2019-2020

Annual

Report

III. Selected Special/ Capital Funds Budget Performance

III. SELECTED SPECIAL/CAPITAL FUNDS BUDGET PERFORMANCE

This section provides financial information on the 2019-2020 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 2019-2020 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 2019-2020 Modified Budget, which includes fund balance and reserves. The 2019-2020 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 2020-2021 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 2019-2020 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 2019-2020 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 due to rebudgets approved as part of the 2020-2021 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 2020-2021 Adopted Budget; discusses variances between these two amounts; and identifies any impact on the 2020-2021 budget related to recommended actions included in this report.

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PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	*2019-2020 Actuals*	*Variance*	*% Variance*
Revenues	$132,984	$82,131	($50,853)	(38.2%)
Expenditures	$161,751	$82,301	($79,450)	(49.1%)

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 $82.1 million and were generated primarily from transfers from the Airport Surplus Revenue Fund ($53.8 million), Passenger Facility Charges (PFCs) ($20.5 million), grant income ($3.2 million), commercial paper proceeds ($3.0 million) and interest earnings ($1.6 million). This revenue level was $50.9 million (38.2%) below the Modified Budget and $45.9 million (35.9%) lower than the prior year level of $128.0 million.

The negative variance to the budget of $50.9 million (38.2%) was due primarily to lower than expected receipt of grant revenue, $35.6 million (91.8%). This resulted from projects being delayed due to COVID-19 and other projects awaiting Federal Aviation Administration approval of grant applications. Additionally, Passenger Facility Charge revenue ended the year below estimated levels by $10.0 million (32.9%) due to reduced passenger activity that resulted from the COVID-19 pandemic and shelter-in-place orders. Other revenue activity included receipt of $3.0 million in Commercial Paper proceeds that funded the remainder of construction of the Interim Terminal Facility. Overall, revenues in 2019-2020 of $82.1 million were lower than 2018-2019 revenues of $128.0 million due to fewer large grant-funded projects, much lower commercial paper proceeds with the completion of the Interim Terminal Facility, and decreased passenger facility charge revenue. Negative revenue rebudgets totaling $235,000 are recommended in this report to align budget with actuals.

Expenditures totaled $82.3 million and consisted primarily of expenses related to transfers to other Airport funds for debt service payments ($27.5 million), the construction of the Economy Lot 1 Parking Garage ($22.2 million), the construction of the remainder of the Interim Terminal Facility ($9.0 million), and various capital renewal and replacement projects ($18.3 million). Expenditures also included significant airfield projects such as the Aircraft Rescue and Fire Fighting Facility ($3.1 million) project and the Airfield Electrical Circuit Rehabilitation ($2.2 million) project. This expenditure level was $79.5 million (49.1%) below the Modified Budget and $40.7 million (33.1%) below the prior year level of $123.0 million.

After adjusting for rebudgets of $63.0 million included in the 2020-2021 Adopted Budget and $1.9 million recommended in this report, expenditure savings of $14.6 million were largely attributed to grant projects that were not awarded, COVID-19 related construction slowdowns, and project deferrals which resulted in savings for projects such as the Zero Emissions Buses ($5.7 million) project, the

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AIRPORT CAPITAL FUNDS

Terminal Building Modifications ($1.0 million) project and Program Management ($1.0 million). The Airport continues to ensure passenger safety is a top priority and development of additional passenger, airline and concession activity is important to planning for the Airport's future growth.

Ending Fund Balance Performance ($ in Thousands)						
2019-2020 Modified Budget	***2019-2020 Estimated Ending Fund Balance***	***2019-2020 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustments)***
$195,139	$65,655	$62,805	($2,850)	($2,166)	($5,016)	(2.6%)

The **Ending Fund Balance** of $62.8 million was $2.9 million below the estimate used in the development of the 2020-2021 Adopted Budget. After accounting for expenditure rebudget adjustments totaling $2.2 million that are recommended as part of the Annual Report, the revised fund balance variance is a negative $5.0 million.

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AIRPORT OPERATING FUND - AIRPORT CUSTOMER FACILITY AND TRANSPORTATION FEE FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	2019-2020 Actuals	Variance	% Variance
Revenues	$16,341	$16,842	$501	3.1%
Expenditures	$21,673	$21,650	($23)	(0.1%)

Revenues totaled $16.8 million and were generated from rental car Customer Facility Charge (CFC) fees ($15.4 million), the Contribution from Rental Car Agencies ($1.2 million) and interest earnings ($209,000). This revenue level was $501,000 (3.1%) above the Modified Budget of $16.3 million and $5.0 million (22.8%) below the prior year level of $21.8 million.

The decrease in revenue from the prior year was due to the significantly lower number of passengers in 2019-2020 resulting from COVID-19 stay-at-home orders, travel restrictions, and pandemic conditions from mid-March through June 2020. However, the passenger level declines were slightly less than estimated, which resulted in a positive variance to the 2019-2020 budget of $501,000 (3.1%).

Expenditures totaled $21.7 million and were primarily attributed to transfers for debt service payments ($19.2 million) as well as shuttle bus transportation costs ($2.1 million). Expenditures were in line with budget with a small variance of $23,000 (0.1%). This expenditure level was $539,000 (2.6%) above the prior year level of $21.1 million due to increased debt service.

Ending Fund Balance Performance ($ in Thousands)						
2019-2020 Modified Budget	2019-2020 Estimated Ending Fund Balance	2019-2020 Actual Ending Fund Balance	Variance	Recommended Rebudget Adjustments Impact	Revised Variance	Revised Variance % (incl. Rebudget Adjustments)
$30,076	$9,801	$8,926	($875)	$0	($875)	(2.9%)

The 2019-2020 **Ending Fund Balance** of $8.9 million was $875,000 below the estimate used in the development of the 2019-2020 Adopted Budget. This negative variance from the estimate was due to slightly higher than estimated non-personal/equipment expenditures and reduced contributions from rental car agencies. In an effort to mitigate fiscal impacts to rental car agencies, the Rate Stabilization Reserve was used ($937,000) to pay for a portion of the transportation costs.

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

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	*2019-2020 Actuals*	*Variance*	*% Variance*
Revenues	$214,018	$179,354	($34,664)	(16.2%)
Expenditures	$127,391	$113,802	($13,589)	(10.7%)

Revenues in the Airport Revenue Fund totaled $179.4 million and were generated from Airline Terminal Rental ($62.7 million), Parking and Roadway ($49.7 million), Landing Fees ($21.7 million), Terminal Building Concessions ($20.6 million), Miscellaneous Revenue ($14.5 million), Airfield Area ($6.5 million), Petroleum Products ($2.3 million), and Transfers from the Airport Fiscal Agent Fund ($782,000) and General Fund for Jet Fuel Sales Tax ($487,000). The total revenue level was $34.7 million (-16.2%) below the Modified Budget of $214.0 million and slightly greater than the prior year level of $177.0 million.

The unfavorable revenue variance of $34.7 million was due to actual revenue ending the year below budgeted revenue estimates in most categories including: Parking and Roadway ($13.5 million) due to decreased public parking, ground transportation trip fees, and rental car concession fees; Terminal Building concessions revenue ($1.8 million) due to decreased passenger volume and sales; and Airfield revenue ($2.1 million), Landing Fees revenue ($6.9 million), and airline Terminal Rental revenue ($10.5 million). Overall, revenues fell below budgeted levels as a result of decreased operations at SJC subsequent to the global pandemic and shelter-in-place orders. These revenue variances were offset slightly ($1.6 million) by Miscellaneous revenue that ended the year slightly above budget.

The 2019-2020 revenue level was $2.4 million (1.3%) above the 2018-2019 level of $177.0 million primarily due to higher Terminal Rental revenue resulting from a contractual change in the airline rate calculation, partially offset by decreased Parking and Roadway revenue, the result of the impact of COVID-19.

Expenditures in the Airport Maintenance and Operation Fund totaled $113.8 million and were primarily for Airport Department non-personal/equipment ($43.5 million including encumbrances), Airport personal services ($34.0 million), a transfer to the General Fund for Police and Fire services ($17.2 million), Overhead ($5.4 million), and Interdepartmental Services ($1.5 million) expenditures. Additionally, there were Airline Reserve Funds Distribution payments ($11.9 million), which was funding for recording the Net Remaining Revenue resulting from the 2019-2020 financial performance. This expenditure level was $13.6 million (-10.7%) below the Modified Budget of $127.4 million and $13.8 million (-12.1%) below the prior year level of $127.6 million.

