



2019-2020

MID-YEAR
BUDGET
REVIEW



SECTION

II

SELECTED SPECIAL/
CAPITAL FUNDS
STATUS REPORT



**2019-2020
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.

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STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

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

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Revenues – Airport Revenue Fund</i>	214,017,682	100,923,095	47.2%
<i>Expenditures – Airport Maintenance and Operation Fund</i>	127,109,862	45,213,832	35.6%

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 \$100.9 million is tracking at 47.2% of the estimated budget, which is in line with the benchmark through December. Through December 2019, passenger levels of 8.2 million are up 9.3% from the same period last fiscal year (7.5 million). The 2019-2020 budget was built assuming a 4% growth from the 2018-2019 estimated levels of 14.6 million passengers; however the Airport actually served a total of 14.9 million passengers in 2018-2019. Passenger airline operations (takeoffs and landings) are 8.5% above last year. Landing Fees and Terminal Rentals are meeting expectations, while Airfield revenues are tracking slightly below budgeted levels primarily due to lower than anticipated in-flight kitchen and air carrier parking. Revenue categories most significantly impacted by increasing passenger levels are Terminal Concessions and Parking and Roadway. The parking and roadway revenue exceeds estimated levels due to the higher than anticipated ground transportation and public parking revenues, while terminal concessions revenue is tracking above the budgeted estimate in the retail, passenger lounge, and food and beverage sectors. Total general and non-aviation revenues, consisting of fees associated with hangars, land and building rentals, the petroleum program, general aviation, interest earnings, and other non-aviation (miscellaneous) revenues, are tracking slightly above budgeted levels due to slightly higher than anticipated land rents, hangar/aircraft parking, and interest.

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

FUND STATUS

Expenditures – Operating expenditures appropriated in the Airport Maintenance and Operation Fund include Personal Services, Non-Personal/Equipment, Police and Aircraft Rescue and Fire Fighting Services, direct support, and overhead reimbursements. Overall, expenditures of \$45.2 million are tracking below budget estimates at 35.6% spent. Through December 2019, Airport Department’s Personal Services and Non-Personal/Equipment expenditures (\$30.4 million) are tracking at 34.5% of budgeted levels.

Airport Department Personal Services expenditures of \$15.3 million are tracking at 42.5% of budget compared to the benchmark of 46.2%. The minimal savings are due to vacancies across the department. At the close of December 2019, the Department had 19.5 vacancies or 8.6% of budgeted positions. Overtime expenditures of \$209,000, or 53.0% of budget, are tracking slightly above the budgeted estimate and will be closely monitored for the remainder of the fiscal year. Non-Personal/Equipment expenditures (excluding encumbrances) are tracking at 29.0% of budget, with total committed of \$38.8 million tracking at 74.2% of budgeted levels. It is anticipated that through conservative spending and close monitoring, the Non-Personal/Equipment appropriation will end the year within budgeted levels.

Through December 2019, interdepartmental expenditures (charges for staff and services located in other City departments, including the Police and Fire Departments) total \$9.3 million, which represents approximately 49.7% of the interdepartmental budget. Expenditures are on track to end the year within budgeted levels.

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STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

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

FUND STATUS

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Ending Fund Balance – Airport Revenue Fund</i>	81,074,703	N/A	N/A
<i>Ending Fund Balance – Airport Maintenance and Operation Fund</i>	26,192,628	N/A	N/A

Fund Balance – No changes to the Ending Fund Balance in the Airport Revenue Fund or the Airport Maintenance and Operation Fund are recommended at this time.

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STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Revenues</i>	38,294,800	30,248,765	79.0%
<i>Expenditures</i>	64,043,737	8,307,608	13.0%

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 2019-2020, Building and Structure Construction Tax receipts totaled \$16.0 million through December, which is 106.8% of the 2019-2020 Adopted Budget estimate of \$15.0 million, reflecting higher than anticipated commercial and industrial development permit activity. This collection level is above prior year collections (\$6.9 million or 75.7%) of \$9.1 million for the same period. Should the current level of permitting activity and corresponding collections continue, it is anticipated that tax receipts will exceed budgeted levels by \$9.0 million. Other major revenue sources in the Building and Structure Construction Tax Fund, including grants from federal and local agencies, are generally tracking below estimated levels, corresponding with year-to-date project activity. These variances are largely due to timing differences for grant-supported projects, many of which are funded on a reimbursement basis. Staff will continue to closely monitor these revenue sources as the fiscal year progresses.

