2020-2021

MID-YEAR
BUDGET
REVIEW

SECTION
II

SELECTED SPECIAL/ CAPITAL FUNDS STATUS REPORT

II. Selected Special/Capital Funds Status Report

At mid-year, the City Manager's Budget Office conducts a comprehensive review of expenditure and revenue performance of all operating and capital funds and capital programs through the first six months of the fiscal year. Revenues and expenditures are generally tracking within estimated levels. This section of the report is intended to summarize the results of that review and only discusses selected funds with issues of interest or variances.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

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

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues – Airport Revenue Fund	186,323,661	77,292,418	41.5%
Expenditures – Airport Maintenance and Operation Fund	116,985,643	43,261,541	37.0%
Ending Fund Balance – Airport Revenue Fund	66,622,327	N/A	N/A
Ending Fund Balance – Airport Maintenance and Operation Fund	28,024,473	N/A	N/A

This section discusses the status of the Airport Revenue Fund and the Airport Maintenance and Operation Fund. The Airport Revenue Fund accounts for all general Airport revenues. The Airport Maintenance and Operation Fund, funded by a transfer from the Airport Revenue Fund, accounts for expenditures incurred for the maintenance and operation of the Norman Y. Mineta San José International Airport.

FUND STATUS

Revenues – General Airport operating revenue categories include Landing Fees, Terminal Rentals, Airfield, Terminal Concessions, Parking and Roadway, and General and Non-Aviation.

Overall revenue performance at the Airport of $77.3 million is tracking at 41.5% of the estimated budget and is in line with the benchmark estimate through December. The 2020-2021 budget was built assuming approximately a 60% decrease, or 8.9 million less passengers, from the 2018-2019 level of 14.9 million passengers. Through December 2020, passenger levels of 1.6 million are down 80.2% from the same period last fiscal year (8.3 million). Similarly, passenger airline operations (takeoffs and landings) are down 62.1% year-to-date from December 2019.

Landing Fees and Terminal Rentals are in line with the department's benchmark estimates while Airfield revenues are tracking above estimated levels primarily due to ground support concession fee revenue. Revenue categories most significantly impacted by reduced passenger levels are Terminal Concessions and Parking and Roadway. Despite food and beverage and retail revenues tracking below budgeted levels, terminal concessions revenue overall is above the budget estimate as a result of higher than anticipated advertising revenue. Conversely, Parking and Roadway revenue is slightly below estimated levels due to the lower than anticipated Transportation Network Companies, or app-based transportation options, and rental car concession revenues. Total general and non-aviation revenues, consisting of fees associated with hangars, land and building rentals, petroleum program, general aviation, interest earnings, and other non-aviation (miscellaneous) revenues, are tracking slightly above budgeted levels primarily due to the timing of revenue collection.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

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

FUND STATUS

The total budgeted revenue estimate of $186.3 million includes $31.7 million of federal CARES Act funding to partially offset decreased revenue resulting from reduced passenger levels and associated closure of food and beverage concession locations. Airport non-airline tenants, including food and beverage concessionaires, retail concessionaires, and on-Airport rental car companies, have been offered abatements of minimum annual guarantee (MAG) concession fees for the months of July through December 2020. CARES Act funding is received on an expenditure reimbursement basis. Through December, $18.5 million of the total $31.7 million budgeted has been received.

Expenditures – Operating expenditures, appropriated in the Airport Maintenance and Operation Fund, include Personal Services, Non-Personal/Equipment, Police and Aircraft Rescue and Fire Fighting Services, direct support, and overhead reimbursements. Overall, expenditures through December total $43.3 million and are tracking at 37.0% of budget year-to-date. Through December, Airport's combined Personal Services and Non-Personal/Equipment expenditures are $28.1 million or 31.2% of the combined budgeted levels.

Personal Services expenditures of $17.3 million are tracking below benchmark levels of 50.0% at 49.5% of budget. The minimal savings are due to a 7% vacancy rate (15 vacancies) as of December 2020. Overtime expenditures of $212,824, or 54.0% of budget, are tracking slightly above estimates and will be closely monitored for the remainder of the fiscal year. Non-Personal/Equipment expenditures (excluding encumbrances) are tracking at 19.5% of budget; with encumbrances, Non-Personal/Equipment expenditures total $30.7 million, or 55.7% of the total modified budget. It is anticipated that through conservative spending and close monitoring, the Non-Personal/Equipment appropriation will end the year within budgeted levels.

Through December 2020, interdepartmental expenditures (charges for staff and services located in other City departments including the Police and Fire Departments) total $9,704,265, which represents approximately 49.5% of the interdepartmental budget. Expenditures are on track to end the year within budgeted levels.

Ending Fund Balance – A net decrease to the Airline Agreement Reserve in the Airport Revenue Fund of $1.1 million is recommended to reflect a decrease of $1.2 million to cover the annual debt service payment, offset by an increase of $138,000 to reflect additional funding available based on a recent investment valuation by the Airport's Fiscal Agent. There are no changes recommended to the Ending Fund Balance in the Airport Maintenance and Operation Fund at this time. Further details on the adjustments can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	58,586,625	18,523,764	31.6%
Expenditures	110,438,330	10,882,316	9.9%
Unrestricted Ending Fund Balance	15,242,955	N/A	N/A

FUND STATUS

Revenues – Tax revenue in the Building and Structure Construction Tax Fund, which is a major funding source for the Traffic Capital Program, is tracking above anticipated levels. Through the first half of 2020-2021, Building and Structure Construction Tax receipts totaled $16.9 million through December, which is 89.1% of the 2020-2021 Adopted Budget estimate of $19.0 million, reflecting higher than anticipated commercial development permit activity. This collection level is above prior year collections ($917,000 or 5.7%) of $16.0 million for the same period. While the pace of activity has slowed somewhat in December and November when compared to earlier in the fiscal year, tax receipts are expected to exceed budgeted levels by $6.0 million, for a modified estimate of $25.0 million.

Other major revenue sources in the Building and Structure Construction Tax Fund, including grants from federal, state, and local agencies, are tracking below estimated levels, corresponding with year-to-date project activity. These variances are largely due to timing differences for grant-supported projects, many of which are funded on a reimbursement basis. Project timelines have been impacted as a result of the schedule for the larger-scale, complex projects, primarily due to the continuing impact of the COVID-19 pandemic. As a result, the lower grant reimbursement collections is offset by corresponding lower project expenditures. Staff will continue to closely monitor these revenue sources as the fiscal year progresses.

Included in this report are recommendations for the following revenue adjustments:

- Increase the estimate for Building and Structure Construction Tax revenue by $6.0 million based on current collection trends for the construction taxes primarily resulting from strong commercial development activity; and
- Increase the estimate for Other Revenue by $1.0 million for in-lieu fees generated from various projects that will be used for the Avenues School Safety Improvements project.

