III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

This section provides financial information on the 2020-2021 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 2020-2021 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 2020-2021 Modified Budget, which includes fund balance and reserves. The 2020-2021 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 2021-2022 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 2020-2021 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 2020-2021 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 2021-2022 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 2021-2022 Adopted Budget; discusses variances between these two amounts; and identifies any impact on the 2021-2022 budget related to recommended actions included in this report.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2020-2021 Budget	*2020-2021 Actuals*	*Variance*	*% Variance*
Revenues	$68,830	$35,794	($33,036)	(48.0%)
Expenditures	$126,082	$71,871	($54,211)	(43.0%)

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 $35.8 million and were generated primarily from transfers from the Airport Surplus Revenue Fund ($13.3 million), grant income ($12.1 million), Passenger Facility Charges (PFCs) ($9.4 million) and interest earnings ($0.8 million). This revenue level was $33.0 million (48.0%) below the Modified Budget and $46.3 million (56.4%) lower than the prior year level of $82.1 million.

The negative variance to the budget of $33.0 million (48.0%) was due primarily to lower than expected receipt of grant revenue, $32.5 million (72.8%). 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 $1.0 million (9.9%) due to reduced passenger activity that resulted from the COVID-19 pandemic. Overall, revenues in 2020-2021 of $35.8 million were lower than 2019-2020 revenues of $82.1 million due to a lower transfer from the Airport Surplus Revenue Fund, decreased Passenger Facility Charge revenue, and no commercial paper proceeds subsequent to the completion of the Interim Terminal Facility. Negative revenue rebudgets totaling $1.6 million are recommended in this report to align the anticipated revenue budget with planned expenditures.

Expenditures totaled $71.9 million and consisted primarily of expenses related to the construction of the Economy Lot 1 Parking Garage ($20.9 million), transfers to other Airport funds for debt service payments ($14.3 million), and various capital renewal and replacement projects ($8.9 million). Expenditures also included significant airfield projects such as the Aircraft Rescue and Fire Fighting Facility ($12.6 million) and significant terminal projects including the Network Replacement ($1.4 million) project. This expenditure level was $54.2 million (43.0%) below the Modified Budget and $10.4 million (12.7%) below the prior year level of $82.3 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

After adjusting for rebudgets of $51.9 million included in the 2020-2021 Adopted Budget and net negative rebudgets of $1.2 million recommended in this report, expenditure savings of $3.5 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, including the Terminal A Piping Replacement project ($0.4 million) and the Skylight Refurbishment project ($0.1 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)						
2020-2021 Modified Budget	***2020-2021 Estimated Ending Fund Balance***	***2020-2021 Actual Ending Fund Balance***	***Vari-ance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$144,463	$33,836	$40,081	$6,244	($1,155)	$5,089	3.5%

The **Ending Fund Balance** of $40.1 million was $6.2 million above the estimate used in the development of the 2021-2022 Adopted Capital Budget. After accounting for negative expenditure rebudget adjustments totaling $1.2 million that are recommended as part of the Annual Report, the revised fund balance variance is $5.1 million. The variance is a result of the intentional reduction or delay of capital projects in response to uncertainty surrounding the recovery pace of airport revenue.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT OPERATING FUND - AIRPORT CUSTOMER FACILITY AND TRANSPORTATION FEE FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2020-2021 Budget	2020-2021 Actuals	Variance	% Variance
Revenues	$20,141	$17,996	($2,146)	(10.7%)
Expenditures	$21,974	$21,483	($491)	(2.2%)

Revenues totaled $18.0 million and were generated from rental car Customer Facility Charge (CFC) fees ($6.5 million), contributions from Rental Car Agencies ($3.1 million), interest earnings ($112,000), and Coronavirus Aid, Relief and Economic Security (CARES) Act Grant revenue ($8.3 million). This total revenue level was $2.1 million (10.7%) below the Modified Budget of $20.1 million and $1.2 million (6.9%) above the prior year level of $16.8 million.

