2014-2015

Annual

Report

III. Selected Special/ Capital Funds Budget Performance

III. SELECTED SPECIAL/CAPITAL FUNDS BUDGET PERFORMANCE

This section provides financial information on the 2014-2015 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 2014-2015 Modified Budget and Actual revenues and expenditures, with the dollar and percent variance for each, after rebudgets. 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 2014-2015 Modified Budget, which includes fund balance and reserves. The 2014-2015 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 2015-2016 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.

<u>Revenue Performance</u>: This discussion identifies the amount of revenue received in 2014-2015 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.

<u>Expenditure Performance</u>: This discussion identifies the amount of expenditures for 2014-2015 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; calculates the revised expenditure variance after including rebudgets approved as part of the 2015-2016 Adopted Budget or as recommended in this report; and compares expenditures to the prior year performance.

<u>Ending Fund Balance Performance</u>: This discussion provides the actual Ending Fund Balance and the estimated Ending Fund Balance used in the development of the 2015-2016 Adopted Budget; discusses variances between these two amounts; and identifies any impact on the 2015-2016 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)					
	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$26,954	$24,865	$2,977	$888	3.3%
Expenditures	$62,426	$49,411	$11,640	($1,375)	(2.2%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

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 $24.9 million and were generated from Passenger Facility Charges (PFCs) ($19.3 million), a transfer from Airport Surplus Revenue Fund ($4.0 million), grant income ($955,000), one-time revenues ($274,000), interest earnings ($256,000), and miscellaneous revenues ($88,000). This revenue level was $2.1 million (7.8%) below the modified budget and $2.9 million (10.4%) below the prior year level of $27.7 million.

After adjusting for a rebudget of revenue of $3.0 million, the remaining positive variance to the budget of $888,000 million (3.3%) was mainly due to higher than anticipated PFC revenue, which ended the year above the modified budget by $791,000 (4.3%) due to higher than anticipated passenger levels and partially offset by the lower grant revenue. Revenues were below the prior year due to lower grant revenue.

Expenditures totaled $49.4 million and consisted primarily of transfers to other Airport funds for debt service ($36.4 million), various capital renewal and replacement projects ($5.2 million), Terminal Area Improvement, Phase I ($4.8 million), Pavement Maintenance ($1.2 million), and Federal Inspection Facility Sterile Corridor Extension ($1.1 million). This expenditure level was $13.0 million (20.8%) below the modified budget and $12.0 million (19.5%) below the prior year level of $61.4 million.

After adjusting for rebudgets, the expenditure savings to the budget of $1.4 million (2.2%) was mainly due to lower than anticipated expenditures across a number of projects including Terminal Building Modifications, Airfield Improvements, and Airport Technology Services. The lower expenditure level compared to the prior year was due to lower than anticipated transfers to other funds for debt service, close-out of Taxiway W Improvements project, and lower project expenses.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2014-2015 Modified Budget	*2014-2015 Estimated Ending Fund Balance*	*2014-2015 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$144,656	$92,425	$93,273	$848	$1,950	$2,798	1.9%

The **Ending Fund Balance** of $93.4 million was $848,000 above the estimate used in the development of the 2015-2016 Adopted Budget. This positive variance is 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 positive variance increases to $2.8 million. This remaining fund balance is recommended to be allocated to the 2015-2016 Ending Fund Balance in the Airport Capital Funds for future use.

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)					
	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$123,705	$125,626	$0	$1,921	1.6%
Expenditures	$77,436	$70,815	$0	($6,621)	(8.6%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

Revenues in the Airport Revenue Fund totaled $125.6 million and were generated from parking and roadway ($46.6 million), terminal rental ($34.4 million), terminal building ($16.3 million), landing fees ($11.9 million), miscellaneous revenue ($9.1 million), airfield area ($4.0 million), petroleum products ($3.3 million), and a transfer from the Airport Fiscal Agent Fund ($215,000). This revenue level was $1.9 million (1.6%) above the modified budget of $123.7 million and in-line with the prior year level of $124.9 million.

The positive variance to the budget of $1.9 million (1.6%) was mainly due to higher revenues from parking and rental car concession fees associated with increased passenger levels. The total number of rental car contracts increased 60,000 (7.6%) over 2013-2014, while deplaned passengers increased 244,000 (5.4%) over the prior year level. The $702,000 (0.6%) revenue increase over the prior year was primarily due to higher parking and rental car concession fee revenue.

Expenditures in the Airport Maintenance and Operation Fund totaled $70.8 million and were primarily for Airport Department Non-Personal/Equipment ($33.1 million including encumbrances), Airport Personal Services ($23.9 million), Transfer to the General Fund for Police and Fire services ($9.3 million), Overhead ($2.9 million), and Interdepartmental Services ($1.2 million). This expenditure level was $6.6 million (8.6%) below the modified budget of $77.4 million and $5.3 million (8.1%) above the prior year level of $65.5 million.

The negative variance to the budget of $6.6 million (8.6%) was mainly due to personal services and non-personal/equipment expenditure savings in the Airport Department. The $5.3 million (8.1%) increase over the prior year was due primarily to higher Airport Department Non-Personal Services/Equipment costs ($1.6 million including encumbrances), Fire services costs ($1.6 million), Airport Department Personal services costs ($1.2 million), overhead costs ($439,000), and Police services costs ($393,000). The higher costs for Fire services can be attributed primarily to the expiration of the Staffing for Adequate Fire and Emergency Response (SAFER) Grant offset beginning in 2014-2015.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

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

Ending Fund Balance Performance ($ in Thousands)						
2014-2015 Modified Budget	***2014-2015 Estimated Ending Fund Balance***	***2014-2015 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustments)***
$296,460	$92,940	$97,060	$4,120	$0	$4,120	1.4%

The **Ending Fund Balance** of $97.1 million was $4.1 million above the estimate used in the development of the 2015-2016 Adopted Budget. This positive variance from the estimate was largely due to higher than estimated revenues from parking and rental car concession fees ($1.9 million) and lower than estimated Airport Department Non-Personal/Equipment ($2.1 million) and Airport Department Personal Services expenditures ($582,000). This balance will be allocated to the Airline Agreement Reserve in the Airport Revenue Fund, earmarked, and retained for future operating or economic contingencies.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT OPERATING FUND – AIRPORT CUSTOMER FACILITY AND TRANSPORATION FEE FUND

Revenue and Expenditure Performance ($ in Thousands)					
	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$19,857	$21,208	$0	$1,351	6.8%
Expenditures	$19,944	$19,689	$0	($255)	(1.3%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

Revenues totaled $21.2 million and were generated from rental car Customer Facility Charge (CFC) fees ($18.7 million), rental car contributions ($2.5 million), and interest earnings ($46,000). This revenue level was $1.4 million (6.8%) above the modified budget of $19.9 million and $2.0 million (10.3%) above the prior year level of $19.2 million.

The positive variance to the budget of $1.4 million (6.8%) was mainly due to higher revenues from CFCs, which were driven by increased rental car activities associated with higher than anticipated passenger levels. The $2.0 million (10.3%) revenue increase over the prior year was also due to increased CFCs.

Expenditures totaled $19.7 million and were primarily attributed to transfers to other Airport funds for debt service payments ($17.5 million), non-personal/equipment for shuttle bus operation and maintenance ($2.1 million), and audit costs ($8,000). The small variance to the budget of $254,000 (1.3%) was mainly due to non-personal/equipment expenditure savings resulting from slightly lower costs for shuttle bus drivers and shuttle bus maintenance. This expenditure level was $2.3 million (13.5%) above the prior year level of $17.3 million due to increased debt service costs.

Ending Fund Balance Performance ($ in Thousands)						
2014-2015 Modified Budget	*2014-2015 Estimated Ending Fund Balance*	*2014-2015 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$28,508	$9,518	$10,171	$653	$0	$653	2.3%

The **Ending Fund Balance** of $10.2 million was $653,000 above the estimate used in the development of the 2015-2016 Adopted Budget. This positive variance from the estimate was largely 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

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

Revenue and Expenditure Performance ($ in Thousands)					
	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$29,434	$19,636	$9,016	($782)	(2.7%)
Expenditures	$52,398	$21,017	$28,305	($3,076)	(5.9%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

Revenues totaled $19.6 million and were generated from Building and Structure Tax ($16.6 million) and grant funding ($2.9 million). The revenue level was $9.8 million (33.3%) below the modified budget and $6.9 million (26%) below the prior year level of $26.5 million.