Status of Selected Special and Capital Funds

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

FUND STATUS

Expenditures – Overall expenditures of $10.9 million are tracking at 9.9% of the Modified Budget. In addition, $9.5 million has been encumbered to date, bringing total commitments ($20.4 million) through December to 18.4% of the Modified Budget, excluding reserved funds. Though expenditures are tracking below expected levels through December, a significant amount of contractual obligations are anticipated later in the fiscal year. Any remaining project balances at year-end are anticipated to be rebudgeted to 2021-2022 as part of the 2021-2022 Adopted Capital Budget for project completion. This report also includes a limited number of expenditure adjustments, the most significant of which is the establishment of the Avenues School Safety Improvements project for $1.0 million. Further detail regarding these recommendations can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

Ending Fund Balance – A net increase of $5.6 million to the Ending Fund Balance is included as a result of the actions recommended in this report. After accounting for all these actions, the revised Ending Fund Balance will increase to approximately $20.9 million. Further details on the adjustments can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING DEVELOPMENT FEE PROGRAM FUND

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	58,335,787	49,329,507	84.6%
Expenditures	39,616,108	17,926,170	45.2%
Unrestricted Ending Fund Balance	18,719,679	N/A	N/A

FUND STATUS

Revenues – Overall revenue performance for the Building Development Fee Program Fund is tracking above anticipated levels at 84.6% of the Modified Budget. The majority of the revenue collections through December is from a one-time transfer from the General Fund ($33.2 million), which represents the close-out of the Building Development Fee Program that was budgeted in the General Fund prior to 2020-2021. Building Permit revenues make up the remainder of the year-to-date revenue collections. Through December, Building Permit revenues of $16.1 million are 28.2% lower than the 2019-2020 collection level for the same period ($22.4 million). The 2020-2021 Adopted Budget of $24.6 million for permit fees allows for a 32.1% drop from the 2019-2020 actual collection level of $36.2 million due to the ongoing COVID-19 pandemic. Based on current collection trends, Building Permit revenues are anticipated to exceed the 2020-2021 budget revenue estimate of $24.6 million by at least $5.0 million.

Expenditures – Through December 2020, total expenditures of $17.9 million are tracking at 45.2% of the Modified Budget. In addition, $478,000 has been encumbered to date, bringing total commitments ($18.4 million) through December to 46.5% of the Modified Budget. Appropriations in this fund are tracking within budgeted levels.

Expenditure savings of approximately $4.0 million is projected by year-end from vacant positions and contractual services, primarily in the Planning, Building and Code Enforcement Department's Personal Services ($2.1 million), Shared Resources Personal Services ($744,000), Shared Resources Non-Personal/Equipment ($744,000), and Non-Personal/Equipment ($241,000) appropriations.

Ending Fund Balance – A net increase to the Ending Fund Balance of $252,000 is recommended in this report to offset actions related to the Salary Program for the Information Technology Department (-$4,919) and the Transfer to the City Hall Debt Service Fund ($256,960). With these actions, the revised Ending Fund Balance totals $19.0 million.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	44,428,088	22,448,473	50.5%
Expenditures	111,276,488	18,005,511	16.2%
Unrestricted Ending Fund Balances	27,800,410	N/A	N/A

FUND STATUS

Revenues – A total of 17 Construction and Conveyance (C&C) Tax Funds are budgeted throughout the Capital Budget. Most of these funds (13) support the Parks and Community Facilities Development Capital Program, with the remaining four funds supporting the Public Safety, Library, Service Yards, and Communications Capital Programs. Revenues in the C&C Tax Funds are comprised of C&C Tax receipts, sale of surplus property, transfer revenue, grant funding, and other miscellaneous revenue. The Parks C&C Funds also include revenues related to the 2017 Flood recovery projects, including $1.0 million anticipated to be received from the Federal Emergency Management Agency (FEMA)/California Office of Emergency Services (CalOES), commercial paper proceeds of $5.5 million, and $900,000 from flood insurance reimbursements. Through December, revenue in the C&C Tax Funds totaled $22.4 million, which is 50.5% of the 2020-2021 Modified Budget of $44.4 million.

C&C Tax receipts are the largest source of revenue for the C&C Tax funds. Through December 2020, C&C Tax collections totaled $20.0 million, which represents approximately 67% of the 2020-2021 Adopted Budget estimate of $30.0 million. The 2020-2021 Adopted Capital Budget was built on the assumption that C&C Tax receipts would drop significantly in 2020-2021 due to the COVID-19 pandemic and uncertainty regarding its long-term effect on the local real estate market, which is the primary driver of this revenue source. However, while collections were suppressed when the shelter-in-place began, beginning in the early fall, receipts have experienced year-over-year growth. Based on performance through the first half of the fiscal year, collections in 2020-2021 are anticipated to exceed the budgeted estimate by $10.0 million and reach $40.0 million. Therefore, a recommendation for a $10 million increase to the 2020-2021 C&C Tax estimate from $30.0 million to $40.0 million is included in this report. The $10.0 million increase to the C&C Tax revenue estimate would be distributed as follows: Parks C&C Tax allocation ($6.4 million), Library C&C Tax allocation ($1.4 million), Service Yards Tax allocation ($878,000), Fire C&C Tax allocation ($840,000), Communications C&C Tax allocation ($340,000), and Park Yards C&C Tax allocation ($120,000). The additional revenue is recommended to be placed in the Ending Fund Balance of each respective fund for future allocation. The $40.0 million estimate for 2020-2021 will be used in the development of the 2021-2022 Proposed Capital Budget and 2022-2026 Capital Improvement Program.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

FUND STATUS

Nearly 99% of the total C&C Taxes are comprised of conveyance receipts, a tax based on the value of property transfers (sales). According to data from the Santa Clara County Association of Realtors, the local real estate market has been experiencing year-over-year growth in both home prices and property sales. Additionally, it is taking less time to sell these homes. The average days on the market for single-family and multi-family dwellings decreased from an average of 47 days in December 2019 to an average of 18 days in December 2020. The median single-family home price, which totaled $1.1 million in December 2019, has grown by over 14% to $1.2 million in December 2020. Finally, the property transfers have also experienced significant growth, increasing from 504 sales in December 2019 to 671 sales in December 2020.

Expenditures – Overall, expenditures in the various C&C Tax Funds are anticipated to end the year within budgeted levels. Through December, expenditures totaled $18.0 million, or 16.2% of the 2020-2021 Modified Budget of $111.3 million. An additional $9.7 million has been encumbered through December, bringing the total amount committed to $27.7 million, or 24.9% of the 2020-2021 Modified Budget. This report recommends expenditure adjustments to the following projects:

- Mise Park Improvements ($140,000 – Council District 1 C&C Tax Fund)
- Ramac Park Turf Replacement ($194,000 – Council District 2 C&C Tax Fund)
- Strategic Capital Replacement and Maintenance Needs ($50,000 – Council District 3 C&C Tax Fund)
- Strategic Capital Replacement and Maintenance Needs ($50,000 – Council District 4 C&C Tax Fund)
- Trail: Five Wounds Development (Story Road to Whitton Avenue) ($40,000 – Council District 3 C&C Tax Fund)
- Family Camp Infrastructure Renovations ($60,000 – City-Wide C&C Tax Fund)
- 2017 Flood – Commercial Paper Debt Service and Letter of Credit Fees ($152,000 – City-Wide C&C Tax Fund)
- Environmental Mitigation Maintenance and Monitoring ($23,000 – City-Wide C&C Tax Fund)
- Kelley Park Master Plan ($25,000 – City-Wide C&C Tax Fund)
- Preliminary Engineering – Trails ($50,000 – City-Wide C&C Tax Fund)
- Fuel Tank Replacement ($38,000 – Fire C&C Tax Fund)
- Emergency Medical Services Equipment ($103,000 – Fire C&C Tax Fund)