The increase in revenue from the prior year was primarily due to the application of CARES Act Grant funding provided to offset the decreased revenue resulting from the COVID-19 pandemic's impact on air travel and rental car operations at the Airport. With passenger levels slightly more than estimated at 4.2 million (though well below 2019-2020 levels of 11.3 million) generating slightly higher CFC revenue than initially expected, and with use of CARES funding, the required contributions from Rental Car Companies were reduced to help partially mitigate the pandemic's impact on that industry, which resulted in a negative variance to the 2020-2021 budget of $2.1 million (10.7%).

Expenditures totaled $21.5 million and were primarily attributed to transfers for debt service payments ($19.4 million) as well as shuttle bus transportation costs ($1.5 million). Expenditures were slightly below the budget with a variance of $491,000 (2.2%) due to lower than estimated shuttle bus costs. This expenditure level was $167,000 (0.8%) below the prior year level of $21.7 million, also due to decreased shuttle bus costs.

Ending Fund Balance Performance ($ in Thousands)						
2020-2021 Modified Budget	*2020-2021 Estimated Ending Fund Balance*	*2020-2021 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$29,260	$6,394	$5,802	($592)	$0	($592)	(2.0%)

The 2020-2021 **Ending Fund Balance** of $5.8 million was $592,000 below the estimate used in the development of the 2021-2022 Adopted Operating Budget. This negative variance from the estimate resulted from reduced CFC fees partially offset by shuttle bus expenditure savings.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

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

Revenue and Expenditure Performance ($ in Thousands)

	2020-2021 Budget	*2020-2021 Actuals*	*Variance*	*% Variance*
Revenues	$186,462	$180,296	($6,166)	(3.3%)
Expenditures	$118,267	$97,506	($20,760)	(17.6%)

Revenues in the Airport Revenue Fund totaled $180.3 million and were generated from Airline Terminal Rental ($62.0 million), Federal Grant revenue ($46.9 million), Parking and Roadway ($22.2 million), Landing Fees ($16.9 million), Miscellaneous Revenue ($14.9 million), Terminal Building Concessions ($11.1 million), Airfield Area ($3.5 million), Petroleum Products ($1.7 million), and Transfers from the Airport Fiscal Agent Fund ($623,000) and General Fund for Jet Fuel Sales Tax ($463,000). The total revenue level was $6.2 million (3.3%) below the Modified Budget of $186.5 million and 0.5% higher than the prior year level of $179.4 million.

The negative revenue variance of $6.2 million was primarily due to revenues ending the year below budgeted levels in the following categories: Landing Fees revenue ($3.8 million), Terminal Building Concessions revenue ($2.0 million), Airline Terminal Rental revenue ($795,000), Parking and Roadway ($651,000), and Airfield revenue ($501,000). Overall, revenues fell below budgeted levels as a result of decreased operations at SJC subsequent to the ongoing effects of e COVID-19 pandemic. These revenue variances were offset slightly by Petroleum Products revenue ($649,000), Miscellaneous revenue ($301,000) and Federal Grant revenue ($685,000) which all ended the year slightly above budget.

The 2020-2021 revenue level was $942,000 (0.5%) above the 2019-2020 level of $179.4 million primarily due to the application of Federal Grant revenue provided to offset the decreased revenue resulting from the COVID-19 pandemic’s impact on air travel.

Expenditures in the Airport Maintenance and Operation Fund totaled $97.5 million and were primarily for Airport Department non-personal/equipment ($36.4 million including encumbrances), Airport personal services ($34.5 million), transfers to the General Fund for Police and Fire services ($18.2 million), Overhead ($5.4 million), and Interdepartmental Services expenditures ($1.3 million). Additionally, there were Airline Reserve Funds Distribution payments ($1.3 million) made to distribute the airlines’ portion of the net remaining revenue resulting from the 2020-2021 financial performance. This expenditure level was $20.8 million (-17.6%) below the Modified Budget of $118.3 million and $16.3 million (-14.3%) below the prior year level of $113.8 million.

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

The negative variance to the budget of $20.8 million was primarily due to non-personal/equipment expenditure savings ($19.2 million) resulting from proactive action by Airport management to establish expenditure savings targets to partially offset reduced revenues resulting from COVID-19 travel restrictions, and the pandemic's overall effect on air-travel. Additionally, there were savings from a lower than anticipated Airline Reserve Funds Distribution ($3.7 million), unused Operations Contingency funds ($966,000), and personal services vacancy savings ($374,000). The $16.3 million (14.3%) decrease over the prior year was primarily due to reduced Airline Reserve Funds Distribution (-$10.6 million) and non-personal/equipment expenditures (-$7.4 million) partially offset by higher costs for both Airport Police Division and Aircraft Rescue and Fire Fighting services ($936,000) which can be attributed to wage adjustments and overtime hours.