The 2014-2015 revenues were lower than budgeted levels by approximately $9.8 million, which was primarily due to lower than budgeted receipts of federal grants ($8.8 million) and Building and Structure Construction Tax Receipts ($439,000). Of the grant related revenues, $7.7 million was rebudgeted in the development of the 2015-2016 Adopted Budget, and an additional $1.3 million is recommended to be rebudgeted as part of this report. After these rebudgets, revenues fell below the budget by $782,000. Revenues also ended the year below the prior year due primarily to lower Building and Structure Construction Tax receipts ($5.9 million) and federal grant revenue ($882,000) compared to the prior year.

At $16.6 million, Building and Structure Construction Tax receipts in 2014-2015 were 26% lower than 2013- 2014 record-setting collections of $22.5 million. The lower collections in Building and Structure Construction Tax revenues is primarily attributable to decreased issuances of residential permits, as well as decreased commercial and industrial activity compared to the prior year. The total valuation of projects submitted in 2014-2015 of $1.3 billion was 21.9% below the $1.7 billion valuation of projects that were received in 2013- 2014. A total of 3,241 new residential units received permits in 2014-2015 compared to 2013-2014 actuals of 4,724 units. Residential valuation of $580.9 million in 2014-2015 was significantly lower than the 2013- 2014 level of $835.6 million. Commercial valuation of $380.0 million was lower than the prior year level of $398.5 million. Industrial activity of $359.9 million also fell below last year's level of $457.4 million. Major projects contributing to the tax receipts in 2014-2015 were Westfield Valley Fair Parking Garage, Century Center Towers, Lexington Luxury Apartments, and an office building at Santana Row. The 2015-2016 Adopted Budget estimate of $14.0 million allows for a decrease of 15.0% from the 2014-2015 collection level to align with anticipated valuation estimates in the current year.

Expenditures totaled $21.0 million and were due to several significant projects, the largest of which were Autumn Street Extension, ITS: Transportation Incident Management Center, and San Carlos Street Multimodal Streetscape Improvement Phase II. The expenditure level was $31.4 million (59.9%) below the modified budget and $1.7 million (8.8%) above the prior year level of $19.3 million.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

A significant portion of the expenditure savings ($23.2 million) was anticipated and rebudgeted as part of the 2015-2016 budget process. An additional $5.1 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2015-2016. After adjusting for rebudgets, the lower expenditure level compared to the budget of $3.1 million was caused by savings in Capital Program and Public Works Department Support Costs ($337,000), CIP Delivery Management costs ($337,000), and the Traffic Forecasting and Analysis project ($305,000), as well as savings spread across a number of capital projects.

Expenditures were below the prior year levels due primarily to decreases in The Alameda Plan for a Beautiful Way ($4.6 million) and ITS: Transportation Incident Management Center ($1.1 million), partially offset by increases in Autumn Street Extension ($2.5 million) and Route 101/Mabury Acquisition ($1.0 million) projects and the start of the LED Streetlight Program ($345,000) and Route 280/Winchester Interchange Upgrade ($250,000) projects.

Ending Fund Balance Performance ($ in Thousands)

2014-2015 Modified Budget	*2014-2015 Estimated Ending Fund Balance*	*2014-2015 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$64,642	$29,191	$34,119	$4,928	($3,924)	$1,004	1.6%

The **Ending Fund Balance** of $34.1 million was $4.9 million above the estimate used in the development of the 2015-2016 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the positive variance drops to $1.0 million. The positive balance of $1.0 million is recommended to increase the 2015-2016 Ending Fund Balance.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Revenue and Expenditure Performance ($ in Thousands)					
	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$57,780	$60,625	$1,832	$4,677	8.1%
Expenditures	$93,930	$63,862	$28,726	($1,342)	(1.4%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

Revenues generated in the Construction and Conveyance (C&C) Tax Funds in 2014-2015 totaled $60.6 million and were comprised of C&C Tax receipts ($41.2 million), transfers between funds ($15.1 million), State and federal grants ($2.7 million), developer contributions and miscellaneous revenue ($1.2 million), and interest earnings ($342,000). This revenue level is $2.8 million higher than the budgeted estimate of $57.8 million, primarily due to higher than budgeted C&C Tax revenue ($2.2 million), transfers between funds ($1.2 million), and grant revenues ($292,000), partially offset by lower than budgeted developer contributions and miscellaneous revenue ($888,000). This report includes a recommendation to rebudget $1.8 million from the 2006 Tax Allocation Bond for the Dr. Martin Luther King, Jr. Library Capital Improvements that was not received in 2014-2015, but is anticipated to be received in 2015-2016. After accounting for this rebudget, the revised revenue variance increases to $4.7 million. The 2014-2015 revenue level of $60.6 million is $8.5 million (16.3%) above the prior year level of $52.1 million, due primarily to higher C&C Tax receipts.

C&C Tax revenue collections in 2014-2015, which were almost entirely generated from property transfers, totaled $41.2 million, an increase of $5.7 million (16.1%) from the 2013-2014 collection level of $35.5 million. The 2014-2015 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 $795,400 in June 2014 to an unprecedented high of $865,000 in June 2015, which represents an 8.8% increase. In addition, the number of home sales (single-family and multi-dwelling units) have increased over the past year, with a significant portion of the activity occurring in the last four months of the fiscal year. The number of sales in 2014-2015 totaled 7,992, which is a 2.1% increase from the 2013-2014 level of 7,824. Of the total number of 2014-2015 sales, 3,164 sales (39.6%) occurred in March-June 2015, which represents a 12.2% increase from the same period of time in 2013-2014. Finally, the amount of time it takes to sell a home (single-family and multi-family dwelling units) has dropped in the past year from 20 days in June 2014 to 17 days in June 2015. The June 2015 figure represents the shortest duration of time homes have stayed on the market since June 2005, when it took only 15 days to sell a home.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

The 2014-2015 C&C Tax estimate was built on the assumption that collections would remain strong and total $37.0 million in 2013-2014 and increase 5% to $39.0 million in 2014-2015. However, because actual receipts in 2013-2014 of $35.5 million fell below the estimate, growth of 9.9% was needed in 2014-2015 to meet the budgeted estimate of $39.0 million. Beginning in November 2014, collection levels began to significantly decline. Therefore, the 2015-2016 Adopted Capital Budget was developed with the assumption that C&C receipts would total $35.0 million in 2014-2015 and stay steady in 2015-2016. In the last quarter of 2014-2015, however, tax receipts had an extremely strong performance, which resulted in the 2014-2015 receipts of $41.2 million. This collection level exceeded the 2014-2015 Modified Budget by $2.2 million and the 2014-2015 estimate by $6.2 million. Due to the unanticipated high collections in 2014-2015, the 2015-2016 C&C Tax estimate of $35.0 million, allows for a 17.7% decline in tax revenue from the 2014-2015 actual tax collection. Receipts in 2015-2016 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.

Expenditures totaled $63.9 million and were primarily for various capital projects and transfers to other funds across the 17 C&C Tax funds (Council Districts 1-10, Parks City-Wide, Parks Central, Park Yards, Fire, Library, Service Yards, and Communications). This expenditure level is $30.0 million (32.0%) below the budgeted expenditure level of $93.9 million, and is primarily the result of unexpended capital project funds. After accounting for rebudget adjustments made as part of the 2015-2016 budget process or that are recommended as part of this report, the expenditure variance drops to $1.3 million (1.4%). The 2014-2015 expenditure level of $63.9 million was $8.2 million (14.7%) above the prior year level of $55.7 million. This increase is the result of several projects having significant expenditures in 2014-2015, including Allen at Steinbeck School Soccer Field ($2.2 million – Council District 10 C&C Tax Fund), Roberto Antonio Balermino Park ($1.3 million - Council District 7 C&C Tax Fund), Comanche Park Play Area Renovation ($708,000 - Council District 10 C&C Tax Fund), and Hillview Park Renovation ($632,000 – Council District 5 C&C Tax Fund).