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

The negative variance to the budget of $13.6 million was mainly due to personal services vacancy savings ($2.5 million), remaining Operations Contingency funds ($1.7 million) and non-personal/equipment expenditure savings ($9.3 million) resulting primarily from proactive action by Airport management to reduce service levels to create expenditure savings to partially offset reduced revenues resulting from COVID-19 stay-at-home orders, travel restrictions, and pandemic conditions from mid-March through June 2020. The $13.8 million (12.1%) decrease over the prior year was primarily due to reduced Airline Reserve Funds Distribution (-$18.3 million) partially offset by higher Airport Department personal services costs ($2.7 million) and Police/Fire services costs ($1.2 million). The higher personal services costs reflect the addition of ten positions in the 2019-2020 budget that were necessary to meet increased operational needs resulting from the surge in passenger and commercial flights between July and February. Higher costs for both Airport Police Division and Aircraft Rescue and Fire Fighting (ARFF) services can be attributed to wage adjustments, overtime hours, and transitioning to permanent Fire Department staff from an overtime model in order to ensure necessary staffing levels to meet the Airport's operational needs.

Ending Fund Balance Performance ($ in Thousands)

2019-2020 Modified Budget	*2019-2020 Estimated Ending Fund Balance*	*2019-2020 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments Impact*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$464,012	$96,499	$95,526	($973)	$0	($973)	(0.2%)

The 2019-2020 combined **Ending Fund Balance** of $95.5 million was $1.0 million below the budgeted estimate used to develop the 2019-2020 Adopted Operating Budget. The variance from the estimate was largely due to lower than estimated revenues partially offset by reduced transfers from Airport operating funds for lower capital project expenditures. As well, there was a year-end action to make a payment to the airlines reflecting the year-end Net Remaining Revenue sharing in accordance with the 2019 Airline-Airport Lease and Operating Agreement.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	***2019-2020 Actuals***	***Variance***	***% Variance***
Revenues	$51,570	$57,659	$6,089	11.8%
Expenditures	$68,493	$24,529	($43,964)	(64.2%)

Revenues totaled $57.7 million and were generated from primarily Building and Structure Tax ($33.3 million), other revenue ($18.8 million), grant funding ($3.4 million), and interest earnings ($1.7 million). Other revenue primarily consists of mitigation payments from the Communications Hill Development that will be used for traffic infrastructure improvements at Narvaez Avenue and Highway 87/Capital Expressway and ($6.7 million) and as part of the iStar development requirements that will be used for the design and construction of a Highway 101 and Blossom Hill Road overcrossing ($6.2 million), and the repayment of a loan for transportation infrastructure and roadway improvements in North Coyote Valley ($4.9 million). The revenue level was $31.8 million (122.9%) above the prior level of $25.9 million. The 2019-2020 revenues were higher than the budgeted estimate of $51.6 million by approximately $6.1 million, resulting primarily from higher than budgeted other revenues ($12.7 million), Building and Structure Construction Tax receipts ($9.3 million), and interest earnings ($1.1 million), offset by lower grant revenues ($16.9 million).

At $33.3 million, Building and Structure Construction Tax receipts in 2019-2020 were above the budgeted estimate of $24.0 million, and 47.6% higher than the 2018-2019 collections of $22.5 million. During the development of the 2021-2025 Capital Improvement Program, the Building and Structure Construction Tax revenue estimate was increased by $5.0 million, from the $24.0 million estimate included in the 2019-2020 Adopted Budget, to align with higher than anticipated collections. This higher collection level for Building and Structure Construction Tax revenues is mainly attributable to large increases in valuation of permits for commercial and industrial building projects. The total valuation of projects submitted in 2019-2020 was $1.79 billion, 2.7% above the $1.74 billion valuation of projects that were received in 2018-2019. Residential valuation ended the year below the estimate while the valuations for the Commercial and Industrial land use categories ended the year above estimates. Residential valuation of $353.4 million in 2019-2020 was lower than the 2018-2019 level of $567.5 million. A total of 1,954 new residential units received permits in 2019-2020, which was below 2018-2019 actuals of 2,985 units. However, commercial valuation of $784.3 million ended 2019-2020 above the prior year level of $631.4 million. In addition, industrial activity of $652.5 million was higher than the 2018-2019 level of $544 million. Notable activity that occurred in 2019-2020 included building permits for the construction of a 9-story garage for two office buildings (located on Devcon Court between East Brokaw Road and Zanker Road), a new 80,260 square foot shell building for future manufacturing/storage use (located east of Highway 87 and south of Curtner Avenue), a 443,000 square foot public parking garage (located on Winchester Boulevard and Prune Way), a new 65,000 square foot grocery store (located on Berryessa Road), a new 8-story, 576,892 square foot office building on Coleman Avenue west of the San José International Airport, and a 130-unit apartment building with 5,500 square feet of ground-floor retail (located on South Market Street just north of Interstate 280). The 2020-2021 Adopted Budget estimate of $19.0 million allows for a decrease of 42.9% from the actual 2019-2020 collection level.

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Grant related revenues of $9.6 million, which were not received in 2019-2020 due to project delays, were anticipated and rebudgeted during the development of the 2020-2021 Adopted Budget. An additional $305,000 of grant funding is recommended to be rebudgeted as part of this report.

Expenditures totaled $24.5 million and were $44.0 million (64.2%) below the modified budget. A significant portion of the expenditure savings ($28.6 million), excluding reserves, was anticipated and rebudgeted as part of the 2020-2021 budget process. An additional $6.7 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2020-2021. Once rebudgets are included, expenditures in the Building and Structure Construction Tax Fund approach budgeted levels for 2019-2020. The expenditure level was $3.1 million (14.5%) above the prior year level of $21.4 million.

Ending Fund Balance Performance ($ in Thousands)

2019-2020 Modified Budget	*2019-2020 Estimated Ending Fund Balance*	*2019-2020 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments Impact*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$112,289	$72,626	$94,061	$21,435	($6,732)	$14,703	13.1%

The **Ending Fund Balance** of $94.1 million was $21.4 million above the estimate used in the development of the 2020-2021 Adopted Budget. After accounting for net rebudget adjustments of $6.7 million recommended in the Annual Report, the positive variance is reduced to $14.7 million. A significant revenue rebudget includes HSIP – Monterey Road Safety Improvements ($400,000). Significant expenditure rebudgets include Traffic Signal Modifications/Construction ($1,978,000), Pedestrian Improvements ($1,679,000), ITS: Transportation Incident Management Center ($699,000), Vision Zero: Safety Initiatives Reserve ($500,000), and Vision Zero: Story/Jackson Safety Improvements ($300,000).

After accounting for all recommended adjustments, a net increase of $8.6 million is recommended to be allocated to the 2020-2021 Ending Fund Balance.

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CONSTRUCTION AND CONVEYANCE TAX FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	*2019-2020 Actuals*	*Variance*	*% Variance*
Revenues	$62,772	$58,656	($4,116)	(6.6%)
Expenditures	$111,495	$65,525	($45,970)	(41.2%)

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 2019-2020 totaled $58.7 million and were comprised of C&C Tax receipts ($40.9 million), transfers between funds ($13.3 million), interest earnings ($2.0 million), developer contributions and miscellaneous revenue ($1.2 million; which includes flood insurance reimbursements in the Parks City-Wide C&C Tax Fund of $1.1 million), and state and federal grants ($1.3 million). The revenue level is $4.1 million below the budgeted estimate of $62.7 million, primarily due to Commercial Paper Proceeds ($3.5 million) not being received, partially offset by higher than budgeted C&C tax proceeds ($4.9 million).

C&C Tax revenue collections of $40.9 million was received in 2019-2020, which is $4.9 million above the Modified Budget of $36.0 million and $2.9 million above the estimated collection level of $38.0 million. The actual tax receipts in 2019-2020 is 13.3% below the actual tax receipts in 2018-2019 ($47.2 million), which is primarily due to declines experienced in the local real estate market, which is the primary driver of this revenue source. Due to the COVID-19 pandemic and uncertainty regarding its long term effect on the local real estate market, C&C Tax receipts in 2020-2021 have been budgeted at $30.0 million, which allows for a 27% drop from 2019-2020 actual collections. The C&C tax receipts will be closely monitored in 2020-2021 due to the volatile nature of revenue.

From spring 2012 through fall 2018, the median sale price for homes had consistently experienced year-over-year growth. Beginning in October 2018, however, Santa Clara County experienced a slow down in the local real estate market, with median sale prices dropping, the average days on market increasing, and the number of sales decreasing. This slowdown lasted for about 12 months, until the real estate market began stabilizing, with median home prices and property sales once again growing compared to prior year levels.