Ending Fund Balance Performance ($ in Thousands)						
2020-2021 Modified Budget	*2020-2021 Estimated Ending Fund Balance*	*2020-2021 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$403,766	$92,034	$112,743	$20,709	$0	$20,709	5.1%

The 2020-2021 combined **Ending Fund Balance** of $112.7 million was $20.7 million above the budgeted estimate used to develop the 2021-2022 Adopted Operating Budget. The variance from the estimate was due to lower than estimated expenses, the result of the Airport's strategic savings target implemented in response to the pandemic's impact combined with higher than estimated revenues from Parking and Roadway, Terminal Rental, and Miscellaneous.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2020-2021 Budget	*2020-2021 Actuals*	*Variance*	*% Variance*
Revenues	$62,587	$33,961	($28,626)	(45.7%)
Expenditures	$112,066	$36,919	($75,147)	(67.1%)

Revenues totaled $34.0 million and were generated from primarily Building and Structure Construction Tax receipts ($24.2 million), grant funding ($5.3 million), other revenue ($2.8 million), and interest earnings ($1.5 million). Other revenue primarily consists of mitigation payments from developers for traffic safety improvements ($2.4 million) and for new construction of a Highway 101 and Blossom Hill Road overcrossing ($360,000). The revenue level was $23.7 million (41.1%) below the prior level of $57.7 million. The 2020-2021 revenues were lower than the budgeted estimate of $62.6 million by approximately $28.6 million, resulting primarily from lower than budgeted grant revenues ($33.3 million), offset by higher Building and Structure Construction Tax receipts ($2.2 million), other revenue ($1.8 million), and interest earnings ($589,000).

At $24.2 million, Building and Structure Construction Tax receipts in 2020-2021 were above the budgeted estimate of $22.0 million, but 27.1% lower than the 2019-2020 collections of $33.3 million. During the development of the 2022-2026 Capital Improvement Program, the Building and Structure Construction Tax revenue estimate was decreased by $3.0 million, from the $25.0 million estimate included in the 2020-2021 Modified Budget, to align with lower than anticipated collections. This lower collection level for Building and Structure Construction Tax revenues is mainly attributable to a large decrease in valuation of permits for industrial building projects. The total valuation of projects submitted in 2020-2021 was $1.9 billion, 23.8% below the $2.5 billion valuation of projects that were received in 2019-2020. Residential valuation of $390.1 million in 2020-2021 was lower than the 2019-2020 level of $426.5 million. A total of 1,975 new residential units received permits in 2020-2021, which was below 2019-2020 actuals of 1,992 units. Commercial valuation of $1,128.0 million ended 2020-2021 below the prior year level of $1,178.5 million. Most significantly, industrial activity of $386.6 million was lower than the 2019-2020 level of $894.7 million, which was a year that saw a large influx of new industrial building starts. The 2021-2022 Adopted Budget estimate of $20.0 million allows for a decrease of 17.5% from the actual 2020-2021 collection level. Examples of major projects for the year include permits for a 306,000 square foot research and development lab at 6320 San Ignacio Avenue, a 1.3 million square foot office building at 333 West San Fernando Street, a 582,000 square foot office building at 1199 Coleman Avenue, a 299-unit apartment complex at 680 North 6th Street, and a 249-unit apartment complex at 717 West Julian Street.

Grant related revenues of $5.6 million, which were not received in 2020-2021 due to project delays, were anticipated and rebudgeted during the development of the 2021-2022 Adopted Budget. An additional rebudget of grant funding in the amount of $176,000 is recommended as part of this report.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

Expenditures totaled $36.9 million and were $75.1 million (67.1%) below the modified budget. A significant portion of the expenditure savings ($61.7 million), excluding reserves, was anticipated and rebudgeted as part of the 2021-2022 budget process. An additional $5.8 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects to continue in 2021-2022. Once rebudgets are included, expenditures in the Building and Structure Construction Tax Fund approach budgeted levels for 2020-2021. The expenditure level was $12.4 million (50.5%) above the prior year level of $24.5 million.