Ending Fund Balance Performance ($ in Thousands)

2014-2015 Modified Budget	*2014-2015 Estimated Ending Fund Balance*	*2014-2015 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$143,062	$72,371	$82,266	$9,895	($505)	$9,390	6.6%

The **Ending Fund Balance** of $82.3 million was $9.9 million above the estimate used to develop the 2015-2016 Adopted Capital Budget. This variance was primarily due to higher than estimated C&C Tax receipts ($6.2 million) and transfers between funds ($3.4 million) and lower than estimated project expenditures ($1.7 million), partially offset by lower than anticipated developer contributions and miscellaneous revenue ($1.1 million). After accounting for all rebudget adjustments recommended as part of this report, the revised variance to the Ending Fund Balance is reduced to $9.4 million.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

As described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions*, this report includes allocating $766,000 from various C&C Tax Fund Ending Fund Balances to fund various capital projects, including Silicon Valley Regional Communications System – Radios ($360,000 - Communications C&C Tax Fund), Happy Hollow Park and Zoo Enhancements ($195,000 – Parks City-Wide C&C Tax Fund), Strategic Capital Replacement and Maintenance Needs ($150,000 – Parks City-Wide C&C Tax Fund), Family Camp Capital Improvements Reserve ($42,000 – Parks City-Wide C&C Tax Fund), and various Council District Public Art allocations ($19,000 – Council Districts 2, 3, 8, 10 C&C Tax Funds). The remaining fund balance is recommended to be allocated to the respective funds' 2015-2016 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

Revenue and Expenditure Performance ($ in Thousands)					
	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$80,115	$55,890	$25,386	$1,161	1.4%
Expenditures	$147,823	$81,902	$62,984	($2,937)	(2.0%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

Revenues totaled $55.9 million and were generated from grant funding ($25.1 million), Construction Excise Tax ($21.7 million), traffic impact fees and developer contributions ($6.8 million), and transfers and other miscellaneous revenues ($2.3 million). This revenue level was $24.2 million (30.2%) below the modified budget and $10.7 million (16.1%) below the prior year level of $66.6 million.

The 2014-2015 levels were lower than budgeted levels by approximately $24.2 million, which was primarily the result of lower than budgeted receipts of federal grants ($22.4 million) and State Grants ($2.1 million). Due to anticipated project delays, grant related revenues of $14.7 million were rebudgeted as part of the development of the 2015-2016 Adopted Budget, and an additional $10.7 million is recommended to be rebudgeted as part of this report. After rebudgets, revenues ended 2014-2015 slightly above the estimate by $1.2 million (1.4%). This primarily reflects higher State gas tax receipts ($1.1 million) and Construction Excise tax receipts ($671,000), partially offset by lower inter-agency encroachment permits ($277,000) and miscellaneous revenues ($225,000). The lower revenue level compared to the prior year was primarily due to lower Construction Excise Tax receipts ($7.6 million), lower developer contributions ($2.8 million), and lower traffic impact fees and miscellaneous revenues ($2.7 million), partially offset by higher transfers in from other funds ($1.9 million) and higher revenues from other agencies ($828,000).

At $21.7 million, Construction Excise Tax receipts in 2014-2015 were 25.7% lower than the prior year's record-setting collections of $29.2 million. Similar to the Building and Structure Construction Taxes, although these collections are still strong, they are much lower (25.7%) than the peak collections in 2013- 2014. This decrease was consistent with prior expectations, as the large influx of projects from the last several years near completion and development activity returns to more moderate levels. The 2015-2016 Adopted Budget estimate of $19.0 million allows for a decrease of 12.3% from the 2014-2015 collection level.

Expenditures totaled $81.9 million and were primarily for pavement maintenance ($56.9 million), various safety pedestrian improvements ($4.9 million), expenditures related to the North San José area ($2.0 million), the installation of various pedestrian and bicycle facilities ($2.0 million), streetlight wire replacement ($1.7 million), and BART and VTA project coordination ($945,000). A significant

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

portion of the expenditure savings ($53.3 million) was anticipated and rebudgeted as part of the 2015-2016 budget process. An additional $9.7 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2015-2016. This expenditure level was $65.9 million (44.6%) below the modified budget and $19.7 million (31.7%) above the prior year level of $62.2 million.

After adjusting for rebudgets, the lower expenditure level of $2.9 million compared to the budget was mainly caused by savings in the LED Streetlight Program ($372,000), Bicycle and Pedestrian Facilities ($320,000), BART Design and Construction Support ($317,000), Infrastructure Management System ($261,000), Bike/Pedestrian Development ($230,000), Traffic Flow Management and Signal Retiming ($210,000), Traffic Congestion Data Management ($200,000), and Urban Forest Partnership ($100,000). The expenditure variances in these appropriations were primarily attributable to staff vacancies and contractual maintenance savings. The positive variance to the prior year was primarily due to additional one-time pavement maintenance expenditures in 2014-2015.

Ending Fund Balance Performance ($ in Thousands)						
2014-2015 Modified Budget	***2014-2015 Estimated Ending Fund Balance***	***2014-2015 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustments)***
$181,133	$73,023	$74,825	$1,802	$1,037	$2,839	1.6%

The **Ending Fund Balance** of $74.8 million was $1.8 million above the estimate used in the development of the 2015-2016 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the positive variance increases to $2.8 million. This ending fund balance was above the estimate largely due to higher than estimated revenues and transfers, including gas tax revenues ($1.1 million), and technical transfers between the internal accounting funds ($1.9 million) that comprise the Construction Excise Tax Fund, slightly offset by lower than estimated Construction Excise Tax receipts ($329,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

As described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions*, budget actions are recommended to increase the allocations for the Pavement Maintenance – State Gas Tax project ($1.1 million) to recognize final gas taxes collected in excess of the 2014-2015 State Gas Tax revenue estimate, year-end reconciliations ($169,000) to various Traffic Impact Fee Reserves and the Pavement Maintenance – Measure B allocation, Local Transportation Policy and Planning ($125,000) for consultant services to define San José's transportation impact review policies and ensure the City's compliance with California Senate Bill 743 for the revised California Environmental Quality Act (CEQA), and Fiber Optics Permit Engineering ($38,000) to appropriate funds collected in 2014-2015 that were in excess of the budgeted estimate. After accounting for all recommended adjustments, approximately $1.4 million is recommended to be allocated to the 2015-2016 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION AND CULTURAL AFFAIRS FUND

Revenue and Expenditure Performance ($ in Thousands)					
	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$9,623	$9,836	$0	$213	2.2%
Expenditures	$11,256	$8,929	$765	($1,562)	(13.9%)

***** Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

Revenues totaled $9.8 million, the majority of which ($9.6 million) was the transfer from the Transient Occupancy Tax (TOT) Fund to the Convention and Cultural Affairs Fund. The remaining revenues included ticket sale receipts ($274,000) from 2009-2015 from Broadway San José shows that will be used for the American Musical Theater's (AMT) loan repayment to the General Fund, offset very slightly by lower than estimated ($1,000) interest earnings. In total, this revenue level ended the year 2.2% or $213,000 above the 2014-2015 modified budget estimate.

TOT receipts recognized in the TOT Fund are allocated according to the Council-approved distribution formula to three program categories (San José Convention and Visitors Bureau, Cultural Development, and Convention Facilities Operation Subsidy through a transfer to the Convention and Cultural Affairs Fund). As actual TOT receipts ended 2014-2015 approximately $884,000 above estimated levels, a recommendation is included in this document, according to the Council-approved distribution formula, to increase the 2015-2016 transfer from the TOT Fund to the Convention and Cultural Affairs Fund by $442,000. For more information on the 2014-2015 performance of the TOT Fund, please refer to the TOT Fund in this section of the document.

Expenditures totaled $8.9 million and consisted primarily of the City's contribution to operate, maintain and market the Convention Center and other cultural facilities managed by Team San Jose ($5.0 million); a number of capital improvement projects for these facilities ($2.8 million); and a Transfer to the General Fund ($1.1 million), which includes City overhead, Team San Jose contract oversight, Broadway San José ticket revenue, and cultural facility cost-sharing. After accounting for rebudgets of project funding carried forward to 2015-2016, the savings of $1.6 million is primarily attributed to capital project savings ($749,000) and savings to the subsidy to Team San Jose due to higher than anticipated facility operations activity levels ($682,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION AND CULTURAL AFFAIRS FUND

Ending Fund Balance Performance ($ in Thousands)						
2014-2015 Modified Budget	*2014-2015 Estimated Ending Fund Balance*	*2014-2015 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$15,633	$5,856	$6,917	$1,061	($765)	$296	1.9%

The **Ending Fund Balance** of $6.9 million was $1.1 million above the estimate used in the development of the 2015-2016 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the positive variance drops to $296,000. This variance was primarily due to: savings across several categories of capital expenditures ($300,000); higher than estimated revenue ($214,000) from Broadway San José ticket sale receipts; moderate savings associated with categories such as City Free Use, workers compensation claims, and costs associated with the City's third party advisor ($100,000); and partially offset by greater than year-end estimated levels to the Team San Jose subsidy for facility operations ($318,000).