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

- Increase the estimate for Building and Structure Construction Tax revenue by \$9.0 million based on current collection trends for the construction taxes. Revenues are projected to exceed budgeted levels due to strong commercial and industrial development activity;
- Increase the estimate for Other Revenue by \$2.3 million to recognize developer payments as part of the iStar development requirements for mitigation at the Route 101/Blossom Hill Road Interchange (\$2.23 million) and to start the environmental review process for Route 87/Narvaez Avenue traffic improvements at Communications Hill (\$40,000);

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BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

FUND STATUS

- Increase the estimate for Revenue from State of California by \$1.4 million to recognize grant funding for complete streets improvements at Willow-Keyes (\$1.0 million) and transportation improvements along Balbach Street (\$200,000) and around the Roosevelt Park area (\$200,000);
- Increase the estimate for Revenue from the Federal Government by \$400,000 to recognize grant funding to upgrade guardrails along Monterey Road; and
- Increase the estimate for Transfers and Reimbursements by \$160,000 to recognize a transfer from the General Purpose Parking Capital Fund for the purchase of a dynamic messaging sign as part of the Safety – Traffic Signal Modifications/Construction project to reconfigure traffic flow downtown.

Expenditures – Overall expenditures of \$8.3 million are tracking at 13.0% of the Modified Budget. In addition, \$5.4 million has been encumbered to date, bringing total commitments (\$13.7 million) through December to 21.3% of the Modified Budget, excluding reserved funds. Though expenditures are tracking below expected levels through December, a significant amount of contractual obligations are anticipated later in the fiscal year. Any remaining project balances at year-end are anticipated to be rebudgeted to 2020-2021 as part of the 2020-2021 Adopted Capital Budget for project completion. Some of the larger projects for which funding is expected to be rebudgeted to 2020-2021 include: Autumn Street Extension (\$2.5 million), Branham and Snell Street Improvements (\$2.0 million), Safety – Pedestrian Roadway Improvements (\$1.5 million), TFCA 2019-2020 Downtown Signal Retiming (\$1.4 million), Senter Road Pedestrian Safety Improvements (\$500,000), and Highway Soundwalls (\$500,000). Project timelines have been impacted by delayed land acquisitions and contract awards, coordination with other agencies, and obtaining VTA 2016 Measure B funding. This report also includes a limited number of expenditure adjustments, the major ones of which are listed below. Further detail regarding these recommendations can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

- Net increase to the Route 101/Oakland/Mabury New Development Reserve (\$2.5 million);
- Increase the Route 101/Blossom Hill Road Interchange Improvements project (\$2.3 million);
- Establish the Willow-Keyes Complete Streets Improvement project (\$1.0 million);
- Increase the Safety – Traffic Signal Modifications/Construction project (\$660,000);
- Increase the Monterey Road Safety Improvements project (\$500,000); and
- Increase the San José Regional Transportation Hub project (\$500,000).

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BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

FUND STATUS

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Unrestricted Ending Fund Balance</i>	10,133,239	N/A	N/A

Ending Fund Balance – A recommendation to increase the Ending Fund Balance by \$4.7 million is included in this report as a net result of the actions described above. This amount is inclusive of a technical adjustment to increase the Ending Fund Balance by \$13,175 due to the reconciliation of the fund to the final audited 2018-2019 Comprehensive Annual Financial Report. After accounting for all these actions, the revised Ending Fund Balance will increase to approximately \$14.8 million. Of the \$14.8 million ending fund balance, \$6.8 million is planned for projects to support the Vision Zero Plan that is scheduled for discussion at the City Council on February 11, 2020, and an estimated \$2.9 million is anticipated from new development in North San José and set aside as part of the North San José New Development Reserve in the 2019-2020 Annual Report per City Council direction. Further details on the adjustments can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

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STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Revenues</i>	62,103,000	22,585,140	36.4%
<i>Expenditures</i>	118,686,526	24,281,504	20.5%

FUND STATUS

Revenues – A total of 17 Construction and Conveyance (C&C) Tax Funds are budgeted throughout the Capital Budget. Most of these funds (13) support the Parks and Community Facilities Development Capital Program, with the remaining four funds supporting the Public Safety Capital Program, Library Capital Program, Service Yards Capital Program, and Communications Capital Program. Revenues in the C&C Tax Funds are comprised of C&C Tax receipts, sale of surplus property, transfer revenue, grant funding, and other miscellaneous revenue. The Parks C&C Funds also include significant revenues related to the 2017 Flood recovery projects, including \$3.9 million anticipated from the Federal Emergency Management Agency (FEMA)/California Office of Emergency Services (CalOES), \$5.0 million from insurance reimbursements, and commercial paper proceeds of \$3.5 million. Receipt of these funds will track closely with actual project costs. Through December 2019, revenue in the C&C Tax Funds totaled \$22.6 million, which is 36.4% of the 2019-2020 Modified Budget of \$62.1 million.