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

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

FUND STATUS

Ending Fund Balance – This report includes recommendations to increase and decrease the various C&C Tax Funds Ending Fund Balances to offset various actions recommended in the report. In total, the C&C Tax Fund Ending Fund Balances are recommended to be increased by $8.1 million (from $27.8 million to $35.9 million) as a net result of the actions cited above and other clean-up actions as detailed in Section III of this report.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION AND CULTURAL AFFAIRS FUND

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	9,937,366	9,566,190	96.3%
Expenditures	9,746,148	7,563,584	77.6%
Unrestricted Ending Fund Balance	2,561,893	N/A	N/A

FUND STATUS

Revenues – Convention and Cultural Affairs Fund revenues through December totaled $9.6 million, or 96.3% of the budgeted estimate of $9.9 million, as the majority of revenue is derived from transfers from the Transient Occupancy Tax (TOT) Fund ($6.5 million) and the return of funds previously transferred to the Convention and Cultural Affairs Capital Fund ($2.9 million) for prior planned capital improvements to the convention and cultural facilities managed by the City's third-party operator, Team San Jose. Excluding other sources, the current transfer from the TOT Fund (50% of projected TOT), represents a 63.4% decline relative to the same prior year period, aligning with the TOT revenue estimate included in the 2020-2021 Adopted Budget which already assumed considerable declines due to the impacts of COVID-19. However, as discussed in the Selected Special and Capital Funds, Transient Occupancy Tax section of this report, year-to-date revenues and key performance indicators for hotel activity have fallen short of the lowered expectations for 2020-2021, requiring further downward forecast adjustments.

In accordance with TOT Fund recommendations, recommended adjustments in the Convention and Cultural Affairs Fund decrease the transfer from the TOT Fund by $2.35 million, from $6.9 million to $4.6 million, and increase the transfer from the Convention and Cultural Affairs Capital Fund by $2.33 million, from $2.9 million to $5.2 million. This additional transfer from the Convention and Cultural Affairs Capital Fund consists of available Ending Fund Balance ($2.2 million) previously held in the event of further revenue losses given the uncertainties surrounding COVID-19, as well as net identified project savings of $164,000. While this largely offsets the anticipated revenue loss in 2020-2021, these actions essentially pause further capital improvements, and do not address increasing pressure on Team San Jose operating requirements for the convention and cultural facilities.

Expenditures – Convention and Cultural Affairs Fund revenues primarily support the contractual operations of the San José McEnery Convention Center and various cultural facilities owned by the City. Overall expenditures through December 2020, totaling $7.6 million, represent 77.6% of the Modified Budget, including $6.0 million (89.8% of budget) for Convention Facilities Operations.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION AND CULTURAL AFFAIRS FUND

FUND STATUS

Because of the continued COVID-19 pandemic and corresponding mitigation measures, including shelter-in-place/stay-at-home orders, and congregational and travel restrictions, Team San Jose has effectively closed all convention and cultural facilities, focusing on securing them and maintaining the basic functionality of mechanical systems while completing limited, carry-over capital projects. Team San Jose's food and beverage operation has also been mobilized to provide contractual meal preparation and delivery services to sheltered populations vulnerable to COVID-19. However, these closures are now anticipated to continue through the end of the 2020-2021 fiscal year, effectively handicapping potential revenue generation from facility use as well as regular services provided to clients for events, though several clients have permitted Team San Jose to retain advanced deposits pending reopening, indicative of residual demand for facility space when conditions normalize.

In response to this operating revenue loss and the evolving outlook for reopening, Team San Jose has collaborated closely with the Administration to implement a variety of additional cost containment measures, inclusive of multiple rounds reductions in force (39 positions) with the goal of maintaining core staffing to reopen facilities at the appropriate time, and to reduce costs to the fixed costs of staffing and facility maintenance/operations. These costs, including utilities and the retention of core staffing for reopening, are currently estimated at $653,000 per month ($7.8 million annually). While additional use strategies continue to be explored, such as use of convention facilities for homeless shelter and for mass vaccination, net operating requirements are now projected to increase by $1.8 million, from $6.6 million to $8.4 million.

This additional cost related to operating assistance is partially offset by the elimination of the $250,000 Team San Jose Management Fee (Incentive Fee) for performance in 2019-2020 in accordance with their agreement with the City, since the dramatic interruption in business caused by COVID-19 did not allow Team San Jose to meet the performance and incentive benchmarks previously approved by the City Council. Additional actions are recommended to align Insurance Expenses with overlapping brokerage services during a request-for-proposal process ($4,500) and to complete the outstanding scope of work for the City Facilities Safety Assessment project ($20,000).

Ending Fund Balance – The adjustments recommended in this report reduce Ending Fund Balance in the Convention and Cultural Affairs Fund by $1,549,500, from $2,561,893 to $1,012,393. Further details on the above adjustments can be found in Section III, *Recommended Budget Adjustments and Clean-up Actions*, of this report.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION CENTER FACILITY DISTRICT REVENUE

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	10,500,000	4,028,316	38.4%
Expenditures	14,079,000	199,791	1.4%
Unrestricted Ending Fund Balance	823,189	N/A	N/A

FUND STATUS

Revenues – Convention Center Facility District Revenue (CCFD) Fund revenues through December 2020 totaled $4.0 million, which represents a decline of 43.9% from the prior year level for the same period ($7.2 million). Year-to-date revenues also include a transfer of $2.3 million from the Convention Center Facility District Capital Fund. Adjusting for this transfer, actual CCFD Special Tax revenues of $1.7 million through December 2020 have decreased 76.0% relative to prior year level, mirroring Transient Occupancy Tax (TOT) performance and exemplifying the drastic contraction in hotel activity in response to the continuing COVID-19 pandemic. As with the TOT revenue estimate, the CCFD Special Tax revenue estimate included in the 2020-2021 Adopted Budget already assumed considerable declines due to COVID-19 impacts on business and leisure travel, convention activity, and other public events, with collection levels not beginning to recover until the second half of 2020-2021; however, key performance indicators for hotel activity to date have not met expectation in 2020-2021.

Through December 2020, the average hotel occupancy rate reported for the San José market was 36.7%, a drop of 37.4 percentage points over the same period in 2019-2020 (74.1%). Average room rates also decreased by 46.9%, from $191.50 to $101.70, and the year-to-date average revenue-per-available room (RevPAR) decreased 73.7%, from $141.96 to $37.33, relative to the same period in 2019-2020. Moreover, this suppressed performance is unlikely to improve in the near-term due to the resurgence of COVID-19 and the imposition of public health orders in the region and changes in travel and consumer behavior, notwithstanding future changes in governmental restrictions.

The 2020-2021 Adopted Budget estimate was built on the assumption that 2019-2020 receipts would total $13.0 million and decrease 38.5% to $8.0 million in 2020-2021, excluding budgeted transfers ($2.3 million) due to the ongoing impacts of COVID-19. However, due to the low CCFD Special Tax performance through the first half of the fiscal year, and the assumption that short-term activity will continue at extremely suppressed levels, the 2020-2021 Mid-Year Budget Review includes a recommendation to decrease the budgeted estimate by $3.5 million, from $8.0 million to $4.5 million. Considering the CCFD Special Tax exclusively, this revised estimate represents a drop of 60.8% when compared with 2018-2019 actual receipts of $11.5 million, varying from the correlated TOT contraction due to the set aside of CCFD Special Tax revenues from hotels that do not formally belong to the CCFD.

