2015-2016

Annual

Report

III. Selected Special/ Capital Funds Budget Performance

III. SELECTED SPECIAL/CAPITAL FUNDS BUDGET PERFORMANCE

This section provides financial information on the 2015-2016 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 2015-2016 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 2015-2016 Modified Budget, which includes fund balance and reserves. The 2015-2016 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 2016-2017 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 2015-2016 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 2015-2016 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 2016-2017 budget actions (such as rebudgets); calculates the revised expenditure variance due to rebudgets approved as part of the 2016-2017 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 2016-2017 Adopted Budget; discusses variances between these two amounts; and identifies any impact on the 2016-2017 budget related to recommended actions included in this report.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2015-2016 Budget	*2015-2016 Actuals*	*Variance*	*% Variance*
Revenues	$43,948	$31,080	($12,868)	(29.3%)
Expenditures	$95,898	$66,555	($29,343)	(30.6%)

The Airport Capital Funds include the Airport Capital Improvement Fund, the Airport Revenue Bond Improvement Fund, the Airport Renewal and Replacement Fund, and the Airport Passenger Facility Charge Fund.

Revenues totaled $31.1 million and were generated from Passenger Facility Charges (PFCs) ($20.6 million), a transfer from the Airport Surplus Revenue Fund ($4.0 million), grant income ($5.9 million), interest earnings ($433,000), and miscellaneous revenues ($74,000). This revenue level was $12.9 million (29.3%) below the modified budget, but $6.2 million (25.0%) higher than the prior year level of $24.9 million.

After adjusting for a rebudget of revenue of $9.9 million, the variance to the budget of $3.0 million (6.8%) was mainly due to lower than anticipated grant revenue which ended the year below the modified budget by $3.8 million (39.2%). Lower grant revenue levels were partially offset by higher PFC revenue which exceeded the modified budget by $903,000 (4.6%). Overall, revenues were higher than the prior year due to increased revenue from PFCs, grants, and interest.

Expenditures totaled $66.6 million and consisted primarily of transfers to other Airport funds for debt service ($36.0 million), various capital renewal and replacement projects ($6.1 million), Perimeter Fence Line Upgrades ($4.6 million), FIS Baggage System Upgrades ($3.6 million), FIS Curbside Improvements ($2.7 million), Runway Pavement Rehabilitation ($2.2 million), and Terminal Area Improvement, Phase I ($2.1 million). This expenditure level was $29.3 million (30.6%) below the modified budget, but $17.1 million (34.7%) above the prior year level of $49.4 million.

After adjusting for rebudgets in the total amount of $24.5 million, the expenditure variance to the budget of $4.8 million (5.0%) was primarily due to the completion of a number of projects including the Fuel Farm Clean-Up, Runway Pavement Rehabilitation, roadways repairs, terminal refurbishment, power chair and flight display upgrades. Expenditures for the current year were higher than the prior year primarily due to an increase in volume and scope of projects in progress.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2015-2016 Modified Budget	*2015-2016 Estimated Ending Fund Balance*	*2015-2016 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance (incl. Rebudget Adjustments)*	*Revised Variance As % of Modified Budget*
$141,930	$58,421	$62,813	$4,392	$2,130	$2,262	1.6%

The **Ending Fund Balance** of $62.8 million was $4.4 million above the estimate used in the development of the 2016-2017 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 decreases to $2.3 million. The remaining fund balance is recommended to be allocated to the 2016-2017 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)

	2015-2016 Budget	*2015-2016 Actuals*	*Variance*	*% Variance*
Revenues	$21,287	$22,473	$1,186	5.6%
Expenditures	$20,284	$19,990	($294)	(-1.4%)

Revenues totaled $22.5 million and were generated from rental car Customer Facility Charge (CFC) fees ($19.9 million), rental car contributions ($2.5 million), and interest earnings ($60,369). This revenue level was $1.2 million (5.6%) above the modified budget of $21.3 million and $1.3 million (6.1%) above the prior year level of $21.2 million.

The positive variance to the budget of $1.2 million (5.6%) was primarily due to higher CFC revenue, which was driven by increased car rental activities associated with higher than anticipated passenger levels. The $1.3 million (6.1%) revenue increase over the prior year was also due to increased CFCs.

Expenditures totaled $20.0 million and were primarily attributed to transfers for debt service payments ($17.8 million) as well as shuttle bus operation and maintenance costs ($2.1 million). The small variance to the budget of $294,000 (1.4%) was mainly due to slightly lower than budgeted costs for shuttle bus drivers and maintenance. This expenditure level was $301,000 (1.5%) above the prior year level of $19.7 million due to increased debt service costs.

Ending Fund Balance Performance ($ in Thousands)

2015-2016 Modified Budget	*2015-2016 Estimated Ending Fund Balance*	*2015-2016 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance (incl. Rebudget Adjustments)*	*Revised Variance As % of Modified Budget*
$31,517	$12,442	$12,725	$283	$0	$283	0.9%

The **Ending Fund Balance** of $12.7 million was $283,000 above the estimate used in the development of the 2016-2017 Adopted Budget. This positive variance from the estimate was due to higher than estimated revenues from CFCs and interest earnings and 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)				
	2015-2016 Budget	*2015-2016 Actuals*	*Variance*	*% Variance*
Revenues	$135,022	$143,518	$8,496	6.3%
Expenditures	$81,266	$76,084	($5,182)	(6.4%)

In 2015-2016, passenger activity increased by 6.9% from the 2014-2015 level of 9.6 million passengers to 10.2 million passengers compared to the estimated growth level of 2%. The estimated passenger growth for 2016-2017 is 2.25%. While the Airport has recently experienced significant growth, the estimated growth for 2016-2017 remains conservative to account for the highly competitive airline and airport industries.

Revenues in the Airport Revenue Fund totaled $143.5 million and were generated from Parking and Roadways ($51.2 million), Airline Terminal Rental ($40.8 million), Terminal Building Concessions ($17.6 million), Landing Fees ($13.1 million), Miscellaneous Revenue ($12.4 million), Airfield Area ($4.9 million), Petroleum Products ($3.2 million), and a transfer from the Airport Fiscal Agent Fund ($343,000). This revenue level was $8.5 million (6.3%) above the modified budget of $135.0 million and $17.9 million (14.2%) above the prior year level of $125.6 million.

