collections to date, it is anticipated that tax receipts will exceed the budgeted estimate by approximately $15.0 million. Federal and State grants are the other major revenue sources in the Construction Excise Tax Fund and are tracking below estimated levels. As detailed below, variances in collections are due to timing differences for grant-supported projects.

Included in this report is a recommendation to increase the Inter-Agency Encroachment Permit revenue estimate by $300,000 to account for higher than anticipated encroachment permit fee revenue associated with several regional transportation projects. This report also includes a recommendation to increase the estimate for revenue from the State of California by $249,900 to recognize a rebate for the use of recycled tires in rubberized asphalt. In addition, a request to increase the estimate for Developer Contributions by $96,376 is recommended to recognize higher than anticipated developer contributions for several projects. Also included in this report is a recommendation to decrease the One Bay Area Grant for the Bikeways Program grant revenue estimate by $500,000. Due to project delays, the grant revenue is no longer anticipated to be received in 2016-2017, but is anticipated to be reallocated to 2017-2018 as part of the 2018-2022 Proposed Capital Budget. In addition, a recommendation is included in this report to decrease the Transportation Development Act Bicycle and Pedestrian Facilities grant revenue estimate by $128,000 due to the expiration of a three-year cycle grant.

Traffic Impact Fees are collected from developers and are set aside in a reserve until they can be expended. This report includes recommendations to increase the estimate for Traffic Impact Fees collected in Route 101/Oakland/Mabury ($2,885,363), North San José ($1,842,249), and Evergreen area ($158,270) through December. Also included in this report is a recommendation to increase the revenue received from Santa Clara County for Pavement Maintenance – Measure B by $408,732 to recognize vehicle registration fee revenue received over the estimate through December. The corresponding expenditure adjustments for these actions are discussed below, and 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

### CONSTRUCTION EXCISE TAX FUND

### FUND STATUS

_Expenditures_ – Overall, expenditures through December in the Construction Excise Tax Fund totaled $26.7 million, or 23.7% of the modified budget. In addition, $19.9 million has been encumbered, bringing overall expenditures through December to 41.3% of the modified budget. Expenditures are tracking below expected levels through December; by year-end expenditures are anticipated to reach approximately $74.9 million, or 66.5% of the modified budget. However, any unspent project funds at year-end are anticipated to be rebudgeted to 2017-2018 as part of the 2018-2022 Proposed Capital Budget to complete those projects. This report recommends several expenditure adjustments summarized below. Further detail regarding these recommendations can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

- Increase the Local Transportation Policy and Planning appropriation by $250,000 (from $150,000 to $400,000) to support a reevaluation of the City's transportation impact analysis guidelines as directed by the Rules and Open Government Committee on July 27, 2016, for the transition to a vehicle miles traveled based metric to assess environmental impacts under CEQA per Senate Bill 743.

- Increase the Pavement Maintenance – City project by $249,900 (from $9.9 million to $10.2 million) to appropriate rebate revenue received from the State of California for the use of recycled tires in rubberized asphalt.

- Increase the Pavement Maintenance Measure – B appropriation by $408,732 (from $7.9 million to $8.3 million) to recognize Measure B vehicle license fee revenue from Santa Clara County received above the budgeted estimate.

- Increase the Inter-Agency Encroachment Permit appropriation by $300,000 (from $300,000 to $600,000) to support inspection work for several large regional transportation projects.

- Increase Safety – Pedestrian Improvements by $65,000 (from $1.2 million to $1.3 million) to support staffing costs associated with an expansion of the Vision Zero Program.

- Increases to the Miscellaneous Street Improvements ($36,116) and Pavement-Maintenance – City ($8,260) projects to appropriate developer contribution revenue received in excess of the estimate.

- Reallocate anticipated project savings from East San José Bike/Pedestrian Transit Connection ($200,000) to fund the Kirk Avenue Sidewalk Improvements project in partnership with Santa Clara County.

## STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

### CONSTRUCTION EXCISE TAX FUND

### FUND STATUS

- Allocate Traffic Impact Fees received through December 2016 to the following reserves: Route 101/Oakland/Mabury Impact Fees Reserve ($2,885,363), North San José Traffic Impact Fees Reserve ($1,842,249), and Traffic Impact Fees Reserve ($158,270).