Real estate activity is anticipated to significantly decline over the next year. During the shelter-in-place order, there is anticipated to be little movement in the real estate market; and as restrictions are lifted it is anticipated that the real estate market will be sluggish due to higher unemployment coupled with lower anticipated consumer confidence. Real estate data received from the Santa Clara County Association of Realtors show the number of property transfers (sales) have experienced year-over-year decreases (from the same time period in the prior year) ranging from 10%-54%. In June 2020 there were a total of 542 property transfers for all residences, which represents a 10.4% decline from June 2019. Although property

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transfers have been declining since the pandemic began, the median single family home price has continued to grow. From March 2020 through June 2020 year-over-year increases have ranged from 3%-14% when compared to the same time period in the prior year. As of June 2020, the median single family home price totaled $1.19 million, which represents a 4.1% increase from the June 2019 price of $1.15 million.

As mentioned above, the local real estate market is the key driver of C&C Tax receipts. Therefore, if the median single-family home price and sales activity significantly increase or decrease, a corresponding change may be seen in C&C Tax revenue.

Expenditures in the various C&C Tax Funds totaled $65.5 million in 2019-2020 and were derived primarily from 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 $46.0 million (41.2%) below the budgeted level of $111.5 million, which is primarily the result of unexpended capital project funding. The 2019-2020 expenditure level of $65.5 million was $16.1 million (19.7%) below the prior year level of $81.6 million.

Ending Fund Balance Performance ($ in Thousands)						
2019-2020 Modified Budget	***2019-2020 Estimated Ending Fund Balance***	***2019-2020 Actual Ending Fund Balance***	***Variance***	***Recommended Rebudget Adjustments Impact***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$154,735	$69,499	$85,176	$15,677	($9,400)	$6,277	4.06%

The **Ending Fund Balance** of $85.2 million was $15.7 million above the $69.5 million estimate used to develop the 2020-2021 Adopted Capital Budget. After accounting for net revenue and expenditure rebudget adjustments of $9.4 million recommended in the Annual Report, the variance decreases to $6.3 million.

As described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions*, this report includes recommendations to allocate $809,000 from various C&C Tax Fund Ending Fund Balances to fund various capital projects, including TRAIL: Coyote Creek (Brokaw Road to Union Pacific Railroad Corridor) Design ($379,000 – Council District 3 C&C Tax Fund), Fuller Avenue Park Walkway Renovation ($70,000 – Council District 6 C&C Tax Fund), and TRAIL: Thompson Creek (Quimby Road to Aborn Court)($360,000 – Council District 8 C&C Tax Fund). This report also includes recommendations to eliminate several projects and reallocate the funding ($2.9 million) to the various projects, including Fire Apparatus Replacement ($1,650,000 – Fire C&C Tax Fund), and Fire Station 37 FF&E ($1,180,000 – Fire C&C Tax Fund). The remaining fund balance is recommended to be allocated to the respective funds' 2020-2021 Ending Fund Balance for future use. For a complete list of all budget adjustments included in the 17 C&C Tax Funds, please refer to *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions.*

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CONSTRUCTION EXCISE TAX FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	***2019-2020 Actuals***	***Variance***	***% Variance***
Revenues	$161,419	$116,186	($45,234)	(28.0%)
Expenditures	$241,027	$147,223	($93,803)	(38.9%)

Revenues totaled $116.2 million and were primarily generated from grant funding ($83.3 million), the Construction Excise Taxes ($20.1 million), traffic impact fees ($5.6 million), interest ($2.7 million), miscellaneous revenue ($2.1 million), and transfers from other funds ($1.8 million). The majority of grant funding consists of allocations for pavement maintenance from the State of California and the Valley Transportation Authority ($78.1 million). The revenue level was $45.2 million (28.0%) below the budget estimate but $44.9 million (63.0%) above the prior year level of $71.3 million.

The 2019-2020 revenue level was lower than the 2019-2020 Modified Budget estimate of $161.4 million, primarily due to lower receipts from grant funds ($52.8 million). However, this shortfall was partially offset by higher than estimated traffic impact fees ($5.7 million), interest earnings ($1.5 million), and miscellaneous revenues and contributions ($427,000). Grant related revenues of $25.5 million, including $16.8 million of anticipated revenue from the second round of One Bay Area Grant funding and $5.5 million from VTA 2016 Measure B, which were not received in 2019-2020 due to project delays, were anticipated and rebudgeted as part of the development of the 2020-2021 Adopted Budget. The revenue variance to the prior year mainly resulted from higher collections from grant-related revenues ($46.6 million), transfers ($1.8 million), miscellaneous revenues and contributions ($1.1 million), traffic impact fees ($809,000), and interest earnings ($300,000), which were partially offset by lower Construction Excise Tax receipts ($5.7 million).

At $20.1 million, Construction Excise Tax receipts in 2019-2020 were 0.3% ($51,000) above the budgeted estimate of $20.0 million, but 22.2% lower than 2018-2019 collections of $25.8 million. During the development of the 2021-2025 Capital Improvement Program, the Construction Excise Tax revenue estimate was decreased by $1.0 million, from the $20.0 million estimate included in the 2019-2020 Adopted Budget, to align with lower than anticipated collections due to the COVID-19 pandemic. The lower Construction Excise Tax collection level for 2019-2020 is primarily attributable to decreased valuation of permits for residential building projects. The total valuation of residential and commercial projects submitted in 2019-2020 was $1.4 billion, 22.2% above the $1.2 billion valuation of residential and commercial projects submitted in 2018-2019 (the Construction Excise Tax does not apply to industrial projects). Residential valuation of $353.4 million in 2019-2020 was lower than the 2018-2019 level of $567.5 million. A total of 1,992 new residential units received permits in 2019-2020, which was below 2018-2019 actuals of 2,985 units. Commercial valuation of $784.3 million tracked above the prior year level of $631.4 million. Notable activity that occurred in 2019-2020, included building permits for the construction of a 9-story garage for two office buildings (located on Devcon Court between East Brokaw

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Road and Zanker Road), a new 80,260 square foot shell building for future manufacturing/storage use (located east of Highway 87 and south of Curtner Avenue), a 443,000 square foot public parking garage (located on Winchester Boulevard and Prune Way), a new 65,000 square foot grocery store (located on Berryessa Road), a new 8-story, 576,892 square foot office building on Coleman Avenue west of the San José International Airport, and a 130-unit apartment building with 5,500 square feet of ground-floor retail (located on South Market Street just north of Interstate 280). The 2020-2021 Adopted Budget estimate of $14.0 million allows for a decrease of 30.2% from the actual 2019-2020 collection level.

Expenditures totaled $147.2 million and were $93.8 million (38.9%) below the 2019-2020 Modified Budget. A portion of the expenditure savings ($50.5 million) was anticipated and rebudgeted as part of the 2020-2021 budget process, in addition to the rebudgeting of reserves ($46.3 million). An additional $9.5 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2020-2021. The expenditure level was $3.3 million below the prior year level of $150.5 million, primarily due to the progression of pavement maintenance projects during 2019-2020.

Ending Fund Balance Performance ($ in Thousands)						
2019-2020 Modified Budget	*2019-2020 Estimated Ending Fund Balance*	*2019-2020 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments Impact*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$288,457	$99,813	$94,250	($5,563)	$1,562	($4,001)	(1.4%)

The **Ending Fund Balance** of $94.3 million was $5.6 million below the estimate used in the development of the 2020-2021 Adopted Budget. After accounting for net revenue and expenditure rebudgets of $1.6 million recommended in the Annual Report, this negative variance drops to $4.0 million. Significant revenue rebudgets include Pavement Maintenance – VTA Measure B 2016 ($13.1 million), TDA – Bicycle and Pedestrian Facilities ($2.6 million), Pavement Maintenance – State Route Relinquishment ($2.1 million), OBAG – Almaden Vine Couplet ($1.1 million), and STP – West San José Area PDA ($1.0 million). Significant expenditure rebudgets include Pavement Maintenance – VTA Measure B VRF ($4.8 million), Pavement Maintenance – SB1 Road Repair & Accountability Act 2017 ($1.8 million), and Bicycle and Pedestrian Facilities ($1.3 million).

As described in *Section IV – Recommended Budget Adjustments and Clean-Up 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, the 2020-2021 Ending Fund Balance is recommended to be decreased by approximately $2.9 million.

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CORONAVIRUS RELIEF FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	***2019-2020 Actuals***	***Variance***	***% Variance***
Revenues	$178,295	$178,966	$671	0.4%
Expenditures	$89,250	$79,025	($10,225)	(11.5%)

The federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act), enacted March 27, 2020 and administered by the United States Department of the Treasury (Treasury), provides critical funding ($178.3 million) to support the City's response to the COVID-19 public health crisis. In combination with separate State and other federal grants, partnerships with other jurisdictions, the non-profit community, and the private sector, CARES Act funding has provided instrumental support for the City's shift in regular operations and daily service delivery, and for the numerous initiatives undertaken to respond to the emerging needs of residents leading up to and following the County of Santa Clara's shelter-in-place order beginning in March 2020.