Status of Selected Special and Capital Funds

CONVENTION CENTER FACILITY DISTRICT REVENUE

FUND STATUS

As of October 2020, remittances attributable to these non-annexed hotels totaled $4.8 million. In collaboration with Team San Jose, the Administration is conducting outreach to the parent businesses to complete the necessary documentation for formal annexation, which will then be brought forward to be recognized by City Council. However, since the City is not yet able to officially recognize these accumulated CCFD Special Tax revenues, recommended budget adjustments to resolve the revenue shortfall include the transfer of the remaining available balance from the Convention Facility District Capital Fund ($1.7 million) and to defer commercial paper note repayments, as discussed below, on commercial paper notes issued for the prior Exhibit Hall expansion at the San José McEnery Convention Center and for the acquisition of South Hall, which serves as extended convention space.

Expenditures – Overall expenditures through December 2020, totaling $199,791, represent 1.4% of the Modified Budget. Debt service and trustee payments are backloaded in the fiscal year and comprise most of the expenditure budget within the CCFD Fund, totaling $13.96 million (99.1%) of the $14.08 million budgeted expenditures.

The CCFD Special Tax principally supports debt service and reserve (Revenue Stabilization Reserve) requirements for the City of San José Special Hotel Tax Revenue Bonds (Series 2011) and City of San José Financing Authority Lease Revenue Bonds (Series 2011A) that were previously issued for the Convention Center Expansion and Renovation Project that was completed in 2013. Together, these obligations represent $10.5 million in annual debt service payments. In addition, due to the historically strong performance of the CCFD Special Tax, debt service on commercial paper notes ($3.5 million annually) for the Convention Center Exhibit Hall Lighting and Ceiling Upgrades project and purchase of South Hall has been assumed by the CCFD Fund.

Due to the projected additional revenue loss ($3.5 million) and prioritization of Series 2011 and 2011A debt service obligations, a one-time deferral of the 2020-2021 principal payment for Exhibit Hall commercial paper is recommended to balance the CCFD fund in 2020-2021, totaling $2.3 million. Additionally, the interest-only commercial paper note repayment for South Hall is reduced by $746,000 due to lower than anticipated interest rates. Accounting for outstanding fees and charges, these combined actions reduce budgeted debt service in 2020-2021 by $3.1 million. However, because the Exhibit Hall principal payment is being deferred, the City is expected to incur an additional $26,000 in interest costs in subsequent years. Given the low borrowing costs associated with the commercial paper program, this is a lower cost option than receiving a loan from a different City fund (i.e. intrafund loan), which would result in higher interest costs of approximately $50,000.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION CENTER FACILITY DISTRICT REVENUE

FUND STATUS

It is important to note that, after factoring for the budget adjustments described above, accumulated fund balances within the CCFD Fund and Capital Fund, which were previously generated by strong CCFD Special Tax collections, remain sufficient to pay debt service related to the Series 2011 and Series 2011A bonds through 2020-2021 without accessing the Revenue Stabilization Reserve.

Ending Fund Balance – The adjustments recommended in this report increase Ending Fund Balance in the CCFD Fund by $1.3 million, from $823,189 to $2.1 million, which is anticipated to mitigate potential forecast adjustments to the CCFD Special Tax as the impacts of COVID-19 on the hospitality industry continue to evolve. Further details on the above adjustments can be found in Section III, *Recommended Budget Adjustments and Clean-up Actions*, of this report.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	127,508,220	40,138,241	31.5%
Expenditures	199,189,803	31,223,027	15.7%
Unrestricted Ending Fund Balance	4,783,796	N/A	N/A

FUND STATUS

Revenues – The Construction Excise Tax, a major funding source for both the Construction Excise Tax Fund and Traffic Capital Program, is tracking above anticipated levels. Through the first half of 2020-2021, Construction Excise Tax receipts totaled $12.4 million through December, 88.6% of the 2020-2021 Adopted Budget estimate of $14.0 million, reflecting higher than anticipated commercial development permit activity. This collection level is above prior year collections ($1.9 million or 17.9%) of $10.5 million for the same period. While the pace of activity has slowed somewhat in December and November when compared to earlier in the fiscal year, tax receipts are expected to exceed budgeted levels by $7.0 million, for a year-end total of $21.0 million.

Other major revenue sources in the Construction Excise Tax Fund, including grants from federal, state, and local agencies, are tracking below estimated levels, corresponding with year-to-date project activity. These variances are largely due to timing differences for grant-supported projects, many of which are funded on a reimbursement basis. Project timelines have been impacted as a result of the schedule for the larger-scale, complex projects, primarily due to the continuing impact of the COVID-19 pandemic. As a result, the lower grant reimbursement collections are offset by corresponding lower project expenditures. Staff will continue to closely monitor these revenue sources as the fiscal year progresses.

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

- Increase the estimate for Construction Excise Tax revenue by $7.0 million based on current collection trends for the construction taxes primarily resulting from strong commercial development permit activity; and
- Increase the estimate for Revenue from Local Agencies by $832,218 to recognize revenues received from Measure B vehicle registration fees.

Status of Selected Special and Capital Funds

CONSTRUCTION EXCISE TAX FUND

FUND STATUS

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

Expenditures – Overall expenditures of $31.2 million are tracking at 15.7% of the Modified Budget. In addition, $35.5 million has been encumbered to date, bringing total commitments ($66.7 million) through December to 33.5% of the Modified Budget, excluding reserved funds. Any remaining project balances at year-end are anticipated to be rebudgeted to 2021-2022 as part of the 2021-2022 Adopted Capital Budget for project completion. This report also includes a limited number of expenditure adjustments, the notable ones are listed below. Further detail regarding this recommendation can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

- Increase the Pavement Maintenance – Complete Street Project Development project ($1.0 million);
- Increase the Pavement Maintenance – VTA Measure B VRF project ($832,218);
- Establish the North San José Light Rail Cabinets project ($325,000);
- Increase the Miscellaneous Street Improvements project ($323,000);
- Establish the Highway 680 and Jackson Traffic Signal project ($200,000); and
- Establish the Quimby and White Traffic Signal project ($200,000).

Ending Fund Balance – A net increase of $5.7 million to the Ending Fund Balance is included as a net result of the actions recommended in this report. After accounting for all these actions, the revised Ending Fund Balance will be $10.5 million. Further details on the adjustments can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

FIRE DEVELOPMENT FEE PROGRAM

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	14,602,332	11,567,154	79.21%
Expenditures	10,588,834	4,191,325	39.58%
Unrestricted Ending Fund Balance	4,013,498	N/A	N/A

FUND STATUS

Revenues – The Fire Development Fee Program provides operational and construction permits and inspections to ensure that the development within San José meets the City's fire codes. Budgeted revenues in the Fire Development Fee Program Fund include transfers and reimbursements ($8.3 million), licenses and permits ($6.2 million), and interest earnings ($144,000). Overall, revenue performance for the Fire Development Fee Program Fund is tracking at 79.21% ($11.6 million), which exceeds the benchmark through December. This is largely due to the one-time transfer from the General Fund of $8.3 million to close out excess revenues and reserves of the Fire Development Fee Program from the General Fund to the new special fund established for 2020-2021. The Fire Development Fee Program's licensing and permit revenue collections total $3.3 million through December, which is $2.0 million (38.12%) lower than the prior year collections. The 2020-2021 Adopted Budget of $6.2 million allows for a significant decrease (31.1%) from the 2019-2020 actual collection level of $9.0 million due to anticipated decrease in fee activity as a result of the COVID-19 pandemic. Based on activity through December and expectations through June, Fire development revenues are projected to end the year at budgeted levels.