C&C Tax receipts are the largest source of revenue for the C&C Tax funds. Through December 2019, C&C Tax collections totaled \$17.1 million, which represents 47.4% of the 2019-2020 Adopted Budget estimate of \$36.0 million. The collection level is 15.0% below the prior year receipts of \$20.1 million through the same period. Based on historical trends and tracking at the time, the 2019-2020 Adopted Capital Budget was developed with the assumption that C&C Tax receipts would total \$42.0 million in 2018-2019 and decrease by approximately 14% to \$36.0 million in 2019-2020. However, due to stronger than anticipated performance in 2018-2019, receipts totaled \$47.2 million in the prior fiscal year. Therefore, the 2019-2020 budgeted estimate allows for a 23.7% decline in tax revenue from 2018-2019 actual collections.

Through November 2019, C&C Tax receipts experienced declines from prior year levels ranging from 5%-25%, resulting in the year-to-date collections declining almost 20% from the prior year. However, December 2019 collections were strong (growth of 11% from prior year) and January 2020 receipts were recently received, which experienced significantly strong growth of over 44% from January 2019 collections. After factoring in the high December and January collections, the C&C year-to-date receipts through January are approximately 7% below the collections through January 2019. It is currently anticipated C&C collections will total \$38.0 million by year-end, which is \$2.0 million above the budgeted estimate. However, as this tax is dependent on the local real estate market, and is extremely volatile, collections will continue to be closely monitored.

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CONSTRUCTION AND CONVEYANCE TAX FUNDS

FUND STATUS

Nearly 99% of the total C&C Taxes are comprised of conveyance receipts, a tax based on the value of property transfers (sales). Beginning in spring 2012, the median sale price for homes had consistently experienced year-over-year growth, which continued through October 2018. For over a year, however, Santa Clara County began experiencing a slow down in the local real estate market, with median sale prices dropping, the average days-on-market increasing, and the number of sales decreasing. In fall 2019, the real estate market appears to have begun stabilizing, with median home prices and property sales once again growing compared to prior year levels. According to data from the Santa Clara County Association of Realtors, the single-family home price peaked at \$1.3 million in May 2018 (which represented a 30.0% increase from the May 2017 home price), but then began steadily decreasing. During the period from November 2018 through October 2019, year-over-year median prices steadily decreased each month compared to the prior year in the range of 3%-13%. However, in November 2019, prices increased 0.7% from the prior year and December 2019 saw the median single-family home price grow year-over-year by 2.0% to \$1.07 million.

In addition to the median home prices dropping for a prolonged period and recently starting to rebound, the number of property transfers (sales) also recently began to experience growth. In December 2019, the number of property transfers grew 12.3% from the prior year level; however, the year-to-date sales through December 2019 is slightly below (0.2%) the same period in the prior fiscal year. In addition, while single-family and multi-family dwellings are continuing to sell relatively quickly, they are on the market longer than the prior few years. The average days-on-market for single-family and multi-family dwellings through December 2019 totaled 38 days, compared to an average 25 days experienced in the first half of 2018-2019 and an average 18 days experienced through the first half of 2017-2018.

Expenditures – Overall, expenditures in the various C&C Tax Funds are anticipated to end the year within budgeted levels. Through December, expenditures totaled \$24.3 million, 20.5% of the 2019-2020 Modified Budget of \$118.7 million. An additional \$7.7 million has been encumbered through December, bringing the total amount committed to \$31.9 million, or 26.9% of the 2019-2020 Modified Budget. To the extent funding is not expended this fiscal year for projects that may occur over multiple years, recommendations to rebudget the funds will likely be brought forth for City Council consideration later in the year.

The 2019-2020 Mid-Year Budget Review includes a small number of expenditure adjustments in the C&C Tax Funds to provide funding for urgent new projects, increase funding for existing projects, shift funding between funds, or decrease projects and reserves. Significant actions included in the report include the following:

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CONSTRUCTION AND CONVEYANCE TAX FUNDS

FUND STATUS

- Capital Program and Public Works Department Support Staff; \$516,000 – Central C&C Tax Fund (funding shift from the Park Trust Fund);
- Jeaneane Marie Circle Fencing; \$138,000 – Council District 7 C&C Tax Fund;
- Berryessa Community Center Improvements; \$100,000 – Council District 4 C&C Tax Fund;
- General Equipment and Furnishings; \$100,000 – Library C&C Tax Fund; and
- Playa Del Rey Shade Structure; \$54,000 – Council District 10 C&C Tax Fund.

Further detail regarding all the recommended adjustments in the various C&C Tax Funds can be found in *Section III. Recommended Budget Adjustments and Clean-Up Actions.*

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Unrestricted Ending Fund Balances</i>	32,227,106	N/A	N/A

Ending Fund Balance – This report includes recommendations to increase and decrease the various C&C Tax Funds Ending Fund Balances to offset various actions recommended in the report. In total, the C&C Tax Fund Ending Fund Balances are recommended to be decreased by \$511,000 (from \$32.2 million to \$31.7 million) as a net result of the actions cited above and other clean-up actions as detailed in Section III of this report.