Consistent with the Administration's funding framework, the City Council established the Coronavirus Relief Fund on May 12, 2020 to separately account for CARES Act eligible services, supplies, and other City resources deployed in response to COVID-19. Guidance provided by Treasury on the use of CARES Act funds broadly defined eligible uses to afford recipient jurisdictions flexibility in responding to emergent needs. Allowable uses generally include new direct spending on supplies and services related to the response, as well as the reimbursement of previously budgeted costs for resources that are diverted to response efforts.

Through advance planning and active monitoring of financial activity, the Administration has sought to minimize General Fund expenditures to further address impacts from COVID-19 and optimize available CARES Act and other new, restricted funding sources while pursuing reimbursements for eligible activities through traditional sources, such as the Federal Emergency Management Agency (FEMA). FEMA-eligible expenditures and reimbursements for COVID-19 response are separately accounted for within the Emergency Reserve Fund and include the acquisition of personal protective equipment and custodial goods and services, as well as food preparation and distribution activities at various sites city-wide for homeless and medically vulnerable recipients. Revenue from FEMA reimbursements, in concert with CARES Act funds, multiple federal and State grant awards for public safety emergency shelter and housing programs, and contributions from the Santa Clara County Office of Education comprise the primary external funding sources for COVID-19 response.

Revenues in the Coronavirus Relief Fund totaled $179.0 million, consisting of funds awarded directly to the City under the CARES Act and interest earned on those funds. The City received the total award in mid-May 2020, which must be expended prior to December 30, 2020 barring subsequent legislative action to extend the term.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CORONAVIRUS RELIEF FUND

Expenditures in the Coronavirus Relief Fund totaled $79.0 million, approximately $10.2 million lower than projected due to the delayed initiation of Digital Inclusion ($1.0 million), Facilities Improvements ($1.4 million), and Local Assistance ($2.0 million) initiatives to enable additional planning and coordination with external partners for program delivery. Expenditures for CARES Act eligible Food and Necessities distribution ($3.0) and PPE & Janitorial Services ($1.3 million) were also lower than projected in 2019-2020. Funds reserved ($1.0 million) for local match requirements for FEMA eligible programs also remained unexpended due to the timing of reimbursements.

All initially planned allocations of CARES Act funding were comprehensively reassessed and revised to optimize use prior to the expiration of eligibility in December 2020. On September 22, 2020, City Council approved numerous reallocations, primarily from Homeless Sheltering and Support ($18.6 million), Food and Necessities ($8.0 million), and Digital Inclusion ($4.0 million) to reflect updated resource estimates and to rebalance funding responsibility among eligible sources, including the General Fund. CARES Act funding was additionally reallocated for continued COVID-19 Personal Services labor costs ($10.0 million) and Local Assistance ($7.0 million) programs to rebudget and supplement funding to support childcare providers, non-profits, and other forms of resident assistance. More detail on each of these adjustments is outlined in the September 22, 2020 memorandum (Item 3.6) to City Council, *Fiscal Recovery Update and Coronavirus Relief Fund Rebalancing*.

Ending Fund Balance Performance ($ in Thousands)

2019-2020 Modified Budget	*2019-2020 Estimated Ending Fund Balance*	*2019-2020 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments Impact*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$178,295	$99,045	$99,941	$896	$0	$896	0.5%

The 2019-2020 combined **Ending Fund Balance** was $0.9 million above the estimate used to develop the 2020-2021 Adopted Operating Budget. This variance is due to a combination of interest earnings ($0.7 million), higher than initially projected costs for COVID-19 Personal Services ($10.0 million), as outlined in the Coronavirus Relief Fund (CRF) adjustments approved by City Council on June 30, 2020, lower than projected costs for the delayed start of various initiatives in 2019-2020, and lower CRF expenditures for Food & Necessities, PPE & Janitorial Services, and FEMA Local Match. As CARES Act funding expires on December 30, 2020, additional adjustments may be brought forward for City Council consideration later in fall 2020 to further rebalance allocations to optimize available funds.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

EMERGENCY RESERVE FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	*2019-2020 Actuals*	*Variance*	*% Variance*
Revenues	$19,444	$13,970	($5,474)	(28.2%)
Expenditures	$20,226	$15,286	($4,940)	(24.4%)

Revenues in the Emergency Reserve Fund totaled $14.0 million, consisting of a $3.9 million grant from the State of California for housing initiatives authorized by SB 89 and a $10.0 million transfer from the General Fund to support activities undertaken by the City to respond to the COVID-19 pandemic for which the City has sought both advance funding (expedited application) and reimbursement from the Federal Emergency Management Agency (FEMA). Total revenues were $5.5 million below projected levels for 2019-2020 due to the timing of FEMA obligations in response to the City's expedited applications for personal protective equipment (PPE) and food preparation and distribution services, and subsequent applications for reimbursement.

Based on federal guidance issued for FEMA-eligible activities, and guidance pertaining to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the Administration has recommended accounting for FEMA-eligible expenditures and reimbursements in response to COVID-19 within the Emergency Reserve Fund. CARES Act eligible activities are separately accounted for in the newly established Coronavirus Relief Fund (Fund 401). FEMA-eligible activities within the Emergency Reserve Fund include the acquisition of PPE and custodial goods and services, as well as, food preparation and distribution activities at various sites city-wide for homeless and medically vulnerable recipients. Separate applications were submitted for each expense category, with $2.1 million (federal share) obligated by FEMA for PPE and custodial goods/services on June 25, 2020, and an additional $3.8 million (federal share) obligated on August 8, 2020 for food preparation and distribution. However, subsequent applications for reimbursement, documentation review and approval, and receipt of funds needed to occur within 90 days following June 30, 2020 to properly account for these funds in 2019-2020. Given timing concerns and the stringent documentation requirements for FEMA reimbursement, these revenues were deferred. The $5.0 million initially budgeted from FEMA reimbursements is recommended to be rebudgeted to 2020-2021.

Expenditures in the Emergency Reserve Fund totaled $15.3 million, approximately $4.9 million lower than initially projected due to higher than anticipated accruals for food preparation and distribution services delivered during 2019-2020, offset by a reduced transfer from the Emergency Reserve Fund to the General Fund as reimbursement for funds advanced to support COVID-19 response, pending FEMA reimbursement. Total expenditures for the COVID-19 Emergency Response appropriation exceeded budgeted levels by $750,000 due to delayed invoicing and payment processing for food preparation and distribution services prior to June 30, 2020. These costs were accrued during year end close processes, exacerbating the potential negative fund balance due to the timing of receipts from FEMA.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

EMERGENCY RESERVE FUND

Accordingly, the planned $10.0 million transfer to reimburse the General Fund was reduced by $5.4 million to address this total shortfall. Most of the remaining balance ($4.585 million) is recommended to be transferred back to the General Fund as part of the actions included in this report, retaining a portion of previously transferred funds to maintain cash flow within the fund.

Ending Fund Balance Performance ($ in Thousands)

2019-2020 Modified Budget	*2019-2020 Estimated Ending Fund Balance*	*2019-2020 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments Impact*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$20,759	$819	$0	($819)	$0	$(819)	(3.9%)

The net-zero 2019-2020 combined **Ending Fund Balance** was $800,000 below the estimate used to develop the 2020-2021 Adopted Operating Budget. This variance is due to higher than expected accruals for costs incurred during 2019-2020 for food preparation and distribution services, and an offsetting reduction to the transfer from the Emergency Reserve Fund to the General Fund. Due to the deferral of reimbursements to 2020-2021, the anticipated $5.0 million from FEMA expedited applications is recommended to be rebudgeted to 2020-2021. Additional adjustments may be brought forward for City Council consideration during 2020-2021 to align FEMA-eligible expenses for COVID-19 response within the Emergency Reserve Fund with the expected timing of receipts.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	*2019-2020 Actuals*	*Variance*	*% Variance*
Revenues	$145,530	$146,752	$1,222	0.8%
Expenditures	$162,990	$159,682	($3,308)	(2.0%)

Revenues totaled $146.8 million and were generated primarily from Recycle Plus collection charges ($136.9 million), AB939 Fees ($3.6 million), and Recycle Plus negotiated hauler payments ($2.7 million). This revenue level was $1.2 million above the Modified Budget of $145.5 million (0.8%) and $5.1 million (3.6%) above the prior year level of $141.7 million.

The variance to the budget was mainly due to higher Recycle Plus collection charges ($1.1 million), higher miscellaneous revenues ($247,000), and higher Household Hazardous Waste Revenue from County ($190,000). These items were partially offset by lower revenues in Lien-Related Charges ($179,000), miscellaneous solid waste revenues ($159,000), and AB939 Fees ($59,000). The variance to the prior year was due primarily to increased Recycle Plus collection charges ($7.3 million).