Expenditures – Through December, $4.2 million (39.6%) has been expended and an additional $599,000 has been encumbered, bringing the total commitments to $4.8 million (45.2%). All Personal Services appropriations within the fund are tracking below expectations, with $3.4 million (42.6%) expended and are projected to end the year slightly below budgeted levels, primarily due to vacancies. Non-Personal/Equipment commitments are tracking above budgeted levels (63.2%) with $662,000 expended and encumbered, mostly for peak staffing consultant services. Overall, expenditures are projected to end the year at or slightly below budgeted levels.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

FIRE DEVELOPMENT FEE PROGRAM

FUND STATUS

Several budget adjustments are included in this report to increase the Fire Development Fee Program – Non-Personal/Equipment appropriation for the replacement of two retired inspection vehicles ($92,000) and higher costs associated with the purchase of four new inspection vehicles that were approved in the 2019-2020 Adopted Budget ($64,000). Additionally, there is a recommended decrease to the Transfer to the City Hall Debt Service Fund by $28,000. Details regarding these recommendations can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions.*

Ending Fund Balance – A recommendation to decrease the Ending Fund Balance by $128,000 is included as a net result of the actions detailed in this report. After accounting for these actions, the revised Ending Fund Balance will be $3.9 million.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

GENERAL PURPOSE PARKING FUND

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	12,323,000	2,440,423	19.8%
Expenditures	14,859,820	7,024,717	47.3%
Unrestricted Ending Fund Balance	158,129	N/A	N/A

FUND STATUS

Revenues – Revenue for fees from parking garages and meters in the General Purpose Parking Fund comprises the majority of the fund's revenue and is tracking below anticipated levels due to the impacts of the COVID-19 pandemic. The budgeted revenues include $9.0 million from parking garages and meters, $3.0 million from transfers from other funds, and $358,000 from electrical vehicle charging stations and interest earnings.

Through the first half of 2020-2021, collections from parking garages and meters totaled $2.4 million through December, which is 26.9% of the 2020-2021 Modified Budget estimate of $9.0 million, reflecting lower than anticipated demand for parking facilities due to the COVID-19 pandemic. This collection level is 61.6% below prior year collections of $6.3 million for the same period. As the current level of parking activity and corresponding collections is not expected to significantly increase for the remainder of the fiscal year, it is anticipated that revenues from parking garages and meters will total $6.3 million, which is $2.7 million less than the budgeted level.

The 2019-2020 Annual Report that was approved by the City Council on October 20, 2020 included a decrease to the revenue estimate by $5.0 million based on revenue projections at that time. To partially offset the decreased revenue collection, a transfer from the General Purpose Parking Capital Fund of $3.0 million was approved. Year-to-date actual revenue collection is tracking low, 19.8% of budget, in part because this transfer has not occurred as of December 2020, but the transfer will be made by the end of the fiscal year. To again offset the reduced revenue collections, a transfer of an additional $2.7 million from the from the General Purpose Parking Capital Fund is recommended.

The continuing impact of the COVID-19 pandemic has significantly impacted collections from parking operations. Parking garages and meters were free for July 2020; the resumption of fees started on August 3, 2020. To minimize economic impact to customers during the ongoing pandemic, off-street garages now offer 90 minutes of free parking, and at this time there are no plans to reduce or make any changes to the 90 minutes of free parking. Charges for on-street meters are only taking place in the Downtown Core; parking is still free in the East Santa Clara, Old Civic Center, and Japantown zones.

Status of Selected Special and Capital Funds

GENERAL PURPOSE PARKING FUND

FUND STATUS

There are no other concessions being contemplated that would impact garage revenues. Charging for on-street meters in zones outside of the Downtown Core would resume at some point, but no definitive timeline has been established. Staff will continue to closely monitor these revenue sources as the fiscal year progresses.

Included in this report are two revenue adjustment recommendations:

- Decrease the revenue estimate for Fees, Rates, and Charges by \$2.7 million, from \$9.0 million to \$6.3 million, based on current collection trends for parking garages and meters. Total collections from parking garages and meters are now expected to be 67.0% lower than from 2018-2019 levels; and

- Increase the revenue estimate for Transfers and Reimbursements by \$2.7 million, from \$3.0 million to \$5.7 million, to recognize a transfer from the General Purpose Parking Capital Fund to offset the anticipated loss of revenue from parking operations. Further detail regarding this recommendation can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions.*

Expenditures – Overall expenditures of \$7.0 million are tracking at 47.3% of the Modified Budget, which consists primarily of overhead costs (\$2.1 million), transfers to other City funds (\$1.6 million), and Transportation Department personal services costs (\$1.0 million). In addition, \$5.7 million has been encumbered to date, including \$5.6 million of non-personal/equipment costs for the Transportation Department, primarily for the garage operator and security contracts. When including encumbered amounts, total commitments (\$12.8 million) through December are 85.9% of the Modified Budget, excluding reserved funds. However, as the encumbered funds are anticipated to be expended over the course of the fiscal year, appropriations in this fund are tracking within budgeted levels.

Ending Fund Balance – An increase of \$19,600 to the Ending Fund Balance is included as a result of an action to decrease the City Hall Debt Service Fund appropriation that is recommended in this report. After accounting for this action, the revised Ending Fund Balance will increase to approximately \$178,000.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	160,472,811	132,819,764	82.8%
Expenditures	170,298,143	53,754,085	31.6%
Unrestricted Ending Fund Balance	1,585,020	N/A	N/A

FUND STATUS

Revenues – Budgeted revenues in the Integrated Waste Management Fund include payments received from residential solid waste generators under the Recycle Plus Integrated Waste Management Program (Recycle Plus Collection Charges, $148.0 million); AB 939 fees ($3.7 million); Surplus Property Sales ($3.0 million); Recycle Plus Negotiated Savings ($2.7 million); payments received from the Construction and Demolition Diversion Deposit (CDDD) Program ($810,000); interest earnings ($659,000); revenue from land rentals ($534,600); revenue received from Santa Clara County for Household Hazardous Waste programs ($300,000); SB 332 Beverage Container Recycling payments ($250,000); and Recycle Plus Late Fees ($235,000).

Through December, revenues totaled $132.8 million, or 82.8% of budget, and were generated primarily from Recycle Plus Collection Charges ($128.2 million); Recycle Plus Negotiated Savings ($1.3 million); AB 939 fees ($993,000); CDDD revenues ($489,000); Recycle Plus Late Fees ($281,000); SB 332 Beverage Container Recycling payments ($254,000); revenue from land rentals ($236,000); and interest earnings ($168,000). Overall, revenues are expected to end the year slightly above the budget.