As described in *Section IV – Recommended Budget Adjustments and Clean-up Actions*, budget actions are recommended to increase capital investments at the Convention Center and cultural facilities by a combined amount of $3.5 million in the Convention and Cultural Affairs Fund and the Convention Center Facilities District Revenue (CCFD) Fund. These investments address critical rehabilitation and preventative maintenance needs, such as lighting and electrical controls, boilers, kick plates/corner guards, escalators, exterior rehabilitation, and point of sale systems. In the Convention and Cultural Affairs Fund, additional funding of $2.3 million is recommended to fund a portion of costs, with the CCFD funding the remaining balance. In addition, a reduction of $3.1 million in existing capital project funding in the Convention and Cultural Affairs Fund is recommended with a corresponding increase in the CCFD Fund to shift some of the current capital projects to the CCFD Fund given the increased resources in that fund due to the strong performance of the hotel tax.

Other adjustments recommended in this report include the transfer in of $442,000 from the TOT Fund as previously discussed as well as a net zero adjustment to revenues and expenditures of $111,533 for Broadway San José ticket sales. Team San Jose collects $1 for every ticket sold for a Broadway San José show and then remits these payments to the City for repayment of a past loan made to the (AMT) in the amount of $1 million. In 2014-2015, $131,533 was generated from these payments, which was $71,533 above the $60,000 assumed in the budget. An increase to the revenue estimate of $111,533 will allow the additional $71,533 collected by Team San Jose in 2014-2015 to be received by the City, and allow for an increase in the estimate of 2015-2016 activity to increase by $40,000, from $60,000 to $100,000. Once received in the Convention and Cultural Affairs Fund, the total proceeds of $111,533 are then transferred to the General Fund, the originating funding source of the AMT loan. In total, through June 2015, payments of $345,215 have been made towards the original $1.0 million loan, leaving a remaining balance of $654,785.

Accounting for these budget adjustments, the 2015-2016 Ending Fund Balance in the Convention and Cultural Affairs Fund is recommended to increase from $1.5 million to $2.9 million.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

GENERAL PURPOSE PARKING FUND

Revenue and Expenditure Performance ($ in Thousands)					
	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$17,608	$17,423	$0	($185)	(1.1%)
Expenditures	$20,098	$15,769	$1,505	($2,824)	(14.1%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

Revenues totaled $17.4 million and were generated from parking garages and lots ($11.5 million), parking meters ($4.0 million), Successor Agency to the Redevelopment Agency (SARA) reimbursement ($1.6 million), miscellaneous revenue ($148,000), and interest earnings ($73,000). The revenue level was $185,000 (1.1%) below the modified budget and $3.1 million (22%) above the prior year level of $14.3 million.

Revenues fell slightly below the budget primarily due to a lower than anticipated reimbursement from SARA ($1.6 million instead of $3.4 million) for payment of the 4th and San Fernando Garage debt service that was almost entirely offset by higher parking garage and meter revenue. When the 2014-2015 budget was developed, it was assumed that the Parking Fund would advance the total amount necessary to pay the 4th and San Fernando debt service payments of $3.4 million and would be reimbursed the entire amount by SARA by the end of the year. Based on actual SARA performance, the Parking Fund paid only $1.7 million of the debt service with SARA paying the remaining balance. Of the $1.7 million debt service payment made by the Parking Fund in 2014-2015, SARA had available funding to reimburse only $250,000. In addition, SARA reimbursement of $1.327 million was received to repay the City for a portion of the 4th and San Fernando debt service payments made in 2013-2014, bringing the total SARA reimbursement received in 2014-2015 to $1.6 million. Parking Lots and Garages revenue exceeded the budget by $920,000 (8.7%) because of a continued high level of activity in the Downtown area. In addition, parking meter revenue exceeded the budget by $642,000 (18.9%), primarily due to the improving downtown economy and the $1 parking meter rate increase in the Downtown Core where Smart Meters have been installed. Revenues tracked above the prior year primarily due to the higher SARA reimbursement ($1.6 million received in 2014-2015 compared to $656,000 received in 2013-2014), and higher revenue from parking garages, lots, and parking meters.

Expenditures totaled $15.8 million and were primarily attributed to Department of Transportation (DOT) Non-Personal/Equipment expenditures ($4.9 million), transfer to the San Jose Arena Capital Reserve Fund ($3.5 million), debt service payments for the 4th and San Fernando garage ($1.7 million), DOT personal services ($1.9 million), and transfers to the General Fund ($707,000). The expenditure level was $4.3 million (21.5%) below the modified budget and $1.3 million (9.1%) below the prior year level of $14.5 million.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

GENERAL PURPOSE PARKING FUND

After adjusting for rebudgets, expenditures ended the year $2.8 million (14.1%) below the budget primarily due to lower than budgeted debt service payments for the 4th and San Fernando garage ($1.7 million), with the remaining debt service payment balance paid directly by SARA, and savings in contractual services for parking operations ($492,000), DOT position vacancies ($162,000), and various capital projects ($292,000). In the Parking Capital Program, a total of $950,000 was rebudgeted as part of the 2015-2016 Adopted Capital Budget for the purchase of the Central Place Parking Garage ($900,000) and Security Improvements ($50,000), and an additional $555,000 is recommended to be rebudgeted in this report for the Minor Parking Facility Improvements ($335,000), and the Downtown Event Parking Dynamic Message Sign Repair ($220,000) projects. The Minor Parking Facility Improvements project addresses significant deferred maintenance at the City's parking garages including garage painting, energy efficiency lighting upgrades, asphalt surface replacement and repair, and concrete surface repair. Expenditures were below the prior year primarily due to lower expenses for the 4th and San Fernando debt service ($1.7 million in 2014-2015 compared to $3.4 million in 2013-2014).

Ending Fund Balance Performance ($ in Thousands)						
2014-2015 Modified Budget	2014-2015 Estimated Ending Fund Balance	2014-2015 Actual Ending Fund Balance	Variance	Recommended Annual Report Rebudget Adjustments	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$32,735	$14,657	$16,940	$2,283	($555)	$1,728	5.3%

The **Ending Fund Balance** of $16.9 million was $2.3 million above the estimate used in the development of the 2015-2016 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the positive variance drops to $1.7 million. This additional fund balance is recommended to be allocated to the 2015-2016 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Revenue and Expenditure Performance ($ in Thousands)					
	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$128,602	$125,609	$1,500	($1,493)	(1.2%)
Expenditures	$131,368	$127,257	$2,198	($1,913)	(1.5%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

Revenues totaled $125.6 million and were generated primarily from Recycle Plus collection charges ($109.3 million), lien-related charges ($6.7 million), and Recycle Plus negotiated hauler payments ($2.7 million). This revenue level was $3.0 million (2.3%) below the modified budget of $128.6 million and $1.2 million (1.0%) below the prior year level of $126.8 million.

After adjusting for a rebudget of grant revenue of $1.5 million, the remaining negative variance to the budget of $1.5 million (1.2%) was mainly due to the adjustment of grant-reimbursable amounts from the U.S. Economic Development Administration for the photovoltaic panels and solar structures at the Environmental Innovation Center (EIC) ($851,000), as bids for the project came in significantly lower than what was previously estimated, as well as lower Recycle Plus revenue collections ($814,000), partially offset by higher than estimated lien-related charges ($544,000). The variance to the prior year was due primarily to lower New Market Tax Credit (NMTC) proceeds to the City, which occurred primarily in 2013-2014 alongside the Household Hazardous Waste Las Plumas Facility, as well as lower AB939 fee revenue, partially offset by higher Recycle Plus revenue and a California Energy Commission grant.

Expenditures totaled $127.3 million and were primarily for Single-Family Dwelling (SFD) Recycle Plus contracts ($49.8 million), yard trimmings/street sweeping contract ($22.8 million), Multi-Family Dwelling (MFD) Recycle Plus contracts ($18.6 million), International Disposal Corporation of California, Inc. (IDC) disposal agreement ($8.2 million), Environmental Services Department (ESD) personal services ($6.8 million), SFD back-end processing ($2.5 million), and ESD non-personal/equipment ($2.4 million) costs. This expenditure level was $4.1 million (3.1%) below the modified budget of $131.4 million and $669,000 (0.5%) above the prior year level of $126.6 million.