Expenditures totaled $159.7 million and were primarily for Single-Family Dwelling (SFD) Recycle Plus contracts ($68.8 million), yard trimmings/street sweeping contract ($25.4 million), Multi-Family Dwelling (MFD) Recycle Plus contracts ($23.8 million), SFD back-end processing ($18.4 million), Environmental Services Department (ESD) personal services ($7.6 million), ESD non-personal/equipment costs ($4.8 million), and the International Disposal Corporation of California, Inc. (IDC) disposal agreement ($4.5 million). This expenditure level was $3.3 million (2.0%) below the Modified Budget of $163.0 million and $21.1 million (15.2%) above the prior year level of $138.6 million.

The variance to the budget was mainly due to savings in ESD non-personal/equipment expenses ($1.1 million), ESD personal services ($1.1 million), and Finance Department personal services ($253,000). The higher expenditure level compared to the prior year was due primarily to higher costs for SFD Recycle Plus ($11.9 million), SFD back-end processing ($3.9 million), MFD Recycle Plus ($1.8 million), all of which have been affected by recently renegotiated contracts with solid waste hauling and processing vendors, as well as ESD non-personal/equipment expenses ($1.8 million), yard trimmings/street sweeping contract ($772,000), overhead expenditures ($428,000), and the ICD disposal agreement ($386,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Ending Fund Balance Performance ($ in Thousands)						
2019-2020 Modified Budget	*2019-2020 Estimated Ending Fund Balance*	*2019-2020 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance*	*Revised Variance as % of Modified Budget*
$180,171	$22,782	$22,777	($5)	($1,124)	($1,129)	(0.6%)

The **Ending Fund Balance** of $22.8 million was $5,000 below the estimate used in the development of the 2020-2021 Adopted Budget.

After accounting for rebudget adjustments recommended in this report, the variance increases to $1.1 million below the estimate. Accordingly, the 2020-2021 Ending Fund Balance in the Integrated Waste Management Fund is recommended to be reduced by $1.1 million.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2018-2019 Budget	***2018-2019 Actuals***	***Variance***	***% Variance***
Revenues	$334,607	$162,113	($172,494)	(51.6%)
Expenditures	$539,885	$411,304	($128,581)	(23.8%)

Revenues totaled $162.1 million and were generated primarily from Revenue from Local Agencies for projects and debt service payments ($101.2 million), a transfer from the Sewer Service and Use Charge Fund ($35.0 million), wastewater revenue notes ($17.8 million), interest income ($5.3 million), and grant revenues from the US Bureau of Water Reclamation ($2.5 million). This revenue level was $172.5 million (51.6%) below the Modified Budget and $19.3 million (13.5%) above the prior year level of $142.9 million.

The negative revenue variance to the budget was primarily due to the postponing wastewater revenue note issuance ($160.2 million) to align with project spending, lower contributions from the tributary agencies for projects ($11.6 million), and lower interest income ($3.1 million), offset by higher than expected revenue from the US Bureau of Water Reclamation ($2.5 million). The increase from the prior year was due primarily to increased contributions from Santa Clara and the tributary agencies for projects and debt service payments ($68.5 million) and increased interest income ($1.5 million), offset partially by lower revenue from the issuance of wastewater revenue notes ($52.7 million) for capital projects, and a decreased transfer from the Sewer Service and Use Charge Fund ($436,000) for capital projects.

Expenditures totaled $411.3 million and were primarily attributed to capital improvement projects and associated support allocations ($403.9 million) and debt service payments ($7.6 million), consisting of the Clean Water Financing Authority debt service payment ($5.5 million) and the Debt Service Repayment for Plant Capital Improvement Projects ($2.0 million). The largest expenditures included New Headworks ($131.5 million), Digester and Thickener Facilities Upgrade ($53.5 million), Energy Generation Improvements ($48.4 million), Aeration Tanks and Blower Rehabilitation ($38.9 million), Nitrification Clarifier Rehabilitation ($36.4 million), Advanced Facility Control and Meter Replacement ($15.0 million), Headworks Improvements ($14.9 million), Digested Sludge Dewatering Facility ($12.5 million), and Yard Piping and Road Improvements ($9.2 million). This expenditure level was $128.6 million (23.8%) below the Modified Budget and $123.2 million (42.8%) above the prior year level of $288.1 million.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

After accounting for rebudgets included in the 2020-2021 Adopted Budget totaling $106.3 million, the majority of the variance between budgeted and actual expenditures is due to: Outfall Bridge and Levee Improvements ($6.0 million), Aeration Tanks and Blower Rehabilitation ($4.1 million), Owner Controlled Insurance Program ($2.3 million), Debt Service Repayment for Plant Capital Improvement Projects ($2.2 million), Support Building Improvements ($1.9 million), Energy Generation Improvements ($1.7 million), Equipment Replacement ($1.7 million), and Preliminary Engineering ($1.0 million). Additional savings were realized across a wide variety of project appropriations. Expenditures were above the prior year due primarily to New Headworks ($124.4 million), Nitrification Clarifier Rehabilitation ($33.9 million), Headworks Improvements ($13.4 million), Digested Sludge Dewatering Facility ($9.8 million), Legacy Lagoon Biosolids Remediation ($7.1 million), Advanced Facility Control and Meter Replacement ($6.5 million), and Plant Electrical Reliability ($5.9 million), partially offset by lower expenditures for Energy Generation Improvements ($38.9 million).

Ending Fund Balance Performance ($ in Thousands)						
2019-2020 Modified Budget	*2019-2020 Estimated Ending Fund Balance*	*2019-2020 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance*	*Revised Variance as % of Modified Budget*
$552,365	$111,308	($28,562)	($139,870)	$139,761	($109)	(0.0%)

The **Ending Fund Balance** of negative $28.6 million was $139.9 million below the estimate used in the development of the 2020-2021 Adopted Budget. The negative Ending Fund Balance is attributable to encumbrances for construction projects that have not yet incurred actual expenditures. The wastewater revenue notes provide funding for project expenditures at the Regional Wastewater Facility, but notes are issued only after funding is spent. This creates a time lag between actual expenditures and the revenues associated with those expenditures. Actions are included in this report to rebudget $146.0 million in wastewater revenue notes into 2020-2021 to bring the fund back into balance and will pay for actual expenditures when they are incurred.

After accounting for all rebudget adjustments recommended in this report, the 2020-2021 Ending Fund Balance in the San José-Santa Clara Treatment Plant Capital Fund is recommended to be decreased by $109,000.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	***2019-2020 Actuals***	***Variance***	***% Variance***
Revenues	$269,544	$269,940	$396	0.1%
Expenditures	$273,841	$258,305	($15,536)	(5.7%)

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 $269.9 million and were generated primarily from sewer service and use charges for residential ($136.3 million), commercial ($23.4 million), and industrial ($4.6 million) users; a transfer from the SSUC Fund to the Plant Operating Fund ($64.0 million); contributions from tributary agencies ($19.6 million) and the City of Santa Clara ($13.3 million); and Connection Fees ($3.4 million). This revenue level was $396,000 (0.1%) above the Modified Budget and $16.7 million (6.6%) above the prior year level of $253.3 million.

The variance to the budget of $396,000 (0.1%) was mainly due to higher connection fees ($1.0 million), contributions from tributary agencies ($975,000), and interest revenues ($285,000), partially offset by lower SSUC charges ($1.9 million). Revenues came in $16.7 million (6.6%) higher than the prior year due primarily due to a higher transfer from the Sewer Service and Use Charge Fund to the San José-Santa Clara Treatment Plant Operating Fund (Plant Operating Fund) ($10.6 million), a newly established transfer from the South Bay Water Recycling Operating Fund to the Sewer Service and Use Charge Fund ($2.3 million), and higher residential ($4.4 million) SSUC charges.

Expenditures totaled $258.3 million and consisted primarily of transfers to the Plant Operating Fund ($64.0 million), the Plant Capital Fund ($35.0 million), and the Sewer Service and Use Charge Capital Fund ($32.0 million); Environmental Services Department personal services ($52.9 million) and non-personal/equipment ($28.3 million) costs; overhead reimbursements ($17.0 million); and Department of Transportation personal services ($13.6 million) and non-personal/equipment ($7.4 million) costs. This expenditure level was $15.5 million (5.7%) below the Modified Budget, and $14.5 million (6.0%) above the prior year level of $243.8 million.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Expenditures ended the year $15.5 million (5.7%) below the budget primarily due to personal services ($5.6 million) and non-personal/equipment ($4.5 million) savings in ESD, personal services ($1.2 million) and non-personal/equipment ($1.0 million) savings in DOT, savings from the major litigation costs allocation ($1.1 million) which was not used in 2019-2020, and personal services ($500,000) savings in Public Works. Expenditures ended the year $14.5 million (6.0%) above previous year expenditures due primarily to an increased transfer to the Plant Operating Fund ($10.6 million), as well as increases to ESD non-personal/equipment ($2.0 million) and DOT personal services ($840,000) expenditures, and Workers' Compensation Claim payments ($698,000), and offset primarily by decreased transfers from the Sewer Service and Use Charge Fund to the Plant Capital Fund ($436,000) and from the Plant Income Fund to the Sewer Service and Use Charge Fund ($300,000).