The positive revenue variance to budget of $8.5 million resulted from higher than budgeted revenue for the following categories: Parking and Roadways ($3.4 million) resulting from increased ground transportation trip fees, parking revenue, and rental car concession fees associated with increased passenger volume; Miscellaneous Revenue ($3.2 million) due to increases in ground rental rates and $1.5 million from the California Plume Fund for clean-up of the old fuel farm underground storage tanks; and Airfield Area ($893,000) due to the increased revenue received from the in-flight kitchen tenants. Landing fees ($390,000) and Airline Terminal Rental revenue ($382,000) are greater than expected from a combination of rate increases and passenger growth while Terminal Building Concession revenue ($580,000) exceeded budget due to increased passenger volume and usage. The 14.2% increase in revenues over the prior year is primarily attributed to the increased passenger activity.

Expenditures in the Airport Maintenance and Operation Fund totaled $76.1 million and were primarily for Airport Department Non-Personal/Equipment ($34.5 million including encumbrances), Airport Personal Services ($24.7 million), Transfer to the General Fund for Police and Fire services ($11.5 million), Overhead ($3.5 million), and Interdepartmental Services ($1.1 million). This expenditure level was $5.2 million (6.4%) below the modified budget of $81.3 million, but $5.3 million (7.5%) above the prior year level of $70.8 million.

The negative variance to the budget of $5.2 million was primarily due to personal services vacancy savings ($2.0 million) and non-personal/equipment expenditure savings ($2.2 million), primarily due to savings in contractual services, including a reduced need in temporary staffing for the Airport parking program. The $5.3 million (7.5%) increase in expenditures over the prior year was primarily due to

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

higher Airport Department Non-Personal/Equipment services costs ($1.4 million) mostly due to additional marketing support for new international airlines, Police/Fire services costs ($2.3 million) primarily due to Index D levels requiring additional Fire staffing per shift and increased compensation costs, and Airport Department Personal Services costs ($742,000).

Ending Fund Balance Performance ($ in Thousands)

2015-2016 Modified Budget	*2015-2016 Estimated Ending Fund Balance*	*2015-2016 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance (incl. Rebudget Adjustments)*	*Revised Variance As % of Modified Budget*
$315,846	$108,190	$117,830	$9,640	$0	$9,640	3.1%

The combined **Ending Fund Balance** of $117.8 million was $9.6 million above the budgeted estimate used to develop the 2016-2017 Adopted Operating Budget. The positive variance from the estimate was largely due to higher than estimated revenues from parking and rental car concession fees ($3.4 million) and lower than estimated Airport Department Non-Personal/Equipment ($2.0 million) and Personal Services expenditures ($2.3 million). This balance will be allocated to the Airline Agreement Reserve in the Airport Revenue Fund, shared with the Airlines per the Operating Agreement, with the Airport share will be earmarked and retained for future operating or economic contingencies.

The strong passenger growth in 2015-2016 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. Because the percentage growth in annual enplanements at the Airport in 2015-2016 of 6.8% exceeded the Federal Aviation Administration's (FAA) projection of 4.2% for national enplanement growth, budget actions are recommended in this report to reduce the 2016-2017 overhead expenses to the Airport Maintenance and Operation Fund by $425,494 to reflect a reduction of the overhead rate by 2.6 points (from the adopted overhead rate of 17.57% to 15.00%). This action is offset by an increase in the same amount to the Airport's Non-Personal/Equipment appropriation and there are corresponding actions in the General Fund to account for the lower overhead reimbursements to the General Fund.

In addition, funding of $1.0 million for a U.S. Customs and Border Protection (CBP) service agreement to provide expanded service on a reimbursable basis is recommended to provide extended hours to support the growing number of international flights. This budget action will be offset in the Operations Contingency. These recommended budget actions are described in further detail in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions* of this report.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2015-2016 Budget	*2015-2016 Actuals*	*Variance*	*% Variance*
Revenues	$21,240	$21,682	$442	2.1%
Expenditures	$43,268	$18,589	($24,679)	(57.0%)

Revenues totaled $21.7 million and were generated primarily from the Building and Structure Tax ($19.4 million) and grant funding ($1.8 million). Actual revenues were $442,000 (2.1%) above the budgeted estimate of $21.2 million and $2.0 million (10.4%) above the prior year level of $19.6 million.

The 2015-2016 revenues were higher than the budgeted estimate by approximately $442,000 due primarily to higher than budgeted Building and Structure Construction Tax receipts ($5.4 million), offset by lower than budgeted revenue from federal grants. Grant-related revenues of $3.5 million were not received in 2015-2016 due to project delays and this amount was rebudgeted as part of the development of the 2016-2017 Adopted Budget; an additional $1.3 million is recommended to be rebudgeted as part of this report. Revenues were above the prior year primarily due to higher Building and Structure Construction Tax receipts ($2.8 million), partially offset by lower federal grant revenue ($1.0 million).

At $19.4 million, Building and Structure Construction Tax receipts in 2015-2016 were 17.1% higher than the 2014-2015 actuals of $16.6 million. The higher collections in Building and Structure Construction Tax revenues are primarily attributable to increased issuances of permits for commercial and industrial building projects. The total valuation of projects submitted in 2015-2016 of $1.5 billion was 14.3% above the $1.3 billion valuation of projects that were received in 2014-2015. Commercial valuation of $474.0 million was higher than the prior year level of $380.0 million. Industrial activity of $594.7 million surpassed the forecasted level of $250.0 million and was above last year's level of $359.9 million. Residential valuation of $440.9 million, however, was lower than the prior year total of $580.9 million and less than the estimate of $615.0 million. Major projects contributing to the tax receipts in 2015-2016 were: construction started on a 23,000 square foot assembly building at the eBay campus on East Hamilton Avenue; finished interior permit for completion of the fourth floor of the Samsung R&D building on North First Street; foundation only permit for a 144 room hotel located on North First Street south of Highway 237; foundation only permits for a five story, 162,000 square foot office building and a six story 194,000 square foot office building in the Coleman Highline development; and construction started on a new 315 unit apartment building on West San Carlos Street north of Highway 280 and west of Highway 87.