After adjusting for rebudgets, the expenditure savings to the budget of $1.9 million (1.5%) was mainly due to vacancy savings in various departments, including ESD, the Information Technology Department, and the Finance Department, as well as non-personal/equipment expenditure savings in ESD. The higher expenditure level compared to the prior year was due primarily to higher costs for Single Family Dwelling Processing, which began in 2014-2015, the CEC Grant: Biomass to Energy Technology Project, and the Customer Information System (CIS) Transition, as costs for the CIS project occurred primarily in 2014-2015, partially offset by lower costs for the Environmental Innovation Center (Miscellaneous Funding Sources) ($2.5 million) and the Household Hazardous Waste Las Plumas Facility ($2.1 million) projects, as the majority of those project costs were in 2013-2014.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Ending Fund Balance Performance ($ in Thousands)						
2014-2015 Modified Budget	***2014-2015 Estimated Ending Fund Balance***	***2014-2015 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustments)***
$142,761	$16,032	$13,632	($2,400)	$1,057	($1,343)	(0.9%)

The **Ending Fund Balance** of $13.6 million was $2.4 million below the estimate used in the development of the 2015-2016 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the negative variance drops to $1.3 million. This ending fund balance fell below the estimate largely due to lower than estimated revenues from Recycle Plus collections ($705,000), California Energy Commission Grant ($518,000), SB 332 income ($246,000), and NMTC proceeds ($223,000), as well as higher than estimated IDC disposal agreement costs ($331,000), partially offset by lower than estimated non-personal/equipment ($416,000) and personal services ($225,000) costs in ESD.

As described in *Section IV – Recommended Budget Adjustments and Clean-up Actions*, budget actions are recommended to increase the allocations for Delinquent Lien Releases ($200,000) and the EIC QALICB Master Lease Payment ($7,000). After accounting for all recommended adjustments, the 2015-2016 Ending Fund Balance will be reduced by approximately $1.6 million, including a reduction of $1.3 million to the Unrestricted Ending Fund Balance (from $1.5 million to $235,000) and a reduction of $300,000 to the Operations and Maintenance Reserve (from $11.8 million to $11.5 million), which has yet to reach the targeted two months of operating expenditures in this fund.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

LOW AND MODERATE INCOME HOUSING ASSET FUND

Revenue and Expenditure Performance ($ in Thousands)					
	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$20,028	$34,116	$0	$14,088	70.3%
Expenditures	$26,422	$12,682	$140	($13,600)	(51.5%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

Revenues totaled $34.1 million and were generated from loan repayments ($32.1 million), interest earnings ($156,000), and miscellaneous revenues ($4,000). This revenue level was $14.1 million (70.3%) above the budget and $17.5 million (105.4%) above the prior year level of $16.6 million.

Revenues significantly exceeded the budget mainly due to a number of developers refinancing their projects and pre-paying their City loans at the end of 2014-2015 as the result of low interest rates and other economic factors. Loan repayments were received from projects including Monte Vista Gardens ($6.1 million), Parkview Family ($4.9 million), and other Housing Department projects ($2.8 million). This also contributed significantly to the variance to the prior year, as last year's loan repayments totaled $16.4 million.

Expenditures totaled $12.7 million and were primarily for Housing Personal Services ($4.6 million), Loans and Grants ($3.3 million), and City Attorney's Office Personal Services ($710,000). This expenditure level was $13.7 million (52.0%) below the budget and $4.1 million (47.7%) above the prior year level of $8.6 million.

After rebudgets, the variance to the budget of $13.6 million, which was assumed as part of the development of the 2015-2016 Adopted Budget, was largely due to financing the construction for the Metropolitan Apartments project from the Federal HOME Investment Partnership Program Fund (445) rather than the Low and Moderate Income Housing Asset Fund (346). As a result, the Housing Loans and Grants appropriation experienced $12.5 million in savings. The Housing Department's Non-Personal/Equipment appropriation savings of $223,000 and Loan Management appropriation savings of $188,000 also contributed to the variance to the budget. Expenditures were above last year's expenditures largely as the result of Housing Department projects beginning in 2014-2015 rather than 2013-2014.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

LOW AND MODERATE INCOME HOUSING ASSET FUND

Ending Fund Balance Performance ($ in Thousands)						
2014-2015 Modified Budget	***2014-2015 Estimated Ending Fund Balance***	***2014-2015 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$50,880	$36,659	$52,481	$15,822	$0	$15,822	31.1%

The **Ending Fund Balance** of $52.5 million was $15.8 million above the estimate used in the development of the 2015-2016 Adopted Budget. This variance from the estimate was largely due to higher than estimated revenue from loan repayments ($13.6 million) and interest earnings ($56,000) and lower than estimated expenditures from housing loans and grants ($1.7 million) and non-personal/equipment ($750,000), partially offset by higher than estimated costs in the Housing Department's personal services appropriation ($154,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

LOW AND MODERATE INCOME HOUSING ASSET FUND

As described in *Section IV – Recommended Budget Adjustments and Clean-up Actions*, budget actions are recommended to increase the estimate for Earned Revenue and the Housing Project Reserve by $32.1 million to recognize and allocate funding from eight multi-family project loan repayments received in 2015-2016 that had not been anticipated when the 2015-2016 Adopted Budget was developed. Additional actions are also recommended in this report including funding loans and grants for the pre-development of five affordable housing projects (Plaza Hotel, Balbach, Mesa/Gallup, Met South, and Hester) ($2.3.million) and the potential acquisition of land for a Downtown Supportive Housing project ($4.5 million). After accounting for all recommended adjustments, approximately $41.1 million is recommended to be allocated to the Housing Project Reserve to fund future project commitments following approval by the City Council. The Housing Department plans to bring forward a City Council memorandum this fall describing its development funding strategy through 2016-2017.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

Revenue and Expenditure Performance ($ in Thousands)

	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$76,229	$73,809	$0	($2,420)	(3.2%)
Expenditures	$176,661	$99,860	$45,562	($31,239)	(17.7%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

Revenues totaled $73.8 million and were generated primarily from a transfer from the Sewer Service and Use Charge Fund ($48.0 million), contributions from the tributary agencies for projects and debt service payments ($20.6 million), a transfer from the Treatment Plant Connection Fee Fund ($3.1 million), and interest income ($769,000). This revenue level was $2.4 million (3.2%) below the modified budget and $6.6 million (9.9%) above the prior year level of $67.2 million.

The negative variance to the budget of $2.4 million was due primarily to lower contributions from the tributary agencies for projects, as a result of actual Water Pollution Control Plant (Treatment Plant) expenditures and encumbrances over the course of the year, partially offset by higher miscellaneous revenue due to the refund of a large piece of equipment that failed to work according to specifications. The positive variance to the prior year was due primarily to a higher transfer from the Sewer Service and Use Charge Fund for capital projects, partially offset by lower U.S. Bureau of Reclamation Grant revenue, which was received primarily in 2013-2014.

Expenditures totaled $99.9 million and were primarily attributed to capital improvement projects ($88.5 million) and debt service payments ($11.4 million). The largest projects included Energy Generation Improvements ($18.9 million), Combined Heat and Power Equipment Repair and Rehabilitation ($15.9 million), Digester and Thickener Facilities Upgrade ($13.8 million), Program Management ($11.3 million), and SBWR Extension ($4.1 million). This expenditure level was $76.8 million (43.5%) below the modified budget and $10.0 million (11.1%) above the prior year level of $89.9 million.

After adjusting for rebudgets, the expenditure savings to the budget of $31.2 million was due primarily to several large projects. A significant portion of the Energy Generation Improvements project was rebudgeted during the 2015-2016 Proposed Capital Budget process, as it was known at the time that the majority of the costs for this project would not begin until 2015-2016; however, $6.4 million was not included in this rebudget due to a revised project estimate, and as such, this remaining balance was unexpended by the end of 2014-2015. The Plant Electrical Reliability ($6.1 million) and Plant Instrument Air System Upgrade ($3.7 million) projects had significant savings due to inadvertently high consultant validation estimates and subsequent scope refinements. Savings were also realized in Program Management ($3.0 million), due to a large construction administration service order that did not occur in 2014-2015, as it was found that this expenditure was no longer needed. In addition, savings were realized in the ongoing Equipment Replacement ($2.2 million) program, as this allocation funds the necessary replacement and rehabilitation of equipment, which did not occur at a level in 2014-2015 to warrant the

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

full expenditure of these funds. The positive variance to the prior year was due primarily to higher Preliminary Engineering and Program Management costs, as well as higher costs for the Digester and Thickener Facilities Upgrade and Advanced Facility Control and Meter Replacement projects.