- Decrease the following projects to align with revised project schedules: Bikeways Program ($500,000), and Bicycle and Pedestrian Facilities ($128,000).

| | **2016-2017 Current Modified** | **2016-2017 YTD Actual** | **2016-2017 % of Budget** |
|---|---|---|---|
| ***Unrestricted Ending Fund Balance*** | 2,229,587 | N/A | N/A |

Fund Balance – A recommendation to decrease the Ending Fund Balance by $200,000 is included in this report as a net result of the actions described above. In addition, technical adjustments are recommended to decrease the Ending Fund Balance by a net $100,820 as a result of a reconciliation of the fund to the final audited 2015-2016 Comprehensive Annual Financial Report. After accounting for all these actions, the revised Ending Fund Balance will be $1.9 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

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Revenues*** | 127,286,586 | 105,540,836 | 82.9% |
| ***Expenditures*** | 136,000,455 | 43,970,666 | 32.3% |

### FUND STATUS

*Revenues* – 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) ($118.7 million); AB 939 fees ($3.5 million); Recycle Plus Negotiated Savings ($2.7 million); payments received from the Construction and Demolition Diversion Deposit (CDDD) Program ($740,000) that are identified as ineligible deposits for refund; Las Plumas Tenant Utility Reimbursements ($510,000); Lien-Related Charges ($440,000); SB 332 Beverage Container Recycling payments ($250,000); interest earnings ($230,000); miscellaneous revenue ($203,000); NMTC Leverage Loan Interest ($98,000); and Franchise Applications ($500).

Through December, revenues totaled $105.5 million, or 82.9% of budget, and were generated primarily from the following: Recycle Plus Collection Charges ($101.2 million); AB 939 fees ($1.2 million); Recycle Plus Negotiated Savings ($1.3 million); and a Santa Clara County Household Hazardous Waste facility payment ($726,000).

Overall, revenues are expected to end the year at the budgeted estimates. Contributing to the year-end estimate is an unanticipated payment by Santa Clara County of $726,000 to account for unspent funds on County household hazardous waste programs that are reallocated back to the cities that provided the original funding, offset by lower than anticipated Recycle Plus single-family and multi-family collection charges ($526,000) and lien-related fees ($340,000) based on actual activity.

*Expenditures* – Through December, $44.0 million, or 32.2% of the budget, was expended, and an additional $81.0 million, or 59.5%, was encumbered. The year-to-date expenditures and encumbrances

## STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

### INTEGRATED WASTE MANAGEMENT FUND

### FUND STATUS

of $125.0 million are attributed primarily to the Recycle Plus contracts for Single-Family Dwelling ($54.0 million), Yard Trimmings/Street Sweeping ($23.3 million), and Multi-Family Dwelling ($20.1 million). Additional expenditures include Single Family Dwelling Processing ($9.4 million), IDC Disposal Agreement ($6.3 million), Environmental Services Department (ESD) Personal Services ($3.0 million), ESD Non-Personal/Equipment ($2.4 million), and General Fund Overhead ($2.1 million) appropriations.

Overall, savings of approximately $4.3 million are projected by the end of the year in various appropriations, with the largest estimated savings in the Recycle Plus single family contract ($913,000) primarily due to lower than estimated costs for hauler payments and the free large item collection program which has not reached the maximum allowance, IDC garbage disposal contract ($779,000) because of increased recycling resulting from the processing of garbage before disposing of it in the landfill, ESD Non-Personal/Equipment ($600,000) primarily for contractual services, and ESD Personal Services ($507,000) due primarily to vacancies in the department.

This report includes recommendations to increase the ESD Non-Personal/Equipment by $133,000 (from $3.1 million to $3.2 million) for the installation of illegal dumping deterrents, such as gates, bollards, and cameras. These improvements are funded by AB939 fees passed to the City from Santa Clara County. AB939 fees are allocated to waste diversion and household hazardous waste activities.

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Unrestricted Ending Fund Balance*** | 8,087,817 | N/A | N/A |

<u>*Ending Fund Balance*</u> – A recommendation to decrease the Unrestricted Ending Fund Balance by $133,000 is included in this report to offset the expenses related to illegal dumping deterrents.

## STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

### MUNICIPAL GOLF COURSE FUND

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Revenues*** | 2,675,000 | 2,450,235 | 91.6% |
| ***Expenditures*** | 2,953,000 | 1,735,041 | 58.8% |

### FUND STATUS

Revenues – Budgeted revenues for this fund consists of the following: a subsidy from the General Fund ($2.2 million), course fees from San José Municipal Golf Courses ($450,000), and miscellaneous revenues and interest ($25,000). Through December, the full subsidy of $2.2 million has been received from the General Fund. Course revenues totaled $245,000, or 54.4% of the budget ($450,000) and is tracking slightly below 2015-2016 levels. Miscellaneous revenues and interest totaled $4,900, or 19.6% of the budget ($25,000).

Revenues from the San José Municipal Golf Course totaled $245,000 through December and are based on a fixed percentage of the gross sales, regardless of operator costs. This collection level is slightly lower than the prior year actual of $260,000 through December 2015. Based on historical tracking, it is anticipated that revenues generated from the San José Municipal Golf Course will end 2016-2017 slightly below budgeted levels.

All revenues generated in this fund are intended to help offset the debt service costs and net operating losses from Los Lagos and Rancho del Pueblo Golf Courses. As a result of the inability to cover both operating fixed costs and the debt service through course fees, a General Fund subsidy has been required to support these golf courses. Currently, the subsidy is budgeted at $2.2 million for 2016-2017.

Expenditures – Overall, expenditures in the Municipal Golf Course Fund are generally incurred for two purposes: payments to course operators to cover any net operating losses at Los Lagos ($550,000) and Rancho del Pueblo Golf Courses ($400,000); and payment of the debt service for the bonds used to develop the two courses ($2.0 million).

Expenditures in this fund are tracking to exceed the budget due to the additional costs ($75,000) associated with a community outreach project consultant for the Los Lagos Golf Course as well as the performance at Los Lagos and Rancho del Pueblo Golf Courses. Los Lagos net operating losses are tracking significantly higher than 2015-2016 levels and total revenue related golf rounds are down by 5.0% compared to the prior year. Once adjusted for differences in timing of payments and year-end accruals indicated in their profit and loss statement, the true net Los Lagos operating loss year-to-date for 2016-2017 is $325,000 compared to prior year's true net operating loss of $243,000. Net operating losses are

## STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

### MUNICIPAL GOLF COURSE FUND

### FUND STATUS

currently tracking to end the year approximately $25,000 above the budget. In response to a recent golf audit, a contract in the amount of $75,000 was executed for a community outreach project consultant to provide translation services and to oversee the community engagement process for Los Lagos. The community outreach effort will inform the City's future strategy development regarding land use to maximize the value of the Los Lagos' open space relative to current costs and public benefits of operating a golf facility. This document includes a recommendation to increase the Los Lagos expenditure appropriation by $100,000 (from $550,000 to $650,000) to fund the contract ($75,000) and to fund the higher than anticipated operating losses ($25,000).

Rancho del Pueblo Golf Course net operating losses are also tracking higher than 2015-2016 levels and total revenue related golf rounds are down by 9.0% compared to prior year. Once adjusted for differences in timing of payments and year-end accruals indicated in the profit and loss statement, the true net operating loss year-to-date for 2016-2017 is $223,000 compared to prior year's true net operating loss of $186,000. This document includes a recommendation to increase the Rancho del Pueblo expenditure appropriation by $50,000 (from $400,000 to $450,000) to fund the higher than anticipated operating losses.

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Unrestricted Ending Fund Balances*** | 464,861 | N/A | N/A |

<u>*Ending Fund Balance*</u> – A $150,000 decrease to the Ending Fund Balance (from $465,000 to $315,000) is recommended to offset the increase to the Los Lagos budget of $100,000 for a consultant to conduct outreach and to fund the higher than anticipated net operating losses as well as the increase to the Rancho del Pueblo budget of $50,000 to fund the higher than anticipated net operating losses.

## STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

### SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Revenues*** | 76,697,000 | 20,822,543 | 27.1% |
| ***Expenditures*** | 282,807,786 | 29,453,271 | 10.4% |

### FUND STATUS

Revenues – Budgeted revenue for the San Jose-Santa Clara Treatment Plant Capital Fund consists of transfers from the City of San José Sewer Service and Use Charge (SSUC) Fund ($35.7 million) and the Sewage Treatment Plant Connection Fee Fund ($3.1 million); contributions from the City of Santa Clara and other Tributary Agencies ($35.5 million); interest earnings ($1.8 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 27.1%, has been received due to the timing of payments. Based on the reconciliation of prior year project expenditures, it is anticipated that contributions from the tributary agencies may end the year $2.9 million lower than the budgeted estimate, but 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. The other revenue sources for this fund are anticipated to end the year at the budgeted estimate.