When the 2016-2017 Adopted Budget was developed, it was assumed that Building and Structure Construction Tax receipts would total $14.0 million in 2015-2016 and drop approximately 7% to $13.0 million in 2016-2017 as projects are completed and activity levels slightly decrease. However, since actual collections were higher in 2015-2016, tax receipts can now drop 33% in 2016-2017 when compared to the prior year. An upward adjustment to the 2016-2017 revenue estimate may likely be warranted later in the year after several months of current year actual experience is analyzed.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

Expenditures totaled $18.6 million and were $24.7 million (57.0%) below the modified budget. A significant portion of the expenditure savings ($15.8 million) was anticipated and rebudgeted in the 2016-2017 Adopted Budget. An additional $3.1 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2016-2017. The expenditure level was $2.4 million (11.6%) below the prior year level of $21.0 million.

Ending Fund Balance Performance ($ in Thousands)

2015-2016 Modified Budget	*2015-2016 Estimated Ending Fund Balance*	*2015-2016 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance (incl. Rebudget Adjustments)*	*Revised Variance As % of Modified Budget*
$62,118	$35,398	$44,040	$8,642	($1,815)	$6,827	11.0%

The **Ending Fund Balance** of $44.0 million was $8.6 million above the estimate used in the development of the 2016-2017 Adopted Budget. After accounting for net revenue and expenditure rebudget adjustments of $1.8 million recommended in the Annual Report, the positive variance drops to $6.8 million and reflects higher than anticipated revenues and expenditure savings. Significant revenue rebudgets include San Carlos Multimodal Streetscape Improvements Phase 2 ($715,000) and ITS: Transportation Incident Management Center ($504,000). Significant expenditure rebudgets include Park Avenue Multimodal Improvements ($781,000), Safety – Traffic Signal Modifications ($535,000), Safety – Pedestrian Improvements ($258,000), Safety – Traffic Signal Rehabilitation ($242,000), St. John Street Multimodal Improvements Phase I ($230,000), St John Bike/Pedestrian Improvements (OBAG) ($225,000), and LED Streetlight Conversion ($214,000).

As described in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions*, a limited number of new grants and projects as well as revisions to existing projects are recommended in this report. After accounting for all recommended adjustments, approximately $1.2 million is recommended to be allocated to the 2016-2017 Ending Fund Balance.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2015-2016 Budget	*2015-2016 Actuals*	*Variance*	*% Variance*
Revenues	$66,060	$58,664	$7,396	11.2%
Expenditures	$111,380	$64,388	($46,992)	(42.2%)

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 2015-2016 totaled $58.7 million and were comprised of C&C Tax receipts ($42.7 million), transfers between funds ($14.8 million), interest earnings ($619,000), developer contributions and miscellaneous revenue ($307,000), and State and federal grants ($203,000). This revenue level is $7.4 million lower than the budgeted estimate of $66.1 million, primarily due to lower than budgeted developer contributions and miscellaneous revenue ($19.1 million), partially offset by higher than budgeted C&C Tax revenue ($7.7 million) and transfers between funds ($4.2 million). The 2015-2016 Adopted Capital Budget included revenue of $17.5 million for the sale of the old Main Yard; however, this sale did not occur in 2015-2016 and the 2016-2017 Adopted Capital Budget included a revised estimate for the sale to occur in 2016-2017. The 2015-2016 revenue level of $58.7 million is $1.9 million (3.1%) lower than the prior year level of $60.6 million. This variance is primarily due to lower grant revenue ($2.5 million) and developer contributions and miscellaneous revenue ($887,000), partially offset by higher C&C Tax receipts ($1.5 million) compared to 2014-2015 collections.

C&C Tax revenue collections in 2015-2016, which were primarily generated from property transfers, totaled $42.7 million, an increase of $1.5 million (3.6%) from the 2014-2015 collection level of $41.2 million. The 2015-2016 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 $865,000 in June 2015 to $920,000 in June 2016, which represents a 6.4% increase. In addition, the number of home sales in 2015-2016 (single-family and multi-dwelling units) increased over the prior year activity levels. The number of sales in 2015-2016 totaled 8,223, which represents a 2.9% increase from the 2014-2015 level of 7,992. Finally, the amount of time it takes to sell a home (single-family and multi-family dwelling units) has slightly decreased in the past year from an average 27 days in 2014-2015 to 24 days in 2015-2016.

The 2015-2016 Adopted Capital Budget was developed based on the assumption that C&C Tax receipts would total $35.0 million in 2014-2015 and remain steady in 2015-2016. In the last quarter of 2014-2015, however, tax receipts had an extremely strong performance, which resulted in 2014-2015 receipts totaling $41.2 million. Due to the higher than estimated collections in 2014-2015, the 2015-2016 C&C Tax

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Adopted Budget estimate of $35.0 million allowed for a 15.1% decline in tax revenue from the 2014-2015 actual tax receipts. In the development of the 2016-2017 Adopted Capital Budget, it was assumed that 2015-2016 C&C Tax receipts would total $38.0 million based on historical collection trends and actual receipts in 2015-2016, allowing for some moderation in activity levels. With continued strong performance in 2015-2016, actual receipts of $42.7 million exceeded the 2015-2016 Modified Budget by $7.7 million and the 2015-2016 estimate by $4.7 million. Given actual 2015-2016 receipts, the 2016-2017 C&C Tax estimate of $36.0 million allows for a 15.7% decline in tax revenue from the prior year. Receipts in 2016-2017 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.

Expenditures totaled $64.4 million and were primarily for various capital projects and transfers to other funds across the 17 C&C Tax funds. This expenditure level is $47.0 million (42.2%) below the budget of $111.4 million, and is primarily the result of unexpended capital project funding. The 2015-2016 expenditure level of $64.4 million was $500,000 (0.8%) above the prior year level of $63.9 million.