Ending Fund Balance Performance ($ in Thousands)						
2014-2015 Modified Budget	***2014-2015 Estimated Ending Fund Balance***	***2014-2015 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustments)***
$256,522	$126,559	$154,818	$28,259	($362)	$27,896	10.9%

The **Ending Fund Balance** of $154.8 million was $28.3 million above the estimate used in the development of the 2015-2016 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the positive variance drops to $27.9 million. This ending fund balance was higher than the estimate largely due to expenditure savings from several large projects: Energy Generation Improvements ($6.4 million), Plant Electrical Reliability ($6.1 million), Plant Instrument Air System Upgrade ($3.7 million), Program Management ($3.0 million), and Equipment Replacement ($2.2 million).

The balance of $27.9 million is recommended to be allocated to the 2015-2016 Ending Fund Balance. Of this amount, approximately $9.3 million will be credited back to tributary agencies as reimbursement for their portions of these unused funds, while the City's portion of this balance ($18.6 million) will be available for future use and will partially offset the need for external financing at the Treatment Plant for future large projects, as discussed in the 2015-2016 Operating Budget.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Revenue and Expenditure Performance ($ in Thousands)					
	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$227,677	$228,690	$0	$1,013	0.4%
Expenditures	$256,849	$247,144	$1,583	($8,122)	(3.2%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

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 $228.7 million and were generated primarily from sewer service and use charges for residential ($106.6 million), commercial ($23.3 million), and industrial ($4.5 million) users; a transfer from the SSUC Fund to the Plant Operating Fund ($52.0 million); contributions from tributary agencies ($16.0 million); contributions from the City of Santa Clara ($10.9 million); recycled water sales and rebates ($6.8 million); a transfer from the General Fund for a former Redevelopment Agency SERAF loan repayment ($5.1 million); and Connection Fees ($2.9 million). This revenue level was $1.0 million (0.4%) above the modified budget and $16.6 million (7.8%) above the prior year level of $212.1 million.

The positive variance to the budget of $1.0 million (0.4%) was mainly due to higher revenues from recycled water sales and rebates and residential SSUC charges, partially offset by lower contributions from the tributary agencies and connection fee income. Revenues also exceeded the prior year due, in large part, to a significant increase in the transfer from the SSUC Fund to the Plant Operating Fund, as well as the SERAF loan repayment from the General Fund.

Expenditures totaled $247.2 million and were primarily for the following: transfers from the SSUC Fund to the Plant Operating Fund ($52.0 million), San José-Santa Clara Treatment Plant Capital Fund (Plant Capital Fund) ($48.0 million), and Sewer Service and Use Charge Capital Fund ($23.0 million); overhead reimbursements ($13.0 million); Environmental Services Department (ESD) personal services ($47.0 million) and non-personal/equipment ($33.9 million) costs; and Department of Transportation (DOT) personal services ($10.4 million) and non-personal/equipment ($8.2 million) costs. This expenditure level was $9.7 million (3.8%) below the modified budget and $32.0 million (14.9%) above the prior year level of $215.2 million.

After adjusting for rebudgets, expenditures ended the year $8.1 million (3.2%) below the budget mainly due to personal services and non-personal/equipment expenditure savings in ESD, largely a result of vacancy savings, energy and chemical savings, contract-related delays, and personal services and non-personal/equipment expenditure savings in DOT. Expenditures tracked above the prior year due primarily to higher transfers from the SSUC Fund to the Plant Capital Fund and Plant Operating Fund, as well as

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

higher personal services costs in ESD. Personal services expenditures were up 9.9% due to a number of factors, including a decrease in the number of vacancies at the Plant (vacancy rate declined from 19.4% in September 2014 to 15.7% in September 2015) and the re-classification of certain Plant-specific positions in 2014-2015.

Ending Fund Balance Performance ($ in Thousands)

2014-2015 Modified Budget	*2014-2015 Estimated Ending Fund Balance*	*2014-2015 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$329,826	$80,710	$85,319	$4,609	($1,083)	$3,526	1.1%

The **Ending Fund Balance** of $85.3 million was $4.6 million above the estimate used in the development of the 2015-2016 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the positive variance drops to $3.5 million. This ending fund balance increased above the estimate largely due to higher than estimated revenues from recycled water sales and rebates ($788,000) and sewer service and use charges for industrial ($319,000), residential ($299,000), and commercial ($119,000) users, as well as lower than estimated non-personal/equipment costs in ESD ($2.6 million) and personal services costs in DOT ($647,000), partially offset by higher non-personal/equipment costs in DOT ($844,000).

The additional fund balance of $3.5 million is recommended to be distributed to the 2015-2016 Ending Fund Balance allocations in the various funds. Of this amount, it is recommended that $213,000 be set aside in the Sewer Service and Use Charge Fund’s Operations and Maintenance Reserve and $393,000 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 $76,000 and the Unrestricted Ending Fund Balances be increased by a total of $3.2 million across the SSUC Fund ($743,000) and the Plant Operating Fund ($2.1 million) for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL PROGRAM

Revenue and Expenditure Performance ($ in Thousands)					
	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$25,276	$24,762	$0	($514)	(2.0%)
Expenditures	$120,271	$52,900	$61,211	($6,160)	(5.1%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

The Sanitary Sewer Capital Program includes the Sewer Service and Use Charge Capital Improvement Fund (SSUC Fund) and the Sanitary Sewer Connection Fee Fund (Connection Fee Fund).

Revenues totaled $24.8 million and were generated from a transfer from the Sewer Service and Use Charge Fund ($23.0 million), connection fees ($895,000), and interest income ($428,000). This revenue level was $514,000 (2.0%) below the modified budget and $1.5 million (5.7%) below the prior year level of $26.3 million.

The negative variance to the budget was mainly due to lower joint participation payments, partially offset by reimbursements for Japantown sewer infrastructure. 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 expected because of further required cost sharing evaluations due to the timing of various annexations of County pockets into City jurisdiction. The negative variance to the prior year was due primarily to lower connection fee revenue and a lower transfer from the Sewer Service and Use Charge Fund.

Expenditures totaled $52.9 million and were for several capital projects; the largest of these were: Immediate Replacement and Diversion Projects ($5.7 million), Urgent Rehabilitation and Repair Projects ($5.7 million), Infrastructure – Sanitary Sewer Condition Assessment ($4.5 million), Almaden Expressway Sanitary Sewer Improvements ($4.3 million), Condition Assessment Sewer Repairs ($3.3 million), Coleman Road Sanitary Sewer Improvement – Phase III ($3.1 million), and Cast Iron Pipe – Remove and Replace ($3.1 million). This expenditure level was $67.4 million (56.0%) below the modified budget and $1.3 million (2.4%) below the prior year level of $54.2 million.

After adjusting for rebudgets, the expenditure savings to the budget of $6.2 million was mainly a result of savings across several large projects, including: Urgent Rehabilitation and Repair Projects ($1.3 million); Trimble Road Sanitary Sewer Improvements ($749,000), due to the construction costs of this project being lower than the project's estimate; Cast Iron Pipe Replacement – West ($661,000), due to the project's bid being lower than the engineer's estimate; and South White Road Sanitary Sewer Improvements ($500,000), due to a scope reduction to exclude the Santa Clara County share portion of this City-County joint project. Aside from the standard year-to-year variances across projects that occur in capital funds, the lower expenditure level compared to the prior year can be attributed in large part to Urgent Rehabilitation and Repair Projects, as there were greater expenses incurred in 2013-2014 due to more urgent repair projects.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL PROGRAM

Ending Fund Balance Performance ($ in Thousands)						
2014-2015 Modified Budget	***2014-2015 Estimated Ending Fund Balance***	***2014-2015 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustments)***
$131,156	$69,159	$79,425	$10,266	($3,097)	$7,169	5.5%

The **Ending Fund Balance** of $79.4 million was $10.3 million above the estimate used in the development of the 2015-2016 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the positive variance drops to $7.2 million. This ending fund balance was above the estimate largely due to lower than expected expenditures across several projects, including Rehabilitation of Sanitary Sewer Pump Stations ($2.8 million), Urgent Rehabilitation and Repair Projects ($1.6 million), Flow Monitoring Program (Master Planning) ($970,000), and Trimble Road Sanitary Improvement ($749,000) and higher than estimated miscellaneous revenue ($197,000). The balance of $7.2 million is recommended to be allocated to the 2015-2016 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER CAPITAL PROGRAM

Revenue and Expenditure Performance ($ in Thousands)					
	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$13,959	$12,368	$1,804	$213	1.5%
Expenditures	$23,309	$10,356	$3,925	($9,028)	(38.7%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

The Storm Sewer Capital Program includes the Storm Sewer Capital Fund and the Storm Drainage Fee Fund.