Ending Fund Balance Performance ($ in Thousands)						
2019-2020 Modified Budget	*2019-2020 Estimated Ending Fund Balance*	*2019-2020 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance*	*Revised Variance as % of Modified Budget*
$393,794	$134,057	$136,404	$2,347	($480)	$1,867	0.5%

The **Ending Fund Balance** of $136.4 million was $2.3 million, or 1.8%, above the estimate used in the development of the 2020-2021 Adopted Budget. After accounting for rebudget adjustments recommended in this Annual Report, the variance drops to $1.9 million.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	*2019-2020 Actuals*	*Variance*	*% Variance*
Revenues	$37,889	$40,021	$2,132	5.6%
Expenditures	$107,577	$80,450	($27,127)	(25.2%)

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 $40.0 million and were generated from a transfer from the Sewer Service and Use Charge (SSUC) Fund ($32.0 million), joint participation payments ($4.9 million), interest revenue ($2.1 million), and connection fees ($977,000). This revenue level was $2.1 million (5.6%) above the Modified Budget and $1.1 million (2.7%) above the prior year level of $39.0 million.

The variance to the budget was due to higher interest revenue ($1.1 million), joint participation payments ($843,000), and connection fee ($277,000) revenues. Interest revenues surpassed the budgeted expectation primarily due to an early, single-installment transfer of $32.0 million from the Sewer Service and Use Charge Fund that caused a significant increase in the total of accrued interest in the Sewer Service and Use Charge Capital Improvement Fund (typically, these transfers occur in periodic installments through the fiscal year). Joint participation payments, which reflect the West Valley Sanitation District's (WVSD) and County Sanitation Districts' share of costs for projects in their jurisdictions, came in higher than budgeted primarily due to significant payments from WVSD for those projects. The positive variance to the prior year was due primarily to higher joint participation payments ($825,000) and interest income ($503,000).

Expenditures totaled $80.5 million due to the progress on a variety of capital projects, the largest of which were: 60" Brick Interceptor, Phase VIA and VIB ($35.8 million), Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements ($8.2 million), Immediate Replacement & Diversion Projects ($7.9 million), Condition Assessment Sewer Repairs ($7.3 million), Urgent Rehabilitation and Repair Projects ($5.4 million), Westmont Avenue and Harriet Avenue Sanitary Sewer Improvements ($4.7 million), Cast Iron Pipe – Remove & Replace ($3.7 million), Infrastructure – Sanitary Sewer Condition Assessment ($1.6 million), Capital Program and Public Works Department Support Service Costs ($1.5 million), and Master Planning Updates ($1.2 million). This expenditure level was $27.1 million (25.2%) below the Modified Budget and $19.7 million (19.7%) below the prior year level of $100.2 million.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL FUNDS

Expenditures were below the budget by $27.1 million (25.2%) as a result of savings across a number of projects. Several of these projects are recommended to be rebudgeted to 2020-2021 in this report as a result of project delays or were rebudgeted in the 2020-2021 Adopted Budget. Projects with year-end savings include: Urgent Rehabilitation and Repair Projects ($6.0 million), Condition Assessment Sewer Repairs ($3.3 million), Cast Iron Pipe – Remove and Replace ($3.0 million), Immediate Replacement and Diversion Projects ($2.1 million), Infrastructure – Sanitary Sewer Condition Assessment ($1.7 million), 60" Brick Interceptor, Phase VIA and VIB ($1.6 million), Miscellaneous Capacity Improvements ($1.3 million), Rehabilitation of Sanitary Sewer Pump Stations ($1.3 million), Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements ($1.2 million), and Master Planning Updates ($1.1 million). The lower expenditure level compared to the prior year is largely attributed to lower costs for 60" Brick Interceptor, Phase VIA and VIB ($6.4 million), Rincon Avenue – Virgina Avenue Sanitary Sewer Improvements ($4.7 million), Infrastructure – Sanitary Sewer Condition Assessment ($2.8 million), Condition Assessment Sewer Repair ($2.7 million), Cast Iron Pipe – Remove and Replace ($1.8 million), Trimble Road and Capewood Lane Sanitary Sewer Improvements ($1.5 million), and Rehabilitation of Sanitary Sewer Pump Stations ($1.2 million), partially offset by increased spending in the Immediate Replacement and Diversion Projects ($2.5 million) and Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements ($308,000).

Ending Fund Balance Performance ($ in Thousands)						
2019-2020 Modified Budget	***2019-2020 Estimated Ending Fund Balance***	***2019-2020 Actual Ending Fund Balance***	***Variance***	***Recommended Rebudget Adjustments***	***Revised Variance***	***Revised Variance as % of Modified Budget***
$120,626	$19,636	$42,616	$22,980	($15,135)	$7,845	6.5%

The **Ending Fund Balance** of $42.6 million was $23.0 million above the estimate used in the development of the 2020-2021 Adopted Budget. The ending fund balance was above the estimate largely due to lower than anticipated expenditures across several projects, including Urgent Rehabilitation and Repair Projects ($6.0 million), Condition Assessment Sewer Repair ($3.4 million), Cast Iron Pipe – Remove and Replace ($3.0 million), Infrastructure – Sanitary Sewer Condition Assessment ($1.7 million), Immediate Replacement and Diversion Projects ($1.4 million), and Master Planning Updates ($978,000), and savings spread across many other projects in the program.

After accounting for rebudget adjustments recommended in this report, the variance decreases to $7.8 million. Approximately $7.1 million is recommended to be allocated to the SSUC Fund 2020-2021 Ending Fund Balance and $700,000 is recommended to be allocated to the Connection Fee Fund 2020-2021 Ending Fund Balance for future use.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SOUTH BAY WATER RECYCLING OPERATING FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	***2019-2020 Actuals***	***Variance***	***% Variance***
Revenues	$15,215	$14,235	($980)	(6.4%)
Expenditures	$13,646	$14,996	$1,350	9.9%

Revenues totaled $14.2 million and were generated primarily from the sale of recycled water to four wholesalers: Santa Clara ($4.9 million), San Jose Municipal Water System ($4.8 million), the San Jose Water Company ($3.1 million), and Milpitas ($1.4 million). This revenue level was $980,000 (6.4%) below the Modified Budget and $342,000 (2.5%) above the prior year level of $13.9 million.

Revenues ended the year below the budget primarily due to lower than anticipated recycled water sales to Santa Clara ($538,000), the San Jose Municipal Water System ($266,000), and Milpitas ($251,000), partially offset by higher sales to the San José Water Company ($54,000) and higher interest revenue ($22,000). The increase over the prior year was due primarily to higher recycled water sales to the San Jose Water Company ($392,000), Santa Clara ($104,000), and Milpitas ($62,000), offset by lower recycled water sales to the San Jose Municipal Water System ($231,000).

Expenditures totaled $15.0 million and were primarily for Environmental Services Department (ESD) non-personal/equipment costs ($4.5 million), ESD personal services costs ($4.1 million), a payment to the Santa Clara Valley Water District (Valley Water) in accordance with an agreement obligation to support the operations and maintenance of the Advanced Water Treatment Facility ($3.4 million), a transfer to the Sewer Service and Use Charge Fund ($2.3 million), and the reimbursement of overhead costs ($697,000). This expenditure level was $1.4 million (9.9%) above the Modified Budget. The expenditure level was $2.7 million (21.5%) above the prior year level of $12.3 million due primarily to a newly implemented transfer of recycled water sales revenues to the Sewer Service and Use Charge Fund ($2.3 million), as well as higher expenditures for the Advanced Water Treatment Facility ($280,000), and non-personal/equipment expenditures in ESD ($217,000), offset partially by lower expenditures for Citywide overhead costs ($165,000).