Ending Fund Balance Performance ($ in Thousands)

2015-2016 Modified Budget	*2015-2016 Estimated Ending Fund Balance*	*2015-2016 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance (incl. Rebudget Adjustments)*	*Revised Variance As % of Modified Budget*
$153,072	$73,084	$81,510	$8,426	$415	$8,841	5.8%

The **Ending Fund Balance** of $81.5 million was $8.4 million above the estimate used to develop the 2016-2017 Adopted Capital Budget. This variance was primarily due to higher than estimated C&C Tax receipts ($4.7 million) and transfers between funds ($2.5 million) and lower than estimated project expenditures ($886,000). After accounting for all rebudget adjustments recommended as part of this report, the revised variance to the Ending Fund Balance is increased to $8.8 million with this funding programmed in a future budget process.

As described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions*, this report includes recommendations to allocate $1.4 million from various C&C Tax Fund Ending Fund Balances to fund various capital projects, including Fire Station 29 Generator ($800,000 – Fire C&C Tax Fund), Happy Hollow Park and Zoo Alligator Exhibit ($200,000 – Parks City-Wide C&C Tax Fund), Assistance to Firefighters Grant (AFG) Reserve ($150,000 – Fire C&C Tax Fund), Doerr Park Shade Structure ($100,000 – Council District 9 C&C Tax Fund), Family Camp Capital Improvements Reserve ($79,000 – Parks City-Wide C&C Tax Fund), River Glen Neighborhood Center Replacement ($48,000 - Council District 6 C&C Tax Fund), and Vietnamese Cultural Heritage Garden ($20,000 - Parks City-Wide C&C Tax Fund). The remaining fund balance is recommended to be allocated to the respective funds' 2016-2017 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2015-2016 Budget	*2015-2016 Actuals*	*Variance*	*% Variance*
Revenues	$61,503	$50,956	($10,547)	(17.1%)
Expenditures	$138,212	$87,605	($50,607)	(36.6%)

Revenues totaled $51.0 million and were primarily generated from Construction Excise Taxes ($22.5 million), Traffic Impact Fees ($8.6 million), Measure B Vehicle Registration Fees (6.2 million), State Gas Tax receipts ($4.8 million), and Pavement Maintenance State Route Relinquishment funding ($3.8 million). Actual revenues were $10.5 million (17.1%) below the budgeted estimate of $61.5 million and $4.7 million (8.5%) below the prior year level of $55.7 million.

The 2015-2016 levels were lower than the budgeted estimate primarily due to lower than budgeted receipt of grant funds ($27.9 million), partially offset by higher than anticipated Traffic Impact Fees ($7.3 million) and Construction Excise Tax receipts ($3.5 million). Grant-related revenues of $3.9 million, which were not received in 2015-2016 due to project delays, were anticipated and rebudgeted as part of the development of the 2016-2017 Adopted Budget, and an additional $13.3 million is recommended to be rebudgeted as part of this report. Revenues were below the prior year primarily due to lower State Gas Tax collections ($5.9 million) and transfers from other funds ($800,000), partially offset by higher Construction Excise Tax receipts ($795,000).

At $22.5 million, Construction Excise Tax receipts in 2015-2016 were 3.7% higher than the prior year. The higher collections in Construction Excise Tax revenues are primarily attributable to increased issuances of permits for commercial valuation projects, offset by a reduction of residential valuation projects. Commercial valuation of $474.0 million was higher than the prior year level of $380.0 million. Residential valuation of $440.9 million in 2015-2016 was lower than the 2014-2015 level of $580.9 million. Major projects contributing to the tax receipts in 2015-2016 include: foundation only permits for a five story, 162,000 square foot office building and a six story 194,000 square foot office building in the Coleman Highline development; a foundation only permit for a 144 room hotel located on North First Street just south of Highway 237; and the start of construction on a new 315 unit apartment building on West San Carlos Street north of Highway 280 and west of Highway 87.

When the 2016-2017 Adopted Budget was developed, it was assumed that Construction Excise Tax receipts would total $18.5 million in 2015-2016 and drop approximately 8.0% to $17.0 million in 2016-2017 as projects are completed and activity levels slightly decrease. However, since actual collections were higher in 2015-2016, tax receipts can now drop 24% in 2016-2017 when compared to the prior year. An upward adjustment to the 2016-2017 revenue estimate may likely be warranted later in the year after several months of current year actual experience is analyzed.

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CONSTRUCTION EXCISE TAX FUND

Expenditures totaled $87.6 million and were $50.6 million (36.6%) below the modified budget. A portion of the expenditure savings ($19.7 million) was anticipated and rebudgeted in the 2016-2017 Adopted Budget. An additional $16.7 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2016-2017. The expenditure level was $5.6 million (7.0%) above the prior year level of $81.9 million, primarily due to the progression of capital projects in North San José funded by traffic impact fees.

Ending Fund Balance Performance ($ in Thousands)						
2015-2016 Modified Budget	***2015-2016 Estimated Ending Fund Balance***	***2015-2016 Actual Ending Fund Balance***	***Variance***	***Recommended Rebudget Adjustments***	***Revised Variance (incl. Rebudget Adjustments)***	***Revised Variance As % of Modified Budget***
$170,099	$54,486	$71,175	$16,689	($3,420)	$13,269	7.8%

The **Ending Fund Balance** variance of $71.2 million was $16.7 million above the estimate used in the development of the 2016-2017 Adopted Budget. After accounting for net revenue and expenditure rebudget adjustments of $3.4 million recommended in this report, the positive variance drops to $13.3 million and reflects expenditure savings. Significant revenue rebudgets include Pavement Maintenance – Federal (OBAG) ($9.6 million), Bicycle and Pedestrian Facilities ($1.9 million), and BART Design and Construction Support ($1.0 million). Significant expenditure rebudgets include Pavement Maintenance – City ($5.3 million), Pavement Maintenance – State Gas Tax ($3.9 million), and Pavement Maintenance – Measure B ($2.0 million).