Revenues totaled $12.4 million and were generated from a transfer from the Storm Sewer Operating Fund ($11.9 million), storm drainage fees ($294,000), interest earnings ($140,000), and joint participation revenue ($4,000). This revenue level was $1.6 million (11.4%) below the modified budget of $14.0 million and $5.8 million (32.1%) below the prior year level of $18.2 million.

After adjusting for a rebudget of grant revenue of $1.8 million, revenues tracked slightly above the budget by $213,000 (1.5%) mainly due to higher storm drainage fees and interest income. Revenues tracked well below the prior year due primarily to a significantly lower transfer from the Storm Sewer Operating Fund to the Storm Sewer Capital Fund, due to a greater need for the transfer in 2013-2014 for the storm pump station and master plan projects.

Expenditures totaled $10.4 million and were for several capital projects; the largest of these were Storm Sewer Master Plan – City-wide ($2.5 million), Urgent Flood Prevention and Repair Projects ($1.3 million), Martha Gardens Green Alley ($954,000), Minor Neighborhood Storm Sewer Improvements ($951,000), and Flow Monitoring Program ($932,000). This expenditure level was $13.0 million (55.6%) below the modified budget and $452,000 (4.6%) above the prior year level of $9.9 million.

After adjusting for rebudgets, expenditure savings of $9.0 million (38.7%) to the budget were mainly a result of several large projects. A significant portion of this variance is due to delays associated with the Large Trash Capture Devices ($3.3 million) project, the scope for which will be refined in 2015-2016 and the budget for which will be adjusted as necessary for the 2017-2021 Capital Improvement Program. The Willow Glen-Guadalupe, Phase III ($1.4 million) and Almaden-Canoas Storm Sewer Improvements ($600,000) projects have been delayed, and the scopes for these projects will be based on recommendations included in the Storm Sewer Master Plan (Master Plan), which is expected to be completed in 2017. In addition, $1.0 million previously allocated for the Charcot Storm Pump Station at Coyote Creek is recommended to be placed into a reserve for future use, after completion of the Master Plan and a subsequent financing plan, as described in *Section IV – Recommended Budget Adjustments and Clean-up Actions*. Also, significant costs for the Outfall Rehabilitation – Capital ($491,000) are pending the outcome of a consultant plan, which is anticipated to be completed by December 2015; as such, no plan is yet in place for the use of these funds, and savings are recommended to fall to the Ending Fund Balance. The slightly higher expenditure level over the prior year can in large part be attributed to standard year-to-year variances across projects that generally occur in capital funds.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER CAPITAL PROGRAM

Ending Fund Balance Performance ($ in Thousands)						
2014-2015 Modified Budget	*2014-2015 Estimated Ending Fund Balance*	*2014-2015 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$38,281	$18,048	$26,352	$8,304	($1,316)	$6,988	18.3%

The **Ending Fund Balance** of $26.4 million was $8.3 million above the estimate used in the development of the 2015-2016 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the positive variance drops to $7.0 million. This higher ending fund balance is primarily due to lower than expected expenditures across several projects, including Large Trash Capture Devices ($3.3 million), Charcot Storm Pump Station at Coyote Creek ($1.0 million), Outfall Rehabilitation – Capital ($891,000), and Storm Sewer Master Plan – City-wide ($832,000).

As described in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, a budget action is recommended to increase the Charcot Storm Pump Station Reserve by $1.0 million. The remaining fund balance of approximately $6.0 million is recommended to be allocated to the 2015-2016 Unrestricted Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER OPERATING FUND

Revenue and Expenditure Performance ($ in Thousands)					
	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$32,163	$32,705	$0	$542	1.7%
Expenditures	$38,808	$35,635	$413	($2,760)	(7.1%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

Revenues totaled $32.7 million and were generated primarily from storm sewer service fee assessments ($32.6 million), other non-operating revenues ($58,000), and interest earnings ($34,000). This revenue level was $542,000 (1.7%) above the modified budget of $32.2 million and $300,000 (0.9%) above the prior year level of $32.4 million.

The positive variance to the budget of $542,000 (1.7%) was mainly due to higher fee assessments and miscellaneous revenue. The miscellaneous revenues received in 2014-2015 were attributed primarily to a Cal Recycle Grant. The positive variance to the prior year was also due primarily to higher fee assessments.

Expenditures in this fund are focused primarily on maintenance and operation of the Storm Sewer System and stormwater pollution reduction and totaled $35.6 million. Expenses consisted primarily of a Transfer to the Storm Sewer Capital Fund ($11.9 million) to support capital investments in the Storm Sewer System, Department of Transportation (DOT) and Environmental Services Department (ESD) personal services ($5.8 million and $5.4 million, respectively), DOT and ESD non-personal/equipment ($2.4 million and $1.9 million, respectively), overhead ($2.5 million), and yard trimmings/street sweeping contract ($2.0 million) costs. This expenditure level was $3.2 million below the modified budget of $38.8 million and $4.8 million (11.9%) below the prior year level of $40.5 million.

After adjusting for rebudgets, expenditures ended the year $2.8 million (7.1%) below the budget mainly due to vacancy savings and non-personal/equipment cost savings in both DOT and ESD. The non-personal/equipment cost savings in DOT were due to the lack of need for significant expenditures to the storm system as a result of low and inconsistent rainfall. The savings in ESD resulted from delays in implementing elements of the long-term trash load reduction plan, such as the Clean Streets pilot program, due to a combination of staff turnover and a need to focus resources on development of the Municipal Regional Stormwater Permit 2.0. Expenditures were lower than the prior year, due primarily to a lower transfer to the Storm Sewer Capital Fund.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER OPERATING FUND

Ending Fund Balance Performance ($ in Thousands)						
2014-2015 Modified Budget	*2014-2015 Estimated Ending Fund Balance*	*2014-2015 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$51,028	$14,426	$16,080	$1,654	($63)	$1,591	3.1%

The **Ending Fund Balance** of $16.1 million was $1.7 million above the estimate used in the development of the 2015-2016 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the positive variance drops to $1.6 million. This ending fund balance was above the estimate largely due to higher than estimated revenues from fee assessments ($86,000) and revenue from the Cal Recycle Grant ($40,000), as well as lower than estimated non-personal/equipment costs in ESD ($475,000), lower personal services costs in ESD ($362,000) and DOT ($187,000), and lower Customer Information System Transition project costs ($285,000).

The balance of $1.6 million is recommended to be allocated to the 2015-2016 Ending Fund Balance, of which $141,000 will be set aside in the Operations and Maintenance Reserve to have this reserve maintain its target of two months of operating expenditures.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

TRANSIENT OCCUPANCY TAX FUND

Revenue and Expenditure Performance ($ in Thousands)					
	2014-2015 Budget	***2014-2015 Actuals***	***Total Rebudgets****	***Variance***	***% Variance***
Revenues	$21,523	$22,420	$0	$897	4.2%
Expenditures	$21,928	$19,346	$2,582	$0	0.0%

***** Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

Revenues generated from Transient Occupancy Tax (TOT) receipts totaled $22.4 million, including $22.2 million for 2014-2015 activity, payment generated from taxes that should have been paid in prior years and related penalties ($169,000), special events permit revenue ($26,000), and interest earnings ($24,000). This revenue level was $897,000 (4.2%) above the modified budget of $21.5 million and $4.5 million (25.2%) above the prior year record level of $17.9 million.

The variance to budget and the increase from the prior year results from the continued strong revenue performance in 2014-2015 and is reflective of the steadily increasing hotel occupancy and room rates for the City's 14 largest hotels. The occupancy rate increased to 75.8%, up from 70.6% in 2014-2015 and 66.6% in 2012-2013; and the average room rate increased to $174, up from $154 in 2014-2015 and $139 in 2012-2013.

Expenditures totaled $19.3 million and were primarily for the transfer to the Convention and Cultural Affairs Fund ($9.6 million), the San José Convention and Visitors Bureau ($4.8 million), and the Cultural Development grants program ($4.7 million). This expenditure level, though below the 2014-2015 budget of $21.9 million, was $2.1 million (or 12.4%) above the prior year level of $17.2 million.

A total of $2.6 million is recommended to be rebudgeted as part of this report for San José Convention and Visitor's Bureau ($95,000) and the Cultural Grants program ($2.4 million). Once rebudgets are included, expenditures in the TOT Fund ended the year at budgeted levels.