The Santa Clara Valley Water District – Advanced Water Treatment Facility appropriation was exceeded by $2.4 million based on the requirement to accrue a substantial annual payment to the Santa Clara Valley Water District. Originally budgeted at $1.0 million, the revised expenditure level of $3.4 million was anticipated as part of the 2019-2020 clean-up actions but was inadvertently omitted from the published memorandum. Budget actions in the Ratification of Final 2019-2020 Expenditures in Various Appropriations memorandum, to be reviewed by the City Council on October 6, 2020, will align the Modified Budget with actual expenditures.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SOUTH BAY WATER RECYCLING OPERATING FUND

Ending Fund Balance Performance ($ in Thousands)						
2019-2020 Modified Budget	***2019-2020 Estimated Ending Fund Balance***	***2019-2020 Actual Ending Fund Balance***	***Variance***	***Recommended Rebudget Adjustments***	***Revised Variance***	***Revised Variance as % of Modified Budget***
$17,272	$1,973	$1,296	($677)	$0	($677)	(3.9%)

The **Ending Fund Balance** of $1.3 million was $677,000 below the estimate used in the development of the 2020-2021 Adopted Budget. While the total 2019-2020 Ending Fund Balance ended the year positive, this includes $1.5 million in the Operations and Maintenance Reserve. As a result, the Unrestricted Ending Fund Balance ended the year at -$237,000. This negative position was due to a higher than estimated transfer to the Sewer Service and Use Charge Fund ($500,000), expenditures for the Advanced Water Treatment Facility ($337,000), ESD personal services expenditures ($117,000), and ESD non-personal/equipment expenditures ($92,000), offset primarily by higher than estimated recycled water sales revenues from the San Jose Water Company ($213,000), from Santa Clara ($128,000), Milpitas ($44,000), and the San Jose Municipal Water System ($34,000).

The budget adjustments recommended in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions*, result in an Unrestricted Ending Fund Balance in 2020-2021 of $256,000. The Administration will carefully monitor the status of this fund throughout the year to ensure that it remains in positive balance.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	*2019-2020 Actuals*	*Variance*	*% Variance*
Revenues	$13,539	$14,162	$623	4.6%
Expenditures	$19,978	$9,838	($10,140)	(50.8%)

The Storm Sewer Capital Funds include the Storm Drainage Fee Fund and the Storm Sewer Capital Fund. **Revenues** totaled $14.2 million and were generated primarily from a transfer from the Storm Sewer Operating Fund ($12.8 million), interest income ($438,000), and Storm Drainage Fees ($264,000). This revenue level was $623,000 (4.6%) above the Modified Budget and $9.5 million (203.2%) above the prior year level of $4.7 million.

The variance to the budget was mainly due to unbudgeted California Proposition 84 Grant Revenues ($278,000), as well as higher than expected revenue from the Santa Clara Valley Water District (Valley Water) for San José Watershed Invasive Species Removal and Engagement ($168,000), interest revenue ($113,000), and Storm Drainage Fees ($64,000). The variance to the prior year was due primarily to an increased transfer from the Storm Sewer Operating Fund ($8.8 million) to fund capital projects in the Storm Sewer Capital Fund, as well as increased revenue from local agencies such as Valley Water ($368,000) and California Proposition 84 Grant Revenues ($310,000).

Expenditures totaled $9.8 million due to the progress on a variety of capital projects, the largest of which were: Alviso Storm Pump Station ($2.4 million), Large Trash Capture Devices ($1.6 million), Master Planning ($1.5 million), City-Wide and Public Works Capital Support Costs ($628,000), Citywide Outfall Improvements ($523,000), and Flow Monitoring Program ($521,000). This expenditure level was $10.1 million (50.8%) below the Modified Budget and $14.3 million (59.2%) below the prior year level of $24.1 million.

Expenditures were below the budget by $10.1 million (50.8%) as a result of savings across a number of projects. Several of these projects are recommended to be rebudgeted to 2020-2021 in this report as a result of project delays or were rebudgeted in the 2020-2021 Adopted Budget. Projects with year-end savings include: Citywide Outfall Improvements ($2.3 million), Large Trash Capture Devices ($1.7 million), Storm Pump Station Rehabilitation and Replacement ($1.6 million), Green Infrastructure Improvements ($780,000), Storm Sewer Improvements ($700,000), Stockton-Cinnabar and Stockton-Taylor Storm Drain System Improvements ($480,000), and Public Art ($474,000). The lower expenditure level compared to the prior year can be attributed to lower expenditures in the Alviso Storm Pump Station project ($10.7 million), and Large Trash Capture Devices ($4.4 million), partially offset by increased spending in Condition Assessment Storm Sewer Repairs ($429,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

STORM SEWER CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2019-2020 Modified Budget	*2019-2020 Estimated Ending Fund Balance*	*2019-2020 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance*	*Revised Variance as % of Modified Budget*
$24,954	$13,704	$15,934	$2,231	($827)	$1,404	5.6%

The **Ending Fund Balance** of $15.9 million was $2.2 million above the estimate used in the development of the 2020-2021 Adopted Budget. The Ending Fund Balance was above the estimate largely due to lower than anticipated expenditures across several projects, including Public Art ($474,000), Capital Program and Public Works Department Support Service Costs ($196,000), Flow Monitoring Program ($184,000), Master Planning ($169,000), Storm Pump Station Rehabilitation and Replacement ($81,000), among a variety of others, in addition to higher California Proposition 84 Grant revenues ($278,000), contributions from Valley Water ($168,000), and interest revenues ($104,000) above the estimates.

Accounting for rebudget adjustments recommended in this report, the variance decreases to $1.4 million. An increase to Ending Fund Balance of $49,000 is recommended in the Storm Drainage Fee Fund and an increase to Ending Fund Balance of $1.3 million is recommended in the Storm Sewer Capital Fund.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

TRANSIENT OCCUPANCY TAX FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	*2019-2020 Actuals*	*Variance*	*% Variance*
Revenues	$20,371	$21,259	$888	4.4%
Expenditures	$29,193	$26,637	($2,556)	(8.8%)

Revenues in the Transient Occupancy Tax Fund totaled $21.3 million, generated by a portion of the Transient Occupancy Tax (TOT) - a tax of 10% on the rate charged by a hotel operator to a customer for occupying a hotel room, exclusive of other lodging-related services. TOT proceeds are shared among the City's General Fund (4% tax) for general use, and the Transient Occupancy Tax Fund (TOT Fund) (6% tax) to support specified art, cultural, and convention purposes. Interest earned on TOT proceeds are additionally credited to the respective funds.

The 2019-2020 budget estimate for the TOT Fund allocation (60% of the total tax) totaled $20.4 million, reduced ($13.5 million) from the 2019-2020 Adopted Budget estimate of $33.8 million as part of forecast revisions during the 2019-2020 Mid-Year Budget Review ($3.75 million decrease), and again on April 28, 2020 as part of the Approval of Various Budget Actions for Fiscal Year 2019-2020 to Address COVID-19 Impacts ($9.75 million decrease). Initial estimates for 2019-2020 assumed continuation of the multi-year trend of decelerating annual growth in TOT revenues, factoring for additional hotel rooms coming online during 2019-2020 and relatively stable occupancy. Growth of approximately 9.4% ($2.9 million) was projected from the 2018-2019 collection level of $30.9 million; however, year-to-date hotel performance through the early half of the fiscal year plateaued following the historic, sustained growth trend. These conditions persisted until the emergence of the COVID-19 pandemic and corresponding shelter-in-place orders first issued in mid-March, which drastically reduced travel and hotel activity for the remainder of 2019-2020 and prompted further reductions to estimated revenues. The final revised estimate for 2019-2020 represented a 40% reduction ($13.5 million) from original assumptions for 2019-2020, and a 34.4% reduction from actual 2018-2019 collections.

This revised estimate was developed in late March 2020 based on a limited sample of survey data from San Jose market hotels to compare performance leading up to, and immediately following, the shelter-in-place order in response to COVID-19. Comparing the week of March 15, 2020 to the week of March 17, 2019, occupancy levels had decreased by 75.4% and revenue per available room (RevPAR) by 85.1%. Projections for the remainder of 2019-2020 assumed this reduced performance (85% of 2018-2019 levels) would persist with continuation of shelter-in-place orders and diminished travel and hotel room demand. This scenario largely materialized through June, but not to the drastic level initially suggested by the March data. However, the impacts for hotel activity and Transient Occupancy Tax collections were still unprecedented. Monthly occupancy dropped from a rate of 69.2% in February 2020 to an historic low of 15.1% in April 2020 during the height of COVID-19 response. Meanwhile, revenue-per-available room (RevPAR) decreased by 88.1% over the same period, from $132.06 to $15.73.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

TRANSIENT OCCUPANCY TAX FUND

Contrary to expectation, there were slight rebounds in May and June, with the occupancy rates increasing to 25.2% and 31.4%, respectively; and, RevPAR increasing to $24.21 and $32.10, respectively.

Given this incremental growth after occupancy levels bottomed in April 2020, total TOT collections, exclusive of other revenues, exceeded the revised revenue estimate by approximately $976,000 (4.8%). These additional collections will be proportionally allocated for transfer to the Convention and Cultural Affairs Fund, operation of the San José Convention and Visitor's Bureau, and for arts and cultural grants and related programming.