As described in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions*, a limited number of new grants and projects as well as revisions to existing projects are recommended in this report. After accounting for all recommended adjustments, approximately $1.6 million is recommend to be allocated to the 2016-2017 Ending Fund Balance.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2015-2016 Budget	*2015-2016 Actuals*	*Variance*	*% Variance*
Revenues	$131,642	$132,552	$910	0.7%
Expenditures	$128,562	$125,591	($2,971)	(2.3%)

Revenues totaled $132.6 million and were generated primarily from Recycle Plus collection charges ($118.4 million), lien-related charges ($4.4 million), AB939 Fees ($3.5 million), and Recycle Plus negotiated hauler payments ($2.7 million). This revenue level was $910,000 above the modified budget of $131.6 million (0.7%) and $6.9 million (5.5%) above the prior year level of $125.6 million.

The variance to the budget was mainly due to the receipt of Household Hazardous Waste (HHW) revenue from the County ($349,000) as this revenue stream is not budgeted due to its volatility, higher Recycle Plus collection charges ($289,000), and higher AB939 fees ($103,000). The variance to the prior year was due primarily to higher Recycle Plus collection charges and revenue from the U.S. Economic Development Administration (EDA) grant associated with the photovoltaic project at the Environmental Innovation Center, partially offset by lower lien-related charges, as the County instead of the City now collects late fee revenues.

Expenditures totaled $125.6 million and were primarily for Single-Family Dwelling (SFD) Recycle Plus contracts ($50.8 million), yard trimmings/street sweeping contract ($22.4 million), Multi-Family Dwelling (MFD) Recycle Plus contracts ($19.4 million), International Disposal Corporation of California, Inc. (IDC) disposal agreement ($7.1 million), Environmental Services Department (ESD) personal services ($6.8 million), and SFD back-end processing ($5.0 million) costs. This expenditure level was $3.0 million (2.3%) below the modified budget of $128.6 million and $1.7 million (1.3%) below the prior year level of $127.3 million.

The variance to the budget was mainly due to project savings in the Household Hazardous Waste Las Plumas Facility allocation (approximately two-thirds of which is recommended in this report to be rebudgeted to 2016-2017), vacancy savings in ESD, non-personal/equipment expenditure savings in ESD, and the Customer Information System (CIS) Transition project (which is recommended in this report to be rebudgeted to 2016-2017). The higher expenditure level compared to the prior year was due primarily to higher costs for Single Family Dwelling Processing, the second phase of which occurred in 2015-2016; the County revenue collection fee, as 2015-2016 was the first year the County began collecting the majority of SFD Recycle Plus bills; and the SFD large item collection pilot, as 2015-2016 was the first year this program was implemented. This was partially offset by lower expenditures for the IDC disposal agreement, lower California Energy Commission (CEC) grant biomass to energy technology project costs as the majority of these costs were incurred in 2014-2015, lower personal services costs in the Information Technology Department, and lower ESD non-personal/equipment costs.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Ending Fund Balance Performance ($ in Thousands)						
2015-2016 Modified Budget	***2015-2016 Estimated Ending Fund Balance***	***2015-2016 Actual Ending Fund Balance***	***Variance***	***Recommended Rebudget Adjustments***	***Revised Variance (incl. Rebudget Adjustments)***	***Revised Variance As % of Modified Budget***
$148,529	$23,220	$25,187	$1,967	($821)	$1,146	0.8%

The **Ending Fund Balance** of $25.2 million was $2.0 million above the estimate used in the development of the 2016-2017 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the variance drops to $1.2 million. This ending fund balance was higher than the estimate largely due to higher than estimated revenues from Recycle Plus collections ($289,000) and EDA grant funding ($93,000), as well as lower than estimated ESD non-personal/equipment ($391,000), CIS Transition ($290,000), SFD back-end processing ($234,000), and Household Hazardous Waste Las Plumas Facility ($155,000) costs.

As described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions*, budget actions are recommended to increase the allocations for ESD Non-Personal/Equipment ($300,000) for the acquisition of a compacting garbage truck and the EIC QALICB Master Lease Payment ($3,500). After accounting for all recommended adjustments, the 2016-2017 Ending Fund Balance will be increased by approximately $835,000, which includes increases of $730,000 to the Unrestricted Ending Fund Balance (from $7.4 million to $8.1 million) and $105,000 to the Operations and Maintenance Reserve (from $11.0 million to $11.1 million), in order to keep this reserve at its target of one month of operating expenditures.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2015-2016 Budget	*2015-2016 Actuals*	*Variance*	*% Variance*
Revenues	$76,253	$68,580	($7,673)	(10.1%)
Expenditures	$238,269	$207,637	($30,632)	(12.9%)

Revenues totaled $68.6 million and were generated primarily from a transfer from the Sewer Service and Use Charge Fund ($30.7 million), contributions from the tributary agencies for projects and debt service payments ($28.0 million), a transfer from the Treatment Plant Connection Fee Fund ($3.1 million), and interest income ($1.4 million). This revenue level was $7.7 million (10.1%) below the modified budget and $5.2 million (7.1%) below the prior year level of $73.8 million.

The negative revenue variance to the budget was due primarily to lower contributions from the tributary agencies for projects, as a result of the reconciliation for actual Treatment Plant expenditures and encumbrances over the course of the prior year, partially offset by higher grant revenue from the U.S. Bureau of Reclamation (USBR) as a result of severe drought. The negative variance to the prior year was due primarily to a lower transfer from the Sewer Service and Use Charge Fund for capital projects, partially offset by higher contributions from the tributary agencies and USBR grant revenues.

Expenditures totaled $207.6 million and were primarily attributed to capital improvement projects ($196.1 million) and debt service payments ($11.4 million). The largest expenditures included Digester and Thickener Facilities Upgrade ($126.4 million), Energy Generation Improvements ($23.1 million), Combined Heat and Power Equipment Repair and Rehabilitation ($10.8 million), Program Management ($9.2 million), Iron Salt Feed Station ($6.9 million), and Construction-Enabling Improvements ($3.7 million). This expenditure level was $30.6 million (12.9%) below the modified budget and $107.9 million (108.2%) above the prior year level of $99.7 million.