Ending Fund Balance Performance ($ in Thousands)

2020-2021 Modified Budget	*2020-2021 Estimated Ending Fund Balance*	*2020-2021 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$162,926	$87,119	$97,455	$10,336	($5,601)	$4,735	2.9%

The **Ending Fund Balance** of $97.5 million was $10.3 million above the estimate used in the development of the 2021-2022 Adopted Budget. After accounting for net rebudget adjustments of $5.6 million recommended in the Annual Report, the positive variance is reduced to $4.7 million. Significant expenditure rebudgets include Pedestrian Safety Improvements ($1.3 million), Traffic Signal Rehabilitation ($781,000), Transportation Grants Reserve ($500,000), and Vision Zero: Safety Initiatives Reserve ($463,000).

As described in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, a limited number of revisions to existing projects are recommended in this report. After accounting for all recommended adjustments, a net increase of $2.7 million is recommended to be allocated to the 2021-2022 Ending Fund Balance.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2020-2021 Budget	***2020-2021 Actuals***	***Variance***	***% Variance***
Revenues	$65,145	$77,618	$12,473	19.1%
Expenditures	$112,683	$70,191	($42,492)	(37.7%)

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 2020-2021 totaled $77.6 million and were comprised of C&C Tax receipts ($53.1 million), transfers between funds ($18.4 million), interest earnings ($1.8 million), state and federal grants ($3.2 million), and developer contributions and miscellaneous revenue ($1.1 million). The revenue level is $12.5 million above the budgeted estimate of $65.1 million, primarily due to higher than budgeted C&C tax proceeds ($13.1 million).

C&C Tax revenue collections of $53.1 million was received in 2020-2021, which is $13.1 million above the Modified Budget and the estimated collection level of $40.0 million. The actual tax receipts in 2020-2021 – a record high – is 29.9% above the actual tax receipts in 2019-2020 ($40.9 million), primarily due to robust activities in the local real estate market, which is the primary driver of this revenue source. For 2021-2022, $38.0 million is budgeted. Given the volatile nature of the C&C Tax, actual receipts will be closely monitored in the first half of 2021-2022, and adjustments may be made through the Mid-Year Budget Review process, if deemed necessary.

Real estate activity was anticipated to be sluggish in 2020-2021 due to to higher unemployment rates coupled with lower consumer confidence. According to data from the Santa Clara County Association of Realtors, the number of property transfers (sales) experienced year-over-year decreases (from the same time period in the prior year) ranging from -10% to -54% between the beginning of the County's COVID-19 shelter-in-place order through June 2020. However, beginning in September 2020, the local real estate market once again began to experience year-over-year gains. Through June 2021 there were a total of 8,504 property transfers for all residences, which represents growth of approximately 41% from prior year levels. Median single family home prices grew sharply as well. As of June 2021, the median single family home price totaled $1.48 million, which represents a 24.2% increase from the June 2020 price of $1.19 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.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Expenditures in the various C&C Tax Funds totaled $70.2 million in 2020-2021 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 $42.5 million (37.7%) below the budgeted level of $112.7 million, which is primarily the result of unexpended capital project funding. The 2020-2021 expenditure level of $70.2 million was $4.7 million (7.2%) above the prior year level of $65.5 million.

Ending Fund Balance Performance ($ in Thousands)						
2020-2021 Modified Budget	***2020-2021 Estimated Ending Fund Balance***	***2020-2021 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$155,917	$77,562	$97,893	$20,331	($2,983)	$17,348	22.4%

The **Ending Fund Balance** of $97.9 million was $20.3 million above the $77.6 million estimate used to develop the 2021-2022 Adopted Capital Budget. After accounting for net revenue and expenditure rebudget adjustments of $3.0 million recommended in the Annual Report, the variance decreases to $17.3 million.