Expenditures in the TOT Fund totaled $26.6 million, inclusive of the transfer to the Convention and Cultural Affairs Fund ($11.2 million), arts and cultural grants and related programming ($6.9 million), operation of the San José Convention and Visitor's Bureau, ($6.6 million), and administrative expenses of the Office of Cultural Affairs (OCA) ($2.0 million) within the Office of Economic Development. The variance ($2.6 million) to the budget of $29.2 million is attributable to lower than anticipated expenses for cultural grants, including planned reserves consistent with OCA policies to stabilize funding for future grant cycles, and approximately $359,000 from unexpended funds for administrative expenses. Of the $2.6 million in savings from the Cultural Grants appropriation, $1.5 million was previously rebudgeted as part of the 2020-2021 Adopted Budget.

Although year-to-date activity ultimately met revised expectations, the abrupt revenue losses due to COVID-19 significantly reduced allocations for arts and cultural grants, San José Convention and Visitor's Bureau (CVB) operations, as well as funding to support operations and capital improvements to the San José McEnery Convention Center and various City-owned cultural facilities. Prevailing economic conditions and congregational restrictions in response to COVID-19 also prompted Team San Jose, the City's third-party operator of the CVB and convention and cultural facilities, to implement reductions-in-force and other cost-saving strategies over the final quarter of the fiscal year to address operating revenue losses and constraints on City support.

For additional information on the response to these revenue impacts, please refer to Manager's Budget Addendum #4, General Fund Revenue Assumptions and Amendments to the Transient Occupancy Tax, issued during the 2020-2021 budget development process.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

TRANSIENT OCCUPANCY TAX FUND

Ending Fund Balance Performance ($ in Thousands)						
2019-2020 Modified Budget	*2019-2020 Estimated Ending Fund Balance*	*2019-2020 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments Impact*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustments)*
$30,032	$2,368	$4,284	$1,916	($1,916)	$0	0.0%

The 2019-2020 combined **Ending Fund Balance** of $4.3 million was $1.9 million above the estimate used to develop the 2020-2021 Adopted Operating Budget. This variance is due to higher than expected TOT collections in the final quarter of 2019-2020, arts and cultural grants reserves, and lower administrative costs. Consistent with Municipal Code, excess revenues ($0.9 million) are recommended to be allocated for Transfer to the Convention and Cultural Affairs Fund (50%), the San José McEnery Convention Center (25%), and Cultural Grants (25%) in this report. Additionally, consistent with annual practice, remaining savings from the Cultural Grants and Cultural Grants Administration appropriations ($1.0 million) are recommended to be allocated to Cultural Grants to support arts and cultural grants and related programming in 2020-2021.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	*2019-2020 Actuals*	*Variance*	*% Variance*
Revenues	$5,151	$5,761	$610	11.8%
Expenditures	$13,262	$8,239	($5,023)	(37.9%)

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

Revenues totaled $5.8 million and were generated from a Transfer from the Water Utility Fund ($4.8 million), fees paid by developers ($535,000), and interest income ($426,000). The fees consist of Service Connection Fees ($105,000), Major Facilities Fees ($297,000), Meter Installation Fees ($60,000), and Advanced System Design Fees ($73,000). This revenue level was $610,000 (11.8%) above the Modified Budget primarily due to Major Facilities Fees ($297,000, these fees are not assumed due to the highly volatile nature of this revenue stream), interest income ($150,000), and Service Connection Fees ($80,000). Revenues were $293,000 (4.8%) below the prior year level of $6.1 million, primarily due to a decreased transfer from the Water Utility Fund for capital projects ($560,000), partially offset by increased developer fee revenue ($172,000) and increased interest revenue ($95,000).

Expenditures totaled $8.2 million for several capital projects budgeted in this fund, the largest of which were the Fowler Pump Station Replacement ($3.3 million), Annual Water Main Replacement ($1.5 million), System Maintenance/Repairs ($972,000), and Infrastructure Improvements ($794,000). This expenditure level was $5.0 million (37.9%) below the Modified Budget and $2.5 million (43.3%) above the prior year level of $5.8 million.

Expenditures were below the budget by $5.0 million (37.9%) as a result of savings and unexpended funds across a number of projects, which included: Annual Water Main Replacement ($1.7 million), North San José Well Development and Construction ($1.4 million), and Safety and Security Improvements ($395,000). Several of these projects have been rebudgeted in the 2020-2021 Adopted Budget or are recommended to be rebudgeted to 2020-2021 in this report because of project delays. Expenditures were above the prior year primarily due to higher expenses for Fowler Pump Station Replacement ($3.2 million) and Annual Water Main Replacement ($1.5 million), partially offset by decreased spending for Gumdrop Drive Main Replacement ($1.6 million).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2019-2020 Modified Budget	*2019-2020 Estimated Ending Fund Balance*	*2019-2020 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance*	*Revised Variance as % of Modified Budget*
$20,915	$12,044	$13,408	$1,363	($534)	$829	4.0%

The **Ending Fund Balance** of $13.4 million was $1.4 million above the estimate used in the development of the 2020-2021 Adopted Budget. This variance from the estimate is primarily due to the receipt of Major Facilities Fees ($297,000), which is unbudgeted due to this revenue category's highly volatile nature. Lower than estimated expenditures across a variety of projects including Infrastructure Replacement ($203,000), North San José Reliability Well #6 Construction ($162,000), Service Installations ($156,000), and Public Art ($123,000) also contributes to the positive variance from the estimated Ending Fund Balance.

After accounting for all recommended rebudget adjustments, $290,000 is recommended to be allocated to the Major Facilities Fund 2020-2021 Ending Fund Balance, and $539,000 is recommended to be allocated to the Water Utility Capital Fund 2020-2021 Ending Fund Balance.

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2019-2020 Budget	*2019-2020 Actuals*	*Variance*	*% Variance*
Revenues	$51,761	$51,771	$9	0.02%
Expenditures	$53,975	$52,848	($1,127)	(2.1%)

Revenues totaled $51.8 million and were generated from potable ($45.3 million) and recycled water ($5.6 million) sales, miscellaneous revenues ($345,000), late fees ($336,000), and interest earnings ($226,000). This revenue level was $9,200 (0.02%) above the Modified Budget and $679,000 (1.3%) above the prior year level of $51.1 million.

Revenues ended the year above the budget primarily due to higher than anticipated potable water sales ($520,000), and miscellaneous revenues ($245,000), offset by lower than anticipated recycled water revenue ($742,000). The increase over the prior year was due primarily to higher potable water sales ($1.7 million), offset by lower recycled water sales ($1.0 million).

Expenditures totaled $52.8 million and were primarily for Environmental Services Department (ESD) non-personal/equipment costs ($37.8 million, of which $27.8 million was attributed to the purchase of wholesale potable water and $4.8 million to wholesale recycled water), ESD personal services costs ($6.9 million), a Transfer to the Water Utility Capital Fund ($4.8 million), and the reimbursement of Citywide overhead costs ($1.5 million). This expenditure level was $1.1 million (2.1%) below the Modified Budget, and $4.2 million (8.5%) above the prior year level of $49.7 million.

The negative variance to the budget was mainly due to lower than expected costs for ESD personal services ($435,000) and non-personal/equipment ($310,000) expenditures, non-personal/equipment expenditures in the Information Technology Department ($142,000), and Customer Information System Transition ($133,000). Expenditures were above the prior year due primarily to higher non-personal/equipment expenditures in ESD ($2.3 million) and higher personal services expenditures in ESD ($454,000), partially offset by a lower transfer to the Water Utility Capital Fund ($560,000).

PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

Ending Fund Balance Performance ($ in Thousands)						
2019-2020 Modified Budget	*2019-2020 Estimated Ending Fund Balance*	*2019-2020 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance*	*Revised Variance as % of Modified Budget*
$68,414	$16,251	$16,038	($213)	($41)	($254)	(0.4%)

The **Ending Fund Balance** of $16.0 million was $213,000 below the estimate used in the development of the 2020-2021 Adopted Budget. The Ending Fund Balance was lower than the estimate primarily due to lower than estimated water sales revenues ($925,000) and higher than estimated ESD personal services expenditures ($204,000), offset by lower than estimated ESD non-personal/equipment costs ($1.2 million), Customer Information System Transition ($132,000), and non-personal/equipment expenditures in ITD ($117,000). After accounting for rebudget actions recommended in this report, and a reconciling action to increase the transfer to the General Fund for late fees ($36,000), the 2020-2021 Ending Fund Balance in the Water Utility Fund is recommended to be decreased by $254,000.