After accounting for all project rebudgets, including those recommended in this report, the $30.6 million expenditure variance drops to $2.9 million, or 1.2% below the budget. The majority of this variance is due to unspent balance in three ongoing appropriations: Equipment Replacement ($846,000), Urgent and Unscheduled Treatment Plant Rehabilitation ($684,000), and Preliminary Engineering ($218,000). Additional savings were realized in the Capital Program and Public Works Department Support Service Costs ($289,000) appropriation and from the completion of the Treatment Plant Engine Rebuild project ($490,000). Expenditures were above the prior year due primarily to the Digester and Thickener Facilities Upgrade Project, which was awarded in 2015-2016.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

Ending Fund Balance Performance ($ in Thousands)						
2015-2016 Modified Budget	*2015-2016 Estimated Ending Fund Balance*	*2015-2016 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance (incl. Rebudget Adjustments)*	*Revised Variance As % of Modified Budget*
$269,562	$63,150	$66,901	$3,751	($1,355)	$2,396	0.9%

The **Ending Fund Balance** of $66.9 million was $3.8 million above the estimate used in the development of the 2016-2017 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the positive variance drops to $2.4 million. This ending fund balance was higher than the estimate largely due to expenditure savings from the following ongoing allocations: Urgent and Unscheduled Treatment Plant Rehabilitation ($1.1 million), Equipment Replacement ($846,000), and Preliminary Engineering ($619,000). After accounting for all recommended adjustments, approximately $2.4 million is recommended to be allocated to the 2016-2017 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)				
	2015-2016 Budget	*2015-2016 Actuals*	*Variance*	*% Variance*
Revenues	$232,753	$227,862	($4,891)	(2.1%)
Expenditures	$245,553	$233,657	($11,896)	(4.8%)

The San José-Santa Clara Treatment Plant operating funds consist of the Sewer Service and Use Charge Fund (SSUC Fund), the San José-Santa Clara Treatment Plant Operating Fund (Plant Operating Fund), the Sewage Treatment Plant Connection Fee Fund (Connection Fee Fund), and the San José-Santa Clara Treatment Plant Income Fund (Plant Income Fund).

Revenues totaled $227.9 million and were generated primarily from sewer service and use charges for residential ($112.2 million), commercial ($23.6 million), and industrial ($4.3 million) users; a transfer from the SSUC Fund to the Plant Operating Fund ($47.5 million); contributions from tributary agencies ($17.6 million) and the City of Santa Clara ($10.9 million); recycled water sales and rebates ($7.8 million); and Connection Fees ($2.7 million). This revenue level was $4.9 million (2.1%) below the modified budget and $828,000 (0.4%) below the prior year level of $228.7 million.

The negative variance to the budget of $4.9 million (2.1%) was mainly due to lower contributions from the tributary agencies, as a result of the reconciliation for actual Treatment Plant expenditures and encumbrances over the course of the prior year, lower connection fee income, and lower commercial SSUC charges. Revenues also came in lower than the prior year due primarily to no Supplemental Education Revenue Augmentation Fund (SERAF) loan repayment from the General Fund as there was the prior year ($5.1 million), and a decrease in the transfer from the SSUC Fund to the Plant Operating Fund, partially offset by higher residential SSUC charges, contributions from the tributary agencies, and recycled water sales and rebates.

Expenditures totaled $233.7 million and were primarily for the following: transfers from the SSUC Fund to the Plant Operating Fund ($47.5 million), Sewer Service and Use Charge Capital Fund ($32.0 million), and San José-Santa Clara Treatment Plant Capital Fund (Plant Capital Fund) ($30.7 million); Environmental Services Department (ESD) personal services ($49.3 million) and non-personal/equipment ($32.1 million) costs; overhead reimbursements ($12.8 million); and Department of Transportation (DOT) personal services ($11.4 million) and non-personal/equipment ($6.3 million) costs. This expenditure level was $11.9 million (4.8%) below the modified budget and $13.5 million (5.5%) below the prior year level of $247.1 million.

Expenditures ended the year $11.9 million (4.8%) below the budget primarily due to personal services and non-personal/equipment expenditure savings in ESD, largely a result of vacancy savings and delays in executing contractual services as staff re-evaluated the professional services needs for several complex maintenance projects, as well as personal services and non-personal/equipment expenditure savings in DOT. Expenditures tracked $13.5 million below the prior year due primarily to lower transfers from the SSUC Fund to the Plant Capital Fund and Plant Operating Fund, and lower DOT and ESD non-personal/equipment costs, partially offset by higher ESD and DOT personal services costs.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2015-2016 Modified Budget	*2015-2016 Estimated Ending Fund Balance*	*2015-2016 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance (incl. Rebudget Adjustments)*	*Revised Variance As % of Modified Budget*
$324,912	$83,940	$89,035	$5,095	($1,847)	$3,248	1.0%

The **Ending Fund Balance** of $89.0 million was $5.1 million above the estimate used in the development of the 2016-2017 Adopted Budget. After accounting for rebudget adjustments recommended in this Annual Report, the positive variance drops to $3.2 million. This ending fund balance increased above the estimate largely due to higher than estimated connection fee revenue ($701,000) and sewer service and use charges for industrial ($366,000) and residential ($223,000) users, as well as lower than estimated non-personal/equipment costs in ESD ($3.9 million), partially offset by higher non-personal/equipment ($457,000) and personal services ($238,000) costs in DOT.

The additional fund balance of $3.2 million is recommended to be distributed to the 2016-2017 Ending Fund Balance allocations in the various funds. Of this amount, it is recommended that $112,000 be set aside in the Sewer Service and Use Charge Fund's Operations and Maintenance Reserve and $285,000 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 $687,000 and the Unrestricted Ending Fund Balances be increased by a total of $2.1 million across the Plant Operating Fund ($1.3 million), SSUC Fund ($648,000), and Plant Income Fund ($89,000) for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2015-2016 Budget	*2015-2016 Actuals*	*Variance*	*% Variance*
Revenues	$34,766	$33,693	($1,073)	(3.1%)
Expenditures	$118,261	$66,150	($52,111)	(44.1%)

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 $33.7 million and were generated from a transfer from the Sewer Service and Use Charge (SSUC) Fund ($32.0 million), connection fees ($976,000), interest income ($683,000), miscellaneous revenue ($28,000), and joint participation payments ($7,000). This revenue level was $1.1 million (3.1%) below the modified budget and $8.9 million (36.1%) above the prior year level of $24.8 million.