During the development of the 2020-2021 Adopted Operating Budget, the originally proposed Recycle Plus rate increases of 15% for single-family dwellings and 7% for multi-family dwellings were reduced to 9% and 5%, respectively, in acknowledgment of the immediate economic hardship imposed by the COVID-19 pandemic. This reduction was facilitated by the identification of $7.2 million in one-time funding solutions that did not substantively impact service delivery. As the one-time solutions identified for 2020-2021 are unlikely to be sustained into the future, significantly larger rate increases are anticipated for residential customers in 2021-2022 to meet the requirements of the City's hauler agreements. The level of rate increases and potential trade-offs will be evaluated by the Administration and presented for City Council discussion during the 2021-2022 budget development and rate-setting process.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

FUND STATUS

Expenditures – Through December, $53.8 million (31.6%) was expended, with an additional $105.0 million (61.7% of budget) encumbered, bringing the total commitments to $158.8 million (93.2% of budget). The year-to-date expenditures and encumbrances of $158.8 million are attributed primarily to the Recycle Plus contracts for Single-Family Dwelling ($72.5 million), Yard Trimmings/Street Sweeping ($26.2 million), and Multi-Family Dwelling ($24.8 million). Additional expenditures include Single Family Dwelling Processing ($19.0 million), IDC Disposal Agreement ($4.5 million), Environmental Services Department (ESD) Personal Services ($3.6 million), and ESD Non-Personal/Equipment ($3.2 million) appropriations.

Overall, savings of approximately $2 million are projected by the end of the year across various appropriations, with the largest estimated savings in the ESD Personal Services ($1.2 million) due to vacancies in the department, ESD Non-Personal/Equipment ($400,000) due to savings in contractual services, and savings in Personal Services and Non-Personal/Equipment appropriations for other City departments ($471,000).

Ending Fund Balance – This report includes actions to increase the Ending Fund Balance by $76,796 to offset a decrease to the transfer to the City Hall Debt Service Fund ($130,796), an increase to the Workers' Compensation Claims appropriation to ESD for higher than anticipated settlement and medical treatment costs ($50,000), and an increase to the Banking Services appropriation to the Finance Department ($4,000). After accounting for these actions, the Ending Fund Balance increases slightly from $1.59 million to $1.66 million. Further details on the adjustments can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

PLANNING DEVELOPMENT FEE PROGRAM

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	8,984,573	6,837,147	76.1%
Expenditures	7,230,098	3,952,367	54.7%
Unrestricted Ending Fund Balance	1,754,475	N/A	N/A

FUND STATUS

Revenues – Overall revenue performance for the Planning Development Fee Program Fund is tracking above anticipated levels at 76.1% of the Modified Budget. The majority of the revenue through December is from a one-time transfer from the General Fund ($3.1 million), which represents the close-out of the Planning Development Fee Program that was budgeted in the General Fund prior to the current year. Planning Permit revenues make up the remainder of year-to-date revenue. Through December, Planning Permit revenues of $3.8 million are 0.6% lower than the 2019-2020 collection level for the same period ($3.8 million). The 2020-2021 Adopted Budget of $5.9 million allows for a 13.8% drop from the 2019-2020 actual collection level of $6.8 million due to the ongoing COVID-19 pandemic. Based on current collection trends, Planning Fee revenues are anticipated to exceed the 2020-2021 budget revenue estimate of $5.9 million by at least $500,000.

This report includes a recommendation to increase the estimate for Fees, Rates, and Charges for planning permit revenue by $500,000 based on year-to-date tracking and to support higher than anticipated personal services expenditures for the Planning, Building and Code Enforcement Department. The corresponding expenditure adjustment for this action and further detail regarding this recommendation can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

PLANNING DEVELOPMENT FEE PROGRAM

FUND STATUS

Expenditures – Through December 2020, total expenditures of $4.0 million are tracking at 54.7% of Modified Budget. In addition, $9,000 has been encumbered to date, maintaining total commitments ($4.0 million) through December at 54.7% of the Modified Budget. All appropriations in this fund are tracking within budgeted levels except for the Planning, Building and Code Enforcement Department's Personal Services appropriation. This appropriation is projected to exceed the Modified Budget by approximately $750,000 due to redeploying staff from other programs to assist with Planning Development activity, higher position costs due to internal promotions, new hires with salaries higher than budgeted, and management pay for performance increases.

Several budget adjustments are included in this report, including increases to the Planning, Building and Code Enforcement Department's Personal Services appropriation by $750,000 to reflect higher than anticipated expenditures and an additional $50,030 adjustment for Salary Program, which accounts for management pay for performance and benefit increases. Further detail regarding these and other recommendations can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

Ending Fund Balance – A recommendation to increase the Ending Fund Balance by $235,508 is included in this report as a net result of the actions detailed in this report. After accounting for these actions, the revised Ending Fund Balance will be $2.0 million.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

PUBLIC WORKS DEVELOPMENT FEE PROGRAM

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	18,945,039	13,477,353	71.1%
Expenditures	13,774,969	6,620,099	48.1%
Unrestricted Ending Fund Balance	5,170,070	N/A	N/A

FUND STATUS

Revenues – The Public Works Development Fee Program ensures that developments comply with regulations and provide appropriate public infrastructure, such as sidewalks, traffic signals, and streetlights. Overall revenue performance of $13.5 million is tracking at 71.1% of the estimated budget, which exceeds the benchmark through December. This is largely due to the one-time transfer in from the General Fund of $7.9 million to close out excess revenues and reserves of the Development Fee Program from the General Fund to the new special fund established for 2020-2021. Revenues from Fees, Rates, and Charges through December of $5.6 million increased 14.8% from the prior year level of $4.9 million. The Public Works Development Fee Program Fees, Rates, and Charges revenue collections are comprised of $3.2 million from the Development Services Fee Program and $2.4 million from the Utility Fee Program. Based on activity through December, collections in Public Works Development Services and Utility Fee revenues are projected to meet or exceed budgeted levels of $10.9 million. Staff will continue to closely monitor these revenue sources as the fiscal year progresses.

Expenditures – Overall expenditures through December of $6.6 million are tracking slightly below par at 48.1% of the Modified Budget of $13.8 million. While most appropriations are projected to end the year within budgeted levels, the Public Works Development Fee Program - Non-Personal/Equipment appropriation is currently tracking to end the year above budgeted levels due to erroneous overhead charges, but once corrected, it is anticipated to end the year within budgeted levels. Additionally, some smaller appropriations such as the Public Works Development Fee Program - Personal Services (OED) and the Development Fee Programs - Shared Resources Non-Personal/Equipment (ITD) appropriations are projected to end the year slightly above budgeted levels. Staff will continue to monitor and bring forward budgetary adjustments as necessary.

Ending Fund Balance – A net increase to the Ending Fund Balance is recommended in this report to offset actions related to the Salary Program (-$5,048) and Transfer to the City Hall Debt Service Fund ($21,756).

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	336,451,000	54,418,867	16.2%
Expenditures	573,442,447	48,404,980	8.4%
Unrestricted Ending Fund Balance	1,871,804	N/A	N/A

FUND STATUS

Revenues – Budgeted revenue for the San Jose-Santa Clara Treatment Plant Capital Fund consists of financing proceeds ($232.0 million); contributions from the City of Santa Clara and other Tributary Agencies ($57.4 million); a transfer from the City of San José Sewer Service and Use Charge (SSUC) Fund ($38.3 million); interest earnings ($8.4 million); and Calpine Metcalf Energy Center Facilities Repayments ($389,000). Through December, $54.4 million (16.2%) has been received, primarily due to the transfer and tributary payments. Financing proceeds are expected to be realized in the fourth quarter of 2020-2021.