While no financing mechanism is necessary in 2016-2017, the Department is still exploring different methods to finance the Treatment Plant Projects in the upcoming years, including Clean Water State Revolving Fund loans along with commercial paper as a bridge before issuing longer-term bonds.

Expenditures – Expenditures in this fund represent the costs of improvements and rehabilitation of the San José-Santa Clara Water Pollution Control Plant. Through December, $29.5 million, or 10.4%, of the budget was expended and an additional $163.5 million, or 57.8%, was encumbered, bringing overall commitments through December to 68.2%.

## STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

### SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

### FUND STATUS

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. It is currently estimated that up to $6.0 million may be rebudgeted to 2017-2018 to complete projects. The largest project that is currently anticipated to be rebudgeted is the Aeration Tanks and Blower Rehabilitation project.

Staff anticipate continuing to make significant progress on large efforts in 2016-2017, such as the Digester and Thickener Facilities Upgrade ($132.6 million), Energy Generation Improvements ($44.5 million), and Iron Salt Feed Station ($7.2 million).

The amount budgeted for the debt service payment to the Clean Water Financing Authority Debt Service Payment Fund ($6.8 million) represented debt service payments for the Series 2005A ($5.2 million) and Series 2009A ($1.6 million) bonds. The final payment for the Series 2005A bonds was instead made from the reserve funds held by the trustee, resulting in savings for that appropriation. A portion of the savings ($1.3 million) was used to pay for increased reserve requirements for the Series 2009A bonds that resulted from an increase in principal payment per the debt service schedule. Savings of $3.9 million will remain at year-end; a portion of these savings will be allocated to the Tributary Agencies based on the proportion of the cost as per the year-end reconciliation and reflected in the true-up adjustment in 2017-2018.

| | **2016-2017 Current Modified** | **2016-2017 YTD Actual** | **2016-2017 % of Budget** |
|---|---|---|---|
| ***Unrestricted Ending Fund Balance*** | 7,629,138 | N/A | N/A |

<u>*Fund Balance*</u> – 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

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Revenues*** | 90,121,400 | 21,433,765 | 23.8% |
| ***Expenditures*** | 106,342,356 | 46,519,248 | 43.7% |

### FUND STATUS

*Revenues* – Revenue for the San José-Santa Clara Treatment Plant Operating Fund consists primarily of transfers from the Sewer Service and Use Charge Fund, contributions from the City of Santa Clara and participating tributary agencies, recycled water sales, and interest earnings. Through December, revenues totaled $21.4 million, or 23.8% of the budgeted estimate due primarily to the timing of payments. The largest source of revenue in this fund, the transfer from the Sewer Service and Use Charge Fund ($53.5 million), has not yet been received. This transfer occurs in two installments on or around February 1 and June 1. Contributions from Santa Clara and other agencies, however, are estimated to come in higher than budgeted levels by $1.4 million. These contributions are made in four installments based on the amounts provided in the 2016-2017 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 2015-2016, this year's agency reimbursement revenue is projected to come in above budget. Revenues from recycled water are estimated to be approximately $2.0 million higher than budgeted levels of $8.0 million, primarily because recycled water sales have recovered more than anticipated after the conservation efforts that took place in 2015-2016. Overall, revenues are tracking to come in higher than the budgeted estimate by approximately $3.4 million.

*Expenditures* – Expenditures in this fund represent the costs required for the operation and maintenance of the San José-Santa Clara Water Pollution Control Plant, including the South Bay Water Recycling System and associated regulatory activities. Through December, $46.5 million, or 43.7% of the budget, has been expended, and an additional $13.8 million, or 13.0%, has been encumbered, bringing the total commitments to 56.7%. Spending is lower than expected in several appropriations, with the largest savings expected in the Environmental Services Department (ESD) Personal Services and ESD Non-Personal/Equipment appropriations. It is estimated that the ESD Personal Services appropriation ($54.8 million) may have approximately $4.9 million in savings by year-end, due to vacancies, and the ESD Non-Personal/Equipment appropriation ($39.5 million) may have $2.1 million in savings by year-end, due primarily to less than anticipated maintenance costs and lower energy prices.

## STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

### SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUND

### FUND STATUS

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Unrestricted Ending Fund Balance*** | 3,313,418 | N/A | N/A |

<u>*Ending Fund Balance*</u> – No adjustments to the Ending Fund Balance are recommended at this time.

## STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

### SEWER SERVICE AND USE CHARGE CAPITAL IMPROVEMENT FUND

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Revenues*** | 33,780,000 | 10,997,292 | 32.6% |
| ***Expenditures*** | 112,204,140 | 13,247,901 | 11.8% |

### FUND STATUS

*Revenues* – Budgeted revenue for this fund in the Sanitary Sewer Capital Program consists of transfers from the Sewer Service and Use Charge Fund ($32.0 million), reimbursements from the West Valley Sanitation District (WVSD) for joint projects ($1.4 million), and interest earnings ($380,000). Revenues are expected to end the year close to the budgeted estimate.

*Expenditures* – Overall, expenditures in this fund represent the costs of improvements and rehabilitation of the Sanitary Sewer System. Through December, $13.2 million or 11.8% of the budget was expended and an additional $21.9 million or 19.5% was encumbered bringing the total amount committed to 31.3%. Public Works anticipate expending or encumbering approximately another $67 million, or 60%, on projects in the remainder of 2016-2017, focusing on large capacity enhancement efforts such as the 60-inch Brick Interceptor Project, Trimble Capewood Sanitary Sewer Improvements, Cast Iron Pipe – Remove and Replace Program, and a number of neighborhood sewer improvement projects that will reduce sanitary sewer overflows and/or repair severely deteriorated sewers.

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Unrestricted Ending Fund Balances*** | 10,392,956 | N/A | N/A |

*Ending Fund Balance* – No adjustment to the Ending Fund Balance in the Sewer Service and Use Charge Capital Improvement Fund is recommended at this time.

## STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

### WATER UTILITY FUND

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Revenues*** | 41,820,150 | 22,916,252 | 54.8% |
| ***Expenditures*** | 45,435,791 | 20,741,658 | 45.7% |

### FUND STATUS

*Revenues* – Revenue for the Water Utility Fund consists of Potable Water Sales, Recycled Water Sales, miscellaneous revenues, and interest income. Through December, revenues totaled $22.9 million, or 54.8% of the budgeted estimate. The largest (and most volatile) of these revenues is from the sale of potable water within the Municipal Water System service area. Year-to-date, potable water sales and services have totaled $19.4 million, or 54.0% of the budgeted estimate of $35.9 million. However, revenues are projected to fall short of the budgeted estimate by approximately $259,000 at year-end, due primarily to continued conservation and decreased water sales projected during winter 2017 as a result of increased storm activity. Recycled water sales are tracking to end the year close to budgeted levels of $5.5 million. It should be noted that these figures may change as the season progresses, and the extent of the increased storm activity and its effect on water conservation as a whole is known.

Late Fees are also recorded in this fund and transferred to the General Fund as an unrestricted source of funds. Late fee revenue totaled $422,000 through December and is projected to end the year at approximately $522,000, exceeding the budgeted amount by $250,000. A portion of the late fee revenue is for late fees incurred by customers in 2015-2016 that were unable to be collected last fiscal year because of a transition to a new billing system.

*Expenditures* – Expenditures in this fund represent costs of the operation, improvement, and maintenance of the Municipal Water System, including transfers to the Water Utility Capital Fund, as necessary for ongoing capital improvements. Through December, $20.7 million, or 45.7% of the budget, has been expended, and an additional $1.9 million, or 4.3%, has been encumbered. Spending is lower than anticipated in several appropriations, with the largest savings expected in the Environmental Services Department (ESD) Personal Services appropriation because of vacant positions. Overall, expenses are expected to end the year slightly under budget and will offset lower revenues from water sales.

## STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

### WATER UTILITY FUND

### FUND STATUS

| | 2016-2017 Current Modified | 2016-2017 YTD Actual | 2016-2017 % of Budget |
|---|---|---|---|
| ***Unrestricted Ending Fund Balance*** | 54,496 | N/A | N/A |

Ending Fund Balance – No adjustments to the Ending Fund Balance are recommended at this time.

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