The negative variance to the budget was mainly due to lower joint participation payments, partially offset by higher interest and connection fee revenue. Joint participation payments, which reflect the West Valley Sanitation District's and County Sanitation Districts' share of costs for projects in their jurisdictions, came in lower than budgeted by $1.7 million primarily due to a delay of the 60" Brick Interceptor, Phase VIA and VIB project, which has been rebudgeted to 2016-2017, 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. The positive variance to the prior year was due primarily to a higher Transfer from the SSUC Fund ($9.0 million), partially offset by lower joint participation payments ($236,000).

Expenditures totaled $66.2 million and were for several capital projects; the largest of these were: Urgent Rehabilitation and Repair Projects ($7.6 million), Monterey-Riverside Relief Sanitary Sewer Improvements ($6.7 million), Immediate Replacement and Diversion Projects ($5.9 million), Condition Assessment Sewer Repairs ($5.1 million), Cast Iron Pipe – Remove and Replace ($4.0 million), and Infrastructure – Sanitary Sewer Condition Assessment ($3.6 million). This expenditure level was $52.1 (44.1%) below the modified budget and $13.1 million (24.6%) above the prior year level of $53.1 million.

The negative variance to the budget was mainly a result of savings and project delays across several large projects, including: 60" Brick Interceptor, Phase VIA and VIB ($29.1 million, of which $29.0 million was rebudgeted in the 2016-2017 Adopted Budget), Rehabilitation of Sanitary Sewer Pump Stations ($5.6 million, of which $2.4 million was re-programmed to a 2016-2017 reserve for the Montague Pump Station and $3.2 million was rebudgeted in the 2016-2017 Adopted Budget), Immediate Replacement and Diversion Projects ($1.7 million, of which $800,000 was rebudgeted in the 2016-2017 Adopted Budget and $700,000 is recommended in this report for rebudget), and Condition Assessment Sewer Repairs ($1.5 million, of which $1.4 million is recommended for rebudget in this report). The largest true project savings in 2015-2016 were due to the Husted Avenue Sanitary Sewer Improvement – Phase II project, which came in under budget by approximately $794,000 due to lower than anticipated bids. Aside from the standard

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SANITARY SEWER CAPITAL FUNDS

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 the Monterey-Riverside Relief Sanitary Sewer Improvements project, as that was a major project in 2015-2016 for which there were no significant prior year expenditures.

Ending Fund Balance Performance ($ in Thousands)						
2015-2016 Modified Budget	*2015-2016 Estimated Ending Fund Balance*	*2015-2016 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance (incl. Rebudget Adjustments)*	*Revised Variance As % of Modified Budget*
$129,411	$52,545	$63,365	$10,820	($3,354)	$7,466	5.8%

The **Ending Fund Balance** of $63.4 million was $10.8 million above the estimate used in the development of the 2016-2017 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the positive variance drops to $7.5 million. This ending fund balance was above the estimate largely due to lower than anticipated expenditures across several ongoing allocations, including Condition Assessment Sewer Repairs ($1.5 million), Infrastructure – Sanitary Sewer Condition Assessment ($880,000), and Immediate Replacement and Diversion Projects ($854,000) and higher than estimated connection fee revenue ($276,000).

After accounting for all recommended adjustments, approximately $6.0 million is recommended to be allocated to the SSUC Fund 2016-2017 Ending Fund Balance and $1.4 million to the Connection Fee Fund 2016-2017 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2015-2016 Budget	*2015-2016 Actuals*	*Variance*	*% Variance*
Revenues	$6,808	$7,379	$571	8.4%
Expenditures	$10,336	$8,063	($2,273)	(22.0%)

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

Revenues totaled $7.4 million and were generated primarily from a Transfer from the Water Utility Fund ($6.7 million) and fees paid by developers ($631,000). The fees consist of Major Facilities Fees ($529,000), Advanced System Design Fees ($45,000), Meter Installation Fees ($30,000), and Service Connection Fees ($27,000). This revenue level was $571,000 (8.4%) above the modified budget due primarily to the receipt of major facilities fees, as these fees are not assumed due to the highly volatile nature of this revenue stream. Revenues were also $3.3 million (80.6%) above the prior year level of $4.1 million, due primarily to a higher transfer from the Water Utility Fund for capital projects.

Expenditures totaled $8.1 million and were for several capital projects; the largest of these were Meter Replacements ($2.3 million), Cadwallader Reservoir Rehabilitation ($1.9 million), Infrastructure Improvements ($1.8 million), and System Maintenance/Repairs ($735,000). This expenditure level was $2.8 million (53.6%) above the prior year level of $5.2 million.

Expenditures were below the budget by $2.3 million (22.0%) as a result of project savings and unexpended project funds across a number of projects. Several of these projects are recommended to be rebudgeted to 2016-2017 in this report as a result of project delays or were rebudgeted in the 2016-2017 Adopted Budget or the August 16, 2016 City Council meeting, which approved several additional rebudgets prior to this report: North San José Water Well Evaluation and Rehabilitation ($856,000, all of which was rebudgeted in August 2016), Safety and Security Improvements ($406,000), and Cadwallader Reservoir Rehabilitation ($125,000). Expenditures were above the prior year due primarily to higher expenses for the Meter Replacements and Cadwallader Reservoir Rehabilitation projects, as they were larger projects that occurred in 2015-2016, partially offset by the Nortech and Trimble Reservoir Rehabilitation project, as that project occurred primarily in 2014-2015.

Ending Fund Balance Performance ($ in Thousands)						
2015-2016 Modified Budget	*2015-2016 Estimated Ending Fund Balance*	*2015-2016 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance (incl. Rebudget Adjustments)*	*Revised Variance As % of Modified Budget*
$17,294	$7,536	$9,885	$2,349	($1,645)	$704	4.1%

The **Ending Fund Balance** of $9.9 million was $2.3 million above the estimate used in the development of the 2016-2017 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the positive variance drops to $704,000, including $274,000 in the Water Utility Capital Fund and $430,000 in the Major Facilities Fund. This revised variance from the estimate was due largely to the receipt of major facilities fee revenue ($404,000) and lower expenses across several capital projects,

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WATER UTILITY CAPITAL FUNDS

the largest of which were for Water Valve Rehabilitation 2014 ($130,000) and Service Installations ($73,000), partially offset by lower service connection fee revenue ($23,000).