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STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Revenues</i>	158,751,290	36,683,554	23.1%
<i>Expenditures</i>	235,473,138	61,793,332	26.2%

FUND STATUS

Revenues – The Construction Excise Tax, a major funding source for both the Construction Excise Tax Fund and Traffic Capital Program, is tracking at or slightly above anticipated levels. Through the first half of 2019-2020, Construction Excise Tax receipts totaled \$10.5 million through December, 52.5% of the 2019-2020 Adopted Budget estimate of \$20.0 million, reflecting higher than anticipated commercial development permit activity. As anticipated, this collection level is below prior year collections (\$1.1 million or 9.7%) of \$11.7 million for the same period. When the 2019-2020 Adopted Capital Budget was developed it was assumed that high collection receipts experienced in 2016-2017 (\$30.2 million), 2017-2018 (\$29.4 million), and 2018-2019 (\$25.8 million) would not be sustainable, therefore the 2019-2020 estimate was decreased to \$20.0 million. While this tax is extremely volatile, it is currently anticipated that receipts will meet or exceed budgeted levels. Other major revenue sources in the Construction Excise Tax Fund, including grants from Federal and local agencies, are generally tracking consistent with year-to-date project activity.

For 2019-2020, the City will receive from VTA 2016 Measure B an estimated \$19.0 million in ongoing funding plus an estimated \$42.8 million in one-time, accumulated funding from the first two years of revenue since the measure initially passed. The Measure B funding has been allocated to the summer 2019 pavement program. Reimbursement revenues for pavement maintenance and the Measure B grant funded Walk n’ Roll program are anticipated to be received starting in March 2020. In addition, unspent funds and corresponding Measure B grant revenue for the Walk n’ Roll program will be rebudgeted to 2020-2021.

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

- Increase the estimate for Other Revenue by \$1.5 million for projects related to developer mitigations at the Santana Row Lot 9 development for future backbone technology communications, the installation of a new traffic signal at 6th Street and Taylor Street, and railroad crossings, bicycle, and pedestrian improvements in the Japantown area;

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CONSTRUCTION EXCISE TAX FUND

FUND STATUS

- Increase the estimate for Revenue from Local Agencies by a total of \$1.3 million to recognize revenues received from Measure B vehicle registration fees (\$1.1 million) for pavement maintenance activities and from a Knight Foundation grant (\$235,000) that will fund the community engagement program related to the City’s automated vehicle initiative; and
- Increase the estimate for Transfers and Reimbursements by \$100,000 to reflect a transfer from the General Purpose Parking Capital Fund to help fully fund the new traffic signal at 6th Street and Taylor Street in Japantown.

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

Expenditures – Overall expenditures of \$61.8 million are tracking at 26.2% of the Modified Budget. In addition, \$38.8 million has been encumbered to date, bringing total commitments (\$100.6 million) through December to 42.7% of the Modified Budget, excluding reserved funds. Any remaining project balances at year-end are anticipated to be rebudgeted to 2020-2021 as part of the 2020-2021 Adopted Capital Budget for project completion. Some of the larger projects for which funding is expected to be rebudgeted to 2020-2021 include: North San José projects for Route 101/Trimble/De La Cruz Interchange Improvement and North San José Improvement – 880/Charcot (\$8.0 million), Better Bikeways Program (City) (\$1.7 million), Walk n’ Roll – VTA Measure B 2016 (\$700,000), Street Tree Inventory and Management Plan (\$400,000), Vision Zero: City-wide Pedestrian Safety and Traffic Calming (\$300,000), Grant Refunds (\$300,000), High Speed Rail (\$300,000), and Mechanical Storm Units (\$200,000). Project timelines have been impacted as a result of projects that are contingent on the completion of another project which has taken longer than anticipated, contract awards, coordination with other agencies, obtaining VTA 2016 Measure B funding, and the progression of the project schedule for the larger-scale, complex projects.

This report also includes a limited number of expenditure adjustments, the notable ones are listed below. Further detail regarding this recommendation can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

- Establish the Protected Intersection Improvements project (\$1.6 million);
- Increase the Pavement Maintenance – VTA Measure B VRF project (\$1.1 million); and
- Increase the AV Vehicle Community Engagement Initiative project (\$235,000).