As described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions*, this report includes recommendations to allocate from a number of C&C Tax Fund Ending Fund Balances to fund various capital projects, including St. James Park Phase I Design ($40,000 – Council District 3 C&C Tax Fund), and Kelley Park Master Plan ($10,000 – Parks City-Wide C&C Tax Fund). Other notable adjustments recommended in this report includes increasing the Infrastructure Backlog Reserve ($2,500,000 – Parks City-Wide C&C Tax Fund) and establishing the Emergency Fire Equipment Reserve ($1,400,000 – Fire C&C Tax Fund). The remaining fund balance is recommended to be allocated to the respective funds' 2021-2022 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.*

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2020-2021 Budget	*2020-2021 Actuals*	*Variance*	*% Variance*
Revenues	$129,473	$101,232	($28,241)	(21.8%)
Expenditures	$200,354	$125,009	($75,345)	(37.6%)

Revenues totaled $101.2 million and were primarily generated from grant funding ($72.2 million), Construction Excise Tax receipts ($20.1 million), traffic impact fees ($6.3 million), interest earnings ($1.9 million), miscellaneous revenue ($614,000), and developer contributions ($149,000). The majority of grant funding consists of allocations for pavement maintenance from the Federal Government, the State of California, and the Valley Transportation Authority ($68.1 million). The revenue level was $28.2 million (21.8%) below the budgeted estimate and $15.0 million (12.9%) below the prior year level of $116.2 million.

The 2020-2021 revenue level was lower than the 2020-2021 Modified Budget estimate of $129.5 million, primarily due to lower receipts from grant funds ($37.8 million). However, this shortfall was partially offset by higher than estimated traffic impact fees ($6.3 million) and Construction Excise Tax receipts ($3.1 million). Grant related revenues of $12.4 million, including $9.0 million of anticipated revenue from the second round of One Bay Area Grant funding for pavement maintenance, which were not received in 2020-2021 due to project delays, were anticipated and rebudgeted as part of the development of the 2021-2022 Adopted Budget. The revenue variance to the prior year mainly resulted from lower collections from grant-related revenues ($10.8 million), miscellaneous revenues and contributions ($2.2 million), transfers ($1.8 million), and interest earnings ($782,000), which were partially offset by higher traffic impact fees ($682,000) and Construction Excise Tax receipts ($32,000).

At $20.1 million, Construction Excise Tax receipts in 2020-2021 were 18.1% above the budgeted estimate of $17.0 million and in line with 2019-2020 collections. During the development of the 2022-2026 Capital Improvement Program, the Construction Excise Tax revenue estimate was decreased by $4.0 million, from the $21.0 million estimate included in the 2020-2021 Modified Budget, to align with lower than anticipated collections due to the COVID-19 pandemic. Residential and Commercial permit valuations in 2020-2021 were slightly lower than 2019-2020. The total valuation of residential and commercial projects submitted in 2020-2021 was $1,518.1 million, 5.4% below the $1,605.0 million valuation of residential and commercial projects submitted in 2019-2020 (the Construction Excise Tax does not apply to industrial projects). Residential valuation of $390.1 million in 2020-2021 was lower than the 2019-2020 level of $426.5 million.

CONSTRUCTION EXCISE TAX FUND

A total of 1,975 new residential units received permits in 2020-2021, which was slightly below 2019-2020 actuals of 1,992 units. Commercial valuation of $1,128.0 million was below the prior year level of $1,178.5 million. Examples of major projects for the year include permits for a 1.3 million square foot office building at 333 West San Fernando Street, a 582,000 square foot office building at 1199 Coleman Avenue, a 299-unit apartment complex at 680 North 6th Street, and a 249-unit apartment complex at 717 West Julian Street.

The 2021-2022 Adopted Budget estimate of $18.0 million allows for a decrease of 10.4% from the actual 2020-2021 collection level.

Expenditures totaled $125.0 million and were $75.3 million (37.6%) below the 2020-2021 Modified Budget. A portion of the expenditure savings ($57.5 million) was anticipated and rebudgeted as part of the 2021-2022 budget process, in addition to the rebudgeting of reserves ($36.5 million). An additional $18.3 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2021-2022. The expenditure level was $22.2 million below the prior year level of $147.2 million, primarily due to the progression of pavement maintenance projects during 2020-2021.

Ending Fund Balance Performance ($ in Thousands)

2020-2021 Modified Budget	*2020-2021 Estimated Ending