As described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions*, it is recommended that the Transfer from the Water Utility Fund to the Water Utility Capital Fund be decreased by $474,000, offset by a reduction to the 2016-2017 Ending Fund Balance, to address funding needs in the Water Utility Fund. After allocating the additional $274,000 generated from the 2015-2016 surplus Ending Fund Balance and $200,000 of existing 2016-2017 Ending Fund Balance in the Water Utility Capital Fund, the adjusted 2016-2017 Ending Fund Balance would total $109,000. In the Major Facilities Fund, the 2016-2017 Ending Fund Balance increases by $430,000 to $5.1 million.

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WATER UTILITY OPERATING FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2015-2016 Budget	*2015-2016 Actuals*	*Variance*	*% Variance*
Revenues	$40,096	$36,856	($3,240)	(8.1%)
Expenditures	$45,705	$41,027	($4,678)	(10.2%)

Revenues totaled $36.9 million and were generated from potable ($31.6 million) and recycled water ($4.8 million) sales, miscellaneous revenues ($312,000), and interest earnings ($68,000). This revenue level was $3.2 million (8.1%) below the modified budget but $23,000 (0.1%) above the prior year level of $36.8 million.

Revenues ended the year below the budget due to lower than anticipated potable water sales, particularly in March and April 2016, adjustments to the reserve for bad debt, and revenues credited back to a customer for over-payment, for which the year-end revenue estimate was slightly overstated. The very slight positive variance to the prior year was due primarily to higher recycled water sales and potable (28%) and recycled (19%) water rates, offset by a 14% decrease in potable water consumption.

Expenditures totaled $41.0 million and were primarily for Environmental Services Department (ESD) non-personal/equipment costs ($26.9 million, of which $19.0 million was attributed to the purchase of wholesale potable water and $3.1 million to wholesale recycled water), a Transfer to the Water Utility Capital Fund ($6.7 million), and ESD Personal Services ($4.9 million). This expenditure level was $4.7 million (10.2%) below the modified budget, but $5.6 million (15.9%) above the prior year level of $35.4 million.

The negative variance to the budget was mainly due to lower non-personal/equipment expenditures in ESD ($4.4 million), which was largely a result of lower than budgeted potable water purchases due to higher than anticipated water conservation; however, compared to the estimate used to develop the 2016-2017 Adopted Budget, the non-personal/equipment expenditure variance was only $295,000. Expenditures were above the prior year due primarily to an increased transfer to the Water Utility Capital Fund and higher non-personal/equipment and personal services expenditures in ESD.

Ending Fund Balance Performance ($ in Thousands)						
2015-2016 Modified Budget	*2015-2016 Estimated Ending Fund Balance*	*2015-2016 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance (incl. Rebudget Adjustments)*	*Revised Variance As % of Modified Budget*
$54,413	$11,751	$10,338	($1,413)	($63)	($1,476)	(2.7%)

The **Ending Fund Balance** of $10.3 million was $1.4 million below the estimate used in the development of the 2016-2017 Adopted Budget. After accounting for rebudgets recommended in the Annual Report of $63,000, the negative variance increases to $1.5 million. The 2015-2016 ending fund balance fell below the estimate primarily due to lower than estimated revenues from potable water sales ($2.0 million), partially offset by higher than estimated revenues from recycled water sales ($214,000).

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WATER UTILITY OPERATING FUND

Three primary factors contributed to a decrease in potable water revenues compared to the estimate: 1) an increase to the reserve for bad debt by approximately $479,000 was necessary at fiscal year-end, due to an increase in levels of uncollected revenues; 2) an overall 5% decrease in consumption for March through June compared to 2014-2015, with an uptick occurring in the last month, providing for some of the additional revenue from those water sales to be realized in 2016-2017; and 3) a multi-year billing discrepancy, affecting a single customer and discovered as part of the billing system implementation, providing for an approximately $300,000 higher than estimated reimbursement.

As described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions* of this report, several budget actions are recommended to address the lower 2015-2016 ending fund balance, adjust for estimated 2016-2017 performance, and account for the staff compensation adjustments and additional 1.0% rate increase (from 2.0% to 3.0%) approved in June 2016. A net revenue decrease of $1.1 million is recommended for potable water sales to account for reduced revenue based on revised consumption and revenue estimates ($1.5 million) and to account for the additional 1.0% potable water rates and charges increase approved by the City Council on June 14, 2016 ($350,000) that had not yet been factored into the 2016-2017 Adopted Budget. Accordingly, a decrease to expenditures of $1.1 million is also recommended to reflect the reduced amount of wholesale water purchases, due to these revised levels of potable water consumption. Other recommended actions include increasing the ESD personal services allocation due to a reclassification of several water operator job specifications on June 14, 2016 ($300,000), increasing the overhead transfer to the General Fund by $66,000 to account for this increase in staffing costs, increasing the Customer Information System Transition allocation by $63,000 as a result of a rebudget of that allocation from 2015-2016, and decreasing the Transfer to the Water Utility Capital Fund ($474,000) as a budget balancing strategy.

Staff anticipates returning to City Council in fall 2016 with additional recommendations relating to water rates, including information regarding water conservation and its effects on changes in water usage, as well as wholesale water supply availability. Until then, the use of a portion of the Rate Stabilization Reserve ($900,000) is recommended in this report as a temporary funding source to offset a portion of the negative fund balance adjustment. The remaining negative balance of approximately $468,000 is recommended to be offset by a reduction to the Unrestricted Ending Fund Balance, bringing it down from $527,000 to $59,000. Staff have immediately implemented cost control measures in the fund and will continue to closely monitor water consumption activity levels; adjustments for both targeted cost savings and consumption changes may be brought forward either as part of the 2016-2017 Mid-Year or Year-End Budget Review processes, as necessary.