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CONSTRUCTION EXCISE TAX FUND

FUND STATUS

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Unrestricted Ending Fund Balance</i>	1,615,521	N/A	N/A

Fund Balance – A recommendation to decrease Ending Fund Balance by \$399,000 is included in this report as a net result of the actions described above. This includes a technical adjustment recommended to increase the Ending Fund Balance by a net \$1,265 as a result of a reconciliation of the fund to the final audited 2018-2019 Comprehensive Annual Financial Report, which is offset by a use of fund balance of \$400,000 for various small projects. After accounting for all these actions, the revised Ending Fund Balance will be \$1.2 million. Further details on the adjustments can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

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INTEGRATED WASTE MANAGEMENT FUND

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Revenues</i>	145,529,711	120,906,826	83.1%
<i>Expenditures</i>	162,201,262	50,417,680	31.1%

FUND STATUS

Revenues – Budgeted revenues in the Integrated Waste Management Fund include payments received from residential solid waste generators under the Recycle Plus Integrated Waste Management Program (Recycle Plus Collection Charges) (\$136.1 million); AB 939 fees (\$3.7 million); Recycle Plus Negotiated Savings (\$2.7 million); interest earnings (\$860,000); payments received from the Construction and Demolition Diversion Deposit (CDDD) Program (\$765,000); revenue from land rentals (\$534,600); Recycle Plus Late Fees (\$302,000); revenue received from Santa Clara County for Household Hazardous Waste programs (\$300,000); and SB332 Beverage Container Recycling payments (\$250,000).

Through December, revenues totaled \$120.9 million, or 83.1% of budget, and were generated primarily from Recycle Plus Collection Charges (\$117.0 million); AB 939 fees (\$1.2 million); Recycle Plus Negotiated Savings (\$1.1 million); interest earnings (\$463,000); CDDD revenues (\$399,500); SB 332 Beverage Container Recycling payments (\$257,000); revenue from land rentals (\$251,800); and Recycle Plus Late Fees (\$165,600). Overall, revenues are expected to end the year slightly above the budget. Contributing to the year-end estimate are large items with consistent histories, such as Recycle Plus Collection Charges, which is expected to end the year slightly above budget.

Expenditures – Through December, \$50.4 million (31.1%) was expended, with an additional \$101.8 million (62.7% of budget) encumbered. The year-to-date expenditures and encumbrances of \$152.2 million are attributed primarily to the Recycle Plus contracts for Single-Family Dwelling (\$68.6 million), Yard Trimmings/Street Sweeping (\$25.7 million), and Multi-Family Dwelling (\$24.5 million). Additional expenditures include Single Family Dwelling Processing (\$18.4 million), IDC Disposal Agreement (\$4.2 million), Environmental Services Department (ESD) Personal Services (\$3.4 million), and ESD Non-Personal/Equipment (\$3.3 million) appropriations.

Overall, savings of approximately \$2.1 million are projected by the end of the year across various appropriations, with the largest estimated savings in the ESD Personal Services (\$1.6 million) due to vacancies in the department, and ESD Non-Personal/Equipment (\$500,000) due to savings in contractual services, and savings in Personal Services and Non-Personal/Equipment appropriations for other City departments (\$271,000).

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INTEGRATED WASTE MANAGEMENT FUND

FUND STATUS

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Unrestricted Ending Fund Balance</i>	3,703,893	N/A	N/A

Ending Fund Balance – This report includes actions to decrease the Ending Fund Balance by \$25,845 to offset an increase to the Workers’ Compensation Claims appropriation to ESD for higher than anticipated settlement and medical treatment costs (\$30,000), a decrease to the Personal Services appropriation to ESD for Voluntary Furlough/Reduced Work Week Program savings (\$7,368), and increases to the Personal Services appropriations to the City Attorney’s Office (\$1,581) and Public Works (\$1,632) for the Salary and Benefits Program. After accounting for these actions, the Ending Fund Balance remains \$3.7 million.

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SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Revenues</i>	334,607,000	69,659,697	20.8%
<i>Expenditures</i>	540,360,232	48,757,325	9.0%

FUND STATUS

Revenues – Budgeted revenue for the San Jose-Santa Clara Treatment Plant Capital Fund consists of financing proceeds (\$178.0 million); contributions from the City of Santa Clara and other Tributary Agencies (\$112.8 million); a transfer from the City of San José Sewer Service and Use Charge (SSUC) Fund (\$35.0 million); interest earnings (\$8.4 million); and Calpine Metcalf Energy Center Facilities Repayments (\$389,000). Through December, \$69.7 million (20.8%) has been received, primarily due to the transfer and tributary payments. Financing proceeds are expected to be realized in the fourth quarter of 2019-2020.

Based on the reconciliation of prior year project expenditures, contributions from the tributary agencies for the current fiscal year have been reevaluated, and are expected to end the year \$11.6 million lower than the budgeted estimate due to the timing of project expenditures and the impact on the contribution schedule. Prior year fund balance and expected project savings will offset this shortfall. Each year, contributions from the tributary agencies are trued up for actual Treatment Plant expenditures and encumbrances from the prior year. Based on current earnings through December, interest revenue for this fund may end the year \$1.9 million lower than the budgeted estimate. The other revenue sources for this fund are anticipated to end the year at the budgeted estimate.