Each year, contributions from the tributary agencies are trued up for actual Treatment Plant expenditures and encumbrances from the prior year. Based on the reconciliation of prior year project expenditures, contributions from the tributary agencies for the current fiscal year are expected to be $10.7 million lower than the budgeted estimate due to the timing of project expenditures and the impact on the contribution schedule. Fund balance, financing proceeds, and expected project savings will offset this shortfall. Based on current earnings through December, interest revenue for this fund may end the year $3.1 million lower than the budgeted estimate of $8.4 million. This reduced interest revenue amount is primarily due to lower amounts of cash on hand, the main factor in the accumulation of interest revenues, due to the flow of tributary agency revenues, financing revenues, and project expenditures. This does not represent a threat to the health of the fund, but does reduce the accumulated revenues interest earnings that would otherwise be available for expenditure allocations. The other revenue sources for this fund are anticipated to end the year at the budgeted levels.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

FUND STATUS

Expenditures – Expenditures in this fund represent the costs of improvements and rehabilitation of the San José-Santa Clara Water Pollution Control Plant. The Modified Budget is $573.4 million. The major expenditures in this fund are the Digested Sludge Dewatering Facility ($137.7 million), New Headworks ($128.7 million), Nitrification Clarifier Rehabilitation ($52.7 million), Filter Rehabilitation ($49.1 million), Digester and Thickener Facility Upgrades ($32.9 million), Aeration Tanks and Blower Rehabilitation ($25.8 million), Yard Piping and Road Improvement ($20.2 million), Advanced Facility Control and Meter Replacement ($18.3 million), Headworks Improvements ($15.5 million), Program Management ($15.4 million), Energy Generation Improvements ($13.9 million), Plant Electrical Reliability ($7.6 million), Legacy Lagoon Remediation ($6.9 million), Support Building Improvements ($6.5 million), Transfer to the Clean Water Financing Authority Payment Fund ($5.5 million), Treatment Plant Distributed Control System ($5.0 million), Owner Controlled Insurance Program ($4.8 million), Debt Service for the Plant Capital Improvement Program ($4.4 million) projects, and Facility Wide Water System Improvements ($4.2 million).

Through December, $48.4 million (8.4%) of the budget was expended and an additional $262.0 million was encumbered, bringing overall commitments through December to 54.1% of the budget. A large portion of the budget is currently anticipated to be expended or encumbered on projects and related expenses by the end of the year.

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

Status of Selected Special and Capital Funds

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUND

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	131,070,000	107,334,900	81.9%
Expenditures	150,534,453	49,276,312	32.7%
Unrestricted Ending Fund Balance	5,442,510	N/A	N/A

FUND STATUS

<u>*Revenues*</u> – Budgeted revenue for the San José-Santa Clara Treatment Plant Operating Fund consists primarily of transfers from the Sewer Service and Use Charge Fund ($85.5 million), contributions from the City of Santa Clara ($17.5 million) and participating tributary agencies ($27.3 million), and interest earnings ($430,000). Through December, revenues totaled $107.3 million, or 81.9% of the budgeted estimate.

The largest source of revenue, the transfer from the Sewer Service and Use Charge Fund ($85.5 million), has been received in full. Contributions from Santa Clara and other tributary agencies are estimated to come in higher than budgeted levels. These contributions are made in four installments based on the amounts provided in the 2020-2021 Adopted Operating Budget. However, after the Comprehensive Annual Financial Report is released and prior year actuals are determined, the amounts owed by the agencies are adjusted accordingly. As a result of the final reconciliation for 2019-2020, this year's agency reimbursement revenue is projected to come in above budget by $970,000. Interest revenue through December has already slightly exceeded budgeted levels by approximately $7,000 for a total of $437,000. Overall, revenues are estimated to end the year at or slightly above the budget.

Elsewhere on the February 9, 2021 City Council agenda, staff requests approval to reduce the revenues from the Transfer from the Sewer Service and Use Charge Fund by $23.2 million and from the tributary agencies by $13.6 million for costs associated with the design and construction of the Legacy Lagoons Remediation (Phase 2) project. The timeframe for this project has been extended by up to four years to allow completion of the Shoreline Levee Project which is located in approximately the same physical location as the Legacy Lagoons Remediation project. Therefore, the budget will be reduced accordingly as the majority of the funds will not be spent this fiscal year but are expected to be programmed as part of a future budget process.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUND

FUND STATUS

Expenditures – Expenditures in this fund represent the costs required for the operation and maintenance of the San José-Santa Clara Water Pollution Control Plant and associated regulatory activities. Through December, $49.3 million (32.7%) has been expended, and an additional $15.3 million (10.2%) has been encumbered, bringing the total commitments to $64.6 million (42.9%). Across Personal Services appropriations within the fund, expenditure levels are tracking slightly below expectations with $26.3 million (45.4%) expended and are projected to end the year approximately 7% below budgeted levels ($57.8 million). Non-Personal/Equipment commitments are slightly above the previous year's levels with $24.7 million committed through December, compared to $24.2 million through December 2019. Overall, expenditures are projected to end the year at or slightly below budgeted levels.

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

Status of Selected Special and Capital Funds

SEWER SERVICE AND USE CHARGE CAPITAL IMPROVEMENT FUND

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	36,339,000	33,137,003	91.2%
Expenditures	93,001,711	19,511,578	21.0%
Unrestricted Ending Fund Balances	16,253,973	N/A	N/A

FUND STATUS

Revenues – Budgeted revenue for the Sewer Service and Use Charge Capital Improvement Fund consists of transfers from the Sewer Service and Use Charge Fund ($32.0 million), reimbursements from the West Valley Sanitation District (WVSD) and Cupertino for joint projects ($2.8 million), and interest earnings ($1.5 million).

Revenue through the end of December totals $33.1 million (91.2%), consisting mainly of the transfer from the Sewer Service and Use Charge Fund ($32.0 million). Interest revenue totaling $585,000 has also been received through December. As funds are expended on projects within Cupertino and the WVSD, invoices are processed and issued to those agencies, for which reimbursements are received. Overall, revenues are expected to meet budgeted estimates by the end of the year.

Expenditures – Expenditures in this fund represent the costs of improvements and rehabilitation of the Sanitary Sewer System. The major expenditures in this fund are the 60” Brick Interceptor Rehabilitation project ($24.9 million), Urgent Rehabilitation and Repair Projects allocation ($13.7 million), Condition Assessment Sewer Repair ($12.1 million), Cast Iron Pipe – Remove and Replace ($10.1 million), Immediate Replacement and Diversion Projects ($8.9 million), Infrastructure – Sanitary Sewer Condition Assessment ($5.6 million), Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements ($3.6 million), Sierra Road Sanitary Sewer Improvement ($2.1 million), Capital Program and Public Works Department Support Service Costs ($2.1 million), and Rehabilitation of Sanitary Sewer Pump Stations ($1.9 million). Additional expenses include the Public Art allocation ($995,000) and a transfer to the City Hall Debt Service Fund ($306,000).