Ending Fund Balance Performance ($ in Thousands)						
2014-2015 Modified Budget	***2014-2015 Estimated Ending Fund Balance***	***2014-2015 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$27,233	$5,305	$8,784	$3,479	($2,582)	$897	3.3%

The **Ending Fund Balance** of $8.8 million was $3.5 million above the estimate used in the development of the 2015-2016 Adopted Budget. After accounting for rebudget adjustments of $2.6 million recommended in the Annual Report, the positive variance drops to $897,000 and reflects higher than anticipated revenues. As part of this report, additional fund balance ($884,000) is recommended to be allocated to the following categories according to the City Council approved distribution formula: Cultural Development ($221,000), Convention and Visitor's Bureau ($221,000), and Transfer to the Convention and Cultural Affairs Fund ($442,000). The remaining $13,000 reflects the net increase to the 2015-2016 Ending Fund Balance from additional interest earnings and special events permit revenue above the amount assumed for 2014-2015.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL PROGRAM

Revenue and Expenditure Performance ($ in Thousands)					
	2014-2015 Budget	*2014-2015 Actuals*	*Total Rebudgets**	*Variance*	*% Variance*
Revenues	$3,671	$4,087	$0	$416	11.3%
Expenditures	$6,729	$5,280	$1,349	($100)	(1.5%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

The Water Utility Capital Program includes the Water Utility Capital Fund and the Major Facilities Fund.

Revenues totaled $4.1 million and were generated primarily from a Transfer from the Water Utility Fund ($3.5 million) and fees paid by developers for direct services ($538,000). The fees consist of Major Facilities Fees ($351,000), Service Connection Fees ($137,000), Meter Installation Fees ($29,000), and Advanced System Design Fees ($21,000). This revenue level was $416,000 (11.3%) above the modified budget and $384,000 (10.4%) above the prior year level of $3.7 million.

The positive variance to the budget of $416,000 (11.3%) was due primarily to higher major facilities fees, as these fees are not budgeted due to the highly volatile nature of this revenue stream. The positive variance to the prior year was due to a higher transfer from the Water Utility Fund for capital projects.

Expenditures totaled $5.3 million and were for several capital projects; the largest of these were Infrastructure Improvements ($1.6 million), System Maintenance/Repairs ($816,000), Nortech and Trimble Reservoir Rehabilitation ($522,000), and Meter Replacements ($501,000). This expenditure level was $1.4 million (21.5%) below the modified budget and $124,000 (2.3%) below the prior year level of $5.4 million.

After adjusting for rebudgets, expenditures ended the year $100,000 (1.5%) below the budget mainly as a result of savings across several projects. The lower expenditure level compared to the prior year was due primarily to lower expenses for the Dove Road Main Extension and Nortech and Trimble Reservoir Rehabilitation projects, as they were primarily 2013-2014 projects, partially offset by the Safety and Security Improvements project that was initiated midway through 2014-2015 to address urgent safety and security issues at water utility sites.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL PROGRAM

Ending Fund Balance Performance ($ in Thousands)						
2014-2015 Modified Budget	*2014-2015 Estimated Ending Fund Balance*	*2014-2015 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$13,684	$8,397	$8,820	$423	($122)	$301	2.2%

The **Ending Fund Balance** of $8.8 million was $423,000 above the estimate used in the development of the 2015-2016 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the positive variance drops to $301,000. This ending fund balance was above the estimate due largely to higher major facilities fee revenue ($213,000) and lower expenses across several capital projects, the largest of which were Cadwallader Reservoir Rehabilitation ($78,000) and System Maintenance/Repairs ($46,000), partially offset by lower service connection fee revenue ($13,000). The balance of $301,000 is recommended to be allocated to the 2015-2016 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

Revenue and Expenditure Performance ($ in Thousands)					
	2014-2015 Budget	***2014-2015 Actuals***	***Total Rebudgets****	***Variance***	***% Variance***
Revenues	$36,894	$36,833	$0	($61)	(0.2%)
Expenditures	$38,445	$35,509	$130	($2,806)	(7.3%)

* Includes all rebudgets from 2014-2015 to 2015-2016, including those recommended in this Annual Report.

Revenues totaled $36.8 million and were generated from potable and recycled water sales ($36.5 million), late fees ($253,000), and interest earnings ($46,000). This revenue level was $61,000 (0.2%) below the modified budget and $2.0 million (5.8%) above the prior year level of $34.8 million.

With revenues ending the year within 0.2% of the budget, overall collections performed as budgeted in 2014-2015. The positive variance to the prior year was primarily due to higher recycled water sales, combined with potable and recycled water rates that were 11.0% higher in 2014-2015 than the prior year.

Expenditures totaled $35.5 million and were primarily for Environmental Services Department (ESD) Non-Personal/Equipment ($24.8 million, of which $20.6 million was attributed to the purchase of wholesale potable and recycled water), ESD Personal Services ($4.4 million), and a Transfer to the Water Utility Capital Fund ($3.5 million). This expenditure level was $2.9 million (7.6%) below the modified budget and $2.0 million (5.9%) above the prior year level of $33.5 million.

After adjusting for rebudgets, the budget savings of $2.8 million (7.3%) was mainly due to non-personal/equipment expenditure savings in ESD ($2.7 million), which was largely a result of lower than estimated potable water purchases. The variance to the prior year was due primarily to higher personal services expenditures in ESD, higher Customer Information System Transition costs, an increased transfer to the Water Utility Capital Fund, and overhead payment to the General Fund.

Ending Fund Balance Performance ($ in Thousands)						
2014-2015 Modified Budget	***2014-2015 Estimated Ending Fund Balance***	***2014-2015 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustments)***
$48,684	$10,706	$13,143	$2,437	($30)	$2,407	4.9%

The **Ending Fund Balance** of $13.1 million was $2.4 million above the estimate used in the development of the 2015-2016 Adopted Budget. After accounting for rebudgets recommended in the Annual Report of only $30,000, the positive variance remains approximately the same. The increase to ending fund balance is largely due to higher than estimated revenues from potable water sales ($1.5 million) and lower than estimated non-personal/equipment expenditures in ESD ($1.0 million), which is the result of a timing difference between when the 2014-2015 year-end estimates were created for development of the 2015-2016 Proposed Operating Budget and when water conservation began to significantly affect revenues and expenditures, partially offset by the necessary budgetary funding in 2014-2015 of the long-term liability for compensated absences in the fund ($124,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

The year-end revenue estimate for potable water sales was created based on fiscal year-to-date data through February, and assumed a 20% water conservation level between March and June from 2013 levels. However, consumption in March and April dropped by an amount of approximately 10%, and then fell steeply to 30% in May and June. Because revenue from Municipal Water System customers is received by the City approximately two to three months after consumption occurs, actual revenues came in higher than expected at year-end. Accordingly, year-end expenditures were less than anticipated due to the sharply reduced levels of consumption for May and June. Through July and August of 2015-2016, conservation levels are tracking at consumption reductions of 35%, greater than the 28% used to develop the 2015-2016 budget.

As described in *Section IV – Recommended Budget Adjustments and Clean-up Actions*, several budget actions are recommended. A revenue decrease of $1.9 million is recommended for potable water sales to account for the reduced revenue related to May and June's low consumption levels ($300,000) and to account for conservation tracking at 35%, as opposed to 28%, for the remainder of 2015-2016 ($1.6 million). Accordingly, a decrease to expenditures of $1.2 million is also recommended to reflect the reduced the amount of wholesale water purchases, due to the increased levels of conservation experienced year-to-date. Other recommended actions include recognizing funding of $106,000 from the Santa Clara Valley Water District (SCVWD) and allocating those funds to ESD ($65,000) and OED ($41,000) for non-personal/equipment expenses for the LawnBuster Pilot Program, increasing the ESD non-personal/equipment allocation for billing system licensing ($298,000), and decreasing the Operations and Maintenance Reserve to maintain its target of two months of operating expenditures.

After accounting for all recommended adjustments, the 2015-2016 Unrestricted Ending Fund Balance will increase by approximately $1.5 million. If water consumption levels continue according to current expectations, this amount could be used for a quicker pay-down of the commercial paper loan associated with the replacement of water meters. However, the additional fund balance also serves as a cushion against potential revenue shortfalls if conservation increases or any mid-year rate increases that could be contemplated by the SCVWD. Given this uncertainty, no actions related to the additional fund balance are recommended at this time. Staff will continue to closely monitor water consumption activity levels and actions by SCVWD, and may bring forward recommended adjustments as part of the 2015-2016 Mid-Year Budget Review, as necessary.