Expenditures – Expenditures in this fund represent the costs of improvements and rehabilitation of the San José-Santa Clara Water Pollution Control Plant. The Modified Budget is \$540.4 million. The major expenditures in this fund are the New Headworks (\$133.5 million), Digester and Thickener Facility Upgrades (\$58.7 million), Nitrification Clarifier Rehabilitation (\$54.7 million), Energy Generation Improvements (\$52.1 million), Aeration Tanks and Blower Rehabilitation (\$47.2 million), Filter Rehabilitation (\$36.8 million), Yard Piping and Road Improvement (\$22.4 million), Advanced Facility Control and Meter Replacement (\$20.3 million), Headworks Improvements (\$16.3 million), Support Building Improvements (\$15.2 million), Digested Sludge Dewatering Facility (\$13.6 million), Program Management (\$11.8 million), Plant Electrical Reliability (\$7.7 million), Treatment Plant Distributed Control System (\$7.1 million), Outfall Bridge and Levee Improvements (\$6.7 million), Owner Controlled Insurance Program (\$6.4 million), and Debt Service for the Plant Capital Improvement Program (\$5.7 million) projects.

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STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

FUND STATUS

Through December, \$48.8 million (9.0%) of the budget was expended and an additional \$170.7 million was encumbered, bringing overall commitments through December to 40.6% of the budget. 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.

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Unrestricted Ending Fund Balance</i>	7,379,939	N/A	N/A

Fund Balance – A recommendation to increase the Ending Fund Balance by \$100,000 is included in this report. The City Facilities Emergency Power Generation – Regional Wastewater Facility appropriation was established in the 2018-2019 Annual Report with an initial budget of \$100,000. It was subsequently determined that this project’s intended purpose was not necessary and this allocation is recommended to be released to Fund Balance. After taking this action into account, Ending Fund Balance will increase to \$7.5 million.

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SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUND

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Revenues</i>	96,735,000	85,581,020	88.5%
<i>Expenditures</i>	104,493,520	48,321,768	46.2%

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 (\$64.0 million), contributions from the City of Santa Clara (\$13.4 million) and participating tributary agencies (\$18.5 million), and interest earnings (\$430,000). Through December, revenues totaled \$85.6 million, or 88.5% of the budgeted estimate.

The largest source of revenue, the transfer from the Sewer Service and Use Charge Fund (\$64.0 million), has been received in full. Contributions from Santa Clara and other tributary agencies are estimated to come in higher than budgeted levels. These contributions are made in four installments based on the amounts provided in the 2019-2020 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 2018-2019, this year’s agency reimbursement revenue is projected to come in above budget by \$970,000. Interest revenue through December has already exceeded budgeted levels by approximately \$338,000 for a total of \$768,000, and are expected to exceed the budgeted estimate by \$750,000 by the end of the year. Overall, revenues are estimated to end the year at or slightly above the budget.

Expenditures – Expenditures in this fund represent the costs required for the operation and maintenance of the San José-Santa Clara Water Pollution Control Plant and associated regulatory activities. Through December, \$48.3 million (46.2%) has been expended, and an additional \$13.6 million (13.0%) has been encumbered, bringing the total commitments to \$61.9 million (59.2%). Across Personal Services appropriations within the fund, expenditure levels are tracking slightly below expectations with \$24.5 million (42.4%) expended, and are projected to end the year 7.1% below budgeted levels (\$57.7 million). Non-Personal/Equipment commitments are above the previous year’s levels with \$24.2 million expended in 2019-2020, compared to \$20.7 million in 2018-2019. Overall, expenditures are projected to end the year at or slightly below budgeted levels.

2019-2020 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUND

FUND STATUS

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Unrestricted Ending Fund Balance</i>	7,872,045	N/A	N/A

Ending Fund Balance – Actions are included in this report to increase the Ending Fund Balance by \$51,512 as an offset to a net expenditure reduction resulting from a decrease to the Personal Services appropriation to the Environmental Services Department to account for savings from the Voluntary Furlough/Reduced Work Week Program (\$53,730), and an increase to the Personal Services appropriation to the Human Resources Department to account for the Salary and Benefits Program adjustment (\$2,218). After accounting for these actions, the Ending Fund Balance remains \$7.9 million.