Through December, $19.5 million (21.0%) of the budget was expended and an additional $27.5 million was encumbered, bringing the total amount committed to 50.6%. Overall, expenditures are expected to meet budgeted levels by the end of the year.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SEWER SERVICE AND USE CHARGE CAPITAL IMPROVEMENT FUND

FUND STATUS

Ending Fund Balance – This report includes actions to increase the Ending Fund Balance by $59,000 to offset a decrease to the transfer to the City Hall Debt Service Fund ($59,000). After accounting for these actions, the Ending Fund Balance increases slightly from $16.25 million to $16.31 million. Further details on the adjustments can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

Status of Selected Special and Capital Funds

TRANSIENT OCCUPANCY TAX FUND

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	13,605,000	2,825,771	20.8%
Expenditures	17,899,648	10,088,719	56.4%
Unrestricted Ending Fund Balance	973,029	N/A	N/A

FUND STATUS

Revenues – Transient Occupancy Tax (TOT) Fund revenues through December totaled $2.8 million, which represents a decline of 74.5% from the prior year level for the same period ($11.1 million), exemplifying the drastic contraction in hotel activity in response to the continuing COVID-19 pandemic. This revenue level (20.8% of the budgeted estimate) is also significantly underperforming relative to the historical average performance (36.1%) at this point in the fiscal year. The TOT revenue estimate included in the 2020-2021 Adopted Budget already assumed considerable declines due to COVID-19 impacts on business and leisure travel, convention activity, and other public events, with collection levels not beginning to recover until the second half of 2020-2021. However, key performance indicators for hotel activity to date have fallen short of the lowered expectations.

Through December 2020, the average hotel occupancy rate reported for the San José market was 36.7%, a drop of 37.4 percentage points over the same period in 2019-2020 (74.1%). Average room rates also decreased by 46.9%, from $191.50 to $101.70, and the year-to-date average revenue-per-available room (RevPAR) decreased 73.7%, from $141.96 to $37.33, relative to the same period in 2019-2020. Moreover, this suppressed performance is unlikely to improve in the near-term due to the resurgence of COVID-19 and the imposition of travel restrictions and regional stay-at-home orders.

The 2020-2021 Adopted Budget estimate was built on the assumption that 2019-2020 receipts would total $20.3 million and decrease 33% to $13.6 million in 2020-2021 due to the ongoing impacts of COVID-19. As 2019-2020 receipts totaled $21.2 million, the current budget estimate represents a 36% decline from prior year collections. However, due to the low TOT performance through the first half of the fiscal year, and the assumption that short-term activity will continue at extremely suppressed levels, the 2020-2021 Mid-Year Budget Review includes a recommendation to decrease the TOT budgeted estimate in the Transient Occupancy Tax Fund by $5.2 million, from $13.5 million to $8.3 million. This revised budget represents a drop of 73.4% when compared with 2018-2019 actual receipts of $30.9 million. Additional budgetary adjustments are also recommended in the General Fund, Convention and Cultural Affairs Funds, and the Convention Center Facilities District Funds, which are further discussed in Section I, *General Fund Status Report and Section II, Selected Special/Capital Funds Status Report*.

Status of Selected Special and Capital Funds

TRANSIENT OCCUPANCY TAX FUND

FUND STATUS

Expenditures – According to San José Municipal Code (Sections 4.72.060 and 4.72.065), Transient Occupancy Tax receipts are proportionally allocated for: operation of the San José Convention and Visitors Bureau (CVB) (25%); cultural grant programs managed by the Office of Economic Development (25%); and transfer to the Convention and Cultural Affairs Fund (50%) to support the contractual operations of the San José McEnery Convention Center and various cultural facilities owned by the City. Overall expenditures through December 2020, totaling $10.1 million, represent 56.4% of the Modified Budget. To date, most budgeted funds have been transferred to the Convention and Cultural Affairs Fund and expended or encumbered for pass-through funding to Team San Jose for CVB operations.

Allocation of $500,000 of the current unrestricted Ending Fund Balance within the TOT Fund is recommended to mitigate the immediate impact of the projected revenue loss. Additional proportional reductions equal to the balance ($4.7 million) of the revenue reduction are recommended in this report to the Transfer to the Convention and Cultural Affairs Fund ($2,350,000), Cultural Grants allocation ($1,175,000), and San José Convention and Visitors Bureau allocation ($1,175,000).

Further adjustments in the Convention and Cultural Affairs Funds are recommended to offset the reduced transfer from the TOT Fund, increase the subsidy for the contractual operation of the San José McEnery Convention Center and various cultural facilities owned by the City due to sustained business activity loss, and return funding previously planned for capital infrastructure needs at the supported facilities.

Ending Fund Balance – The adjustments recommended in this report reduce Ending Fund Balance in the TOT Fund by $500,000, from $973,029 to $473,029. Further details on the above adjustments can be found in Section III, *Recommended Budget Adjustments and Clean-up Actions*, of this report.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY FUND

	2020-2021 Current Modified	2020-2021 YTD Actual	2020-2021 % of Budget
Revenues	52,781,318	24,251,017	45.9%
Expenditures	57,658,200	31,131,554	54.0%
Unrestricted Ending Fund Balance	1,920,164	N/A	N/A

FUND STATUS

Revenues – Budgeted revenues for the Water Utility Fund consists primarily of Metered Sales of water to residents of jurisdictions served by the San José Municipal Water System ($45.7 million). Additional sources of revenue include Metered Sales of recycled water ($6.2 million), interest revenue ($435,000), Late Fees associated with Metered Sales of recycled and non-recycled water ($300,000), and miscellaneous revenue associated with the sale of water ($100,000).

The largest source of revenue in this fund, Metered Sales, is on track to meet the budget with $20.5 million (44.8%) received through the end of December. Metered Sales of recycled water are tracking slightly above expectations with $3.3 million (52.8%) received through the end of December. Late Fee revenue is tracking above expectations with $406,000 (135.4%) received through December, while interest revenue is tracking below budgeted levels with $57,000 (13.1%) received through the end of December. Overall, revenue is projected to end the year at the budgeted level. Historical and seasonal trends have shown that fluctuations in water consumption rates during the second half of the fiscal year can have significant impacts on year-end revenues. Close attention will be paid to Metered Sales revenues through the remainder of the year to ensure any necessary budgetary actions will be taken.

Expenditures – Expenditures in this fund represent the costs required for the operation and maintenance of the San José Municipal Water System. Most of the expenditures in this fund are budgeted in the Non-Personal/Equipment appropriation to the Environmental Services Department ($38.9 million) for the purchase of water and related operational needs. Beyond that, Personal Services appropriations to the Environmental Services Department (ESD) ($7.4 million) and other City departments ($1.1 million) account for the next largest segment of operational expenditures. Non-operational expenses include transfers to other funds, primarily the Water Utility Capital Fund ($7.3 million), and to the General Fund of Late Fee revenue ($336,220) and City Hall Debt Service ($181,204). Other expenditures include overhead ($1.8 million) and costs associated with the transition of the Customer Information System ($150,000).

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY FUND

FUND STATUS

Through December, $31.1 million (54.0%) has been expended, and an additional $2.5 million (4.4%) has been encumbered, bringing the total commitments to 58.4%. Across Personal Services appropriations, expenditure levels of $4.1 million through the end of December are tracking slightly below expectations, with 48.0% expended, and are projected to end the year slightly below budgeted levels. Non-Personal/Equipment commitments are above the previous year's levels with $20.0 million (51.0%) expended through the end of December, compared to $19.1 million through the end of December 2019. Overall, expenditures are projected to end the year below budgeted levels primarily due to expected vacancy savings within the Environmental Services Department.

Ending Fund Balance – This report includes actions to decrease the Ending Fund Balance by $70,665 to offset a decrease to the transfer to the City Hall Debt Service Fund ($34,374) and increases to the Banking Services appropriation to the Finance Department ($12,000) and the Personal Services appropriation to ESD ($93,039). After accounting for these actions, the Ending Fund Balance decreases slightly from $1.92 million to $1.85 million. Further details on the adjustments can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.