2019-2020 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SEWER SERVICE AND USE CHARGE CAPITAL IMPROVEMENT FUND

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Revenues</i>	37,011,000	33,468,869	90.4%
<i>Expenditures</i>	104,040,163	14,809,881	14.2%

FUND STATUS

Revenues – Budgeted revenue for the Sewer Service and Use Charge Capital Improvement Fund consists of transfers from the Sewer Service and Use Charge Fund (\$32.0 million), reimbursements from the West Valley Sanitation District (WVSD) and Cupertino for joint projects (\$4.0 million), and interest earnings (\$1.1 million).

Revenue through the end of December totals \$33.5 million (90.4%), consisting mainly of the transfer from the Sewer Service and Use Charge Fund (\$32.0 million). Interest revenue totaling \$962,000 has also been received through December, nearly meeting the estimated year-end total.

Overall, revenues are expected to meet required levels. As funds are expended on projects within Cupertino and the WVSD, invoices are processed and issued to those agencies, for which reimbursements are received.

Expenditures – Expenditures in this fund represent the costs of improvements and rehabilitation of the Sanitary Sewer System. The major expenditures in this fund are the 60” Brick Interceptor Rehabilitation project (\$37.4 million), Urgent Rehabilitation and Repair Projects allocation (\$11.4 million), Condition Assessment Sewer Repair (\$10.7 million), Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements (\$8.7 million), Immediate Replacement and Diversion Projects (\$8.2 million), Cast Iron Pipe – Remove and Replace (\$6.7 million), Westmont Avenue and Harriet Avenue Sanitary Sewer Improvements (\$5.1 million), Infrastructure – Sanitary Sewer Condition Assessment (\$3.4 million), and Master Planning Updates (\$2.1 million). Additional expenses include the Public Art allocation (\$1.2 million) and a transfer to the City Hall Debt Service Fund (\$315,000).

Through December, \$14.8 million (14.2%) of the budget was expended and an additional \$48.5 million was encumbered, bringing the total amount committed to 60.9%. Overall, expenditures are expected to meet budgeted levels.

2019-2020 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS
SEWER SERVICE AND USE CHARGE CAPITAL IMPROVEMENT FUND
FUND STATUS

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Unrestricted Ending Fund Balances</i>	9,250,018	N/A	N/A

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

2019-2020 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

TRANSIENT OCCUPANCY TAX FUND

FUND STATUS

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Revenues</i>	33,871,000	11,079,037	32.7%
<i>Expenditures</i>	41,796,189	28,038,521	67.1%

Revenues – Transient Occupancy Tax (TOT) Fund revenues through December totaled \$11.1 million, tracking 2.7% below the prior year level for the same period (\$11.4 million). This year-over-year variance is attributable to declining booking activity, despite increased hotel room supply (451 rooms), and the softening of average room rates. The 2019-2020 Adopted Budget estimate of \$33.8 million assumed almost 7.1% growth over 2018-2019 year-end projections used for budget development (\$31.4 million), based on prior sustained year-over-year revenue growth, prevailing economic conditions, the corresponding outlook for the convention and hospitality sectors, and assumed consistent demand and benefit of increased supply. Relative to actual 2018-2019 collections, growth of 9.4% is needed to meet the current 2019-2020 estimate due to lower than anticipated collections during the fourth quarter of 2018-2019. Given year-to-date collections and current occupancy and room rate trends, TOT collections are now projected to fall short of the budgeted estimate by 11.1%, necessitating downward adjustment from \$33.8 million to \$30.0 million.

As the Transient Occupancy Tax has historically been a leading indicator of a changing economic outlook, staff is continuing to closely monitor hotel activity metrics and collections, which are currently suggesting that the recent growth trend may have peaked and that revenues are poised to decline relative to prior year levels. The average hotel occupancy rate for the San José market hotels was 74.1%, a decrease from the 78.5% occupancy rate reported for the same period in 2018-2019, which is partly attributable to increases in hotel room supply in late summer 2019. Reported average room rates also decreased from \$195.08 to \$191.58 (1.8%). And more indicative of year-to-date performance, average revenue-per-available room (RevPAR) of \$141.96 represents a 7.3% decrease from the prior year level of \$153.10.

Expenditures – According to San José Municipal Code (Sections 4.72.060 and 4.72.065), Transient Occupancy Tax receipts are proportionally allocated for: operation of the San José Convention and Visitors Bureau (CVB) (25%); cultural grant programs managed by the Office of Economic Development (25%); and transfer to the Convention and Cultural Affairs Fund (50%) to support the contractual operations of the San José McEnery Convention Center and various cultural facilities owned by the City. Overall expenditures through December 2019, totaling \$28.0 million, represent 67.1% of the Modified Budget. To date, most budgeted funds have been transferred to the Convention and Cultural Affairs Fund and expended or encumbered for pass-through funding to Team San Jose for CVB operations.

2019-2020 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

TRANSIENT OCCUPANCY TAX FUND

FUND STATUS

Proportional reductions are recommended in this report to the Transfer to the Convention and Cultural Affairs Fund (\$1,875,000), Cultural Grants allocation (\$937,500), and San José Convention and Visitors Bureau allocation (\$937,500) to offset the recommended \$3,750,000 reduction to estimated TOT revenue. Corresponding proportional reductions are also recommended to allocate the final variance in actual 2018-2019 receipts (\$103,357). These actions require the partial reversal of interfund transfers recorded to date and the partial release of current encumbrances. However, the adjustments do not impact current funding levels for the contractual operation of the San José McEnery Convention Center and various cultural facilities owned by the City, as an equivalent reduction to the Ending Fund Balance is recommended in the Convention and Cultural Affairs Fund. However, the reduced revenue estimate decreases the resources available to fund future capital infrastructure needs at the supported facilities.

	2019-2020 Current Modified	2019-2020 YTD Actual	2018-2019 % of Budget
<i>Unrestricted Ending Fund Balance</i>	1,839,424	N/A	N/A

Ending Fund Balance – The adjustments recommended in this report do not impact Ending Fund Balance for the Transient Occupancy Tax Fund. Further details on the adjustments can be found in Section III, *Recommended Budget Adjustments and Clean-up Actions*, of this report.

2019-2020 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY FUND

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Revenues</i>	51,761,429	24,297,133	46.9%
<i>Expenditures</i>	54,340,616	24,535,563	45.2%

FUND STATUS

Revenues – Budgeted revenues for the Water Utility Fund consists primarily of Metered Sales of water to residents of jurisdictions served by the San José Municipal Water System (\$44.7 million). Additional sources of revenue include Metered Sales of recycled water (\$6.4 million), Late Fees associated with Metered Sales of recycled and non-recycled water (\$300,000), interest revenue (\$276,000), and miscellaneous revenue associated with the sale of water (\$100,000).

The largest source of revenue in this fund, Metered Sales, is on track to meet the budget with \$20.9 million (46.8%) received through the end of December. Similarly, Metered Sales of recycled water are tracking at expectations with \$3.0 million (46.6%) received through the end of December. Late Fee revenue is tracking above expectations with \$241,000 (80.4%) received through December, while interest revenue is tracking below budgeted levels with \$82,000 (29.8%) received through the end of December. Overall, revenue is projected to end the year at the budgeted level. Historical and seasonal trends have shown that fluctuations in water consumption rates during the second half of the fiscal year can have significant impacts on year-end revenues. Close attention will be paid to Metered Sales revenues through the remainder of the year to ensure any necessary budgetary actions will be taken.

Expenditures – Expenditures in this fund represent the costs required for the operation and maintenance of the San José Municipal Water System. Most of the expenditures in this fund are budgeted in the Non-Personal/Equipment appropriation to the Environmental Services Department (\$38.6 million) for the purchase of water and related operational needs. Beyond that, Personal Services appropriations to the Environmental Services Department (ESD) (\$7.3 million) and other City departments (\$850,000) account for the next largest segment of operational expenditures. Non-operational expenses include transfers to other funds, primarily the Water Utility Capital Fund (\$4.8 million), and to the General Fund of Late Fee revenue (\$486,000) and City Hall Debt Service (\$196,000). Other expenditures include the Reimbursement of Indirect Overhead (\$1.5 million) and costs associated with the transition of the Customer Information System (\$151,000).

2019-2020 MID-YEAR BUDGET REVIEW

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY FUND

FUND STATUS

Through December, \$24.5 million (45.2%) has been expended, and an additional \$2.2 million (4.0%) has been encumbered, bringing the total commitments to 49.2%. Across Personal Services appropriations, expenditure levels (\$3.5 million) are tracking slightly below expectations with 42.3% expended, and are projected to end the year below budgeted levels. Non-Personal/Equipment commitments are slightly above the previous year’s levels with \$19.1 million (49.3%) expended in 2019-2020, compared to \$17.8 million in 2018-2019. Overall, expenditures are projected to end the year below budgeted levels primarily due to expected vacancy savings within the Environmental Services Department.

	2019-2020 Current Modified	2019-2020 YTD Actual	2019-2020 % of Budget
<i>Unrestricted Ending Fund Balance</i>	4,616,267	N/A	N/A

Ending Fund Balance – Actions are included in this report to increase the Ending Fund Balance by \$1,479 as an offset to net expenditure decreases. This net decrease results from increases to the Personal Services appropriations to the City Attorney’s Office (\$2,503) and Finance Department (\$2,417) to account for the Salary and Benefits Program adjustment, and decreases to ESD Personal Services to account for Voluntary Furlough/Reduced Work Week Program savings (\$6,399). After accounting for these actions, the Ending Fund Balance remains \$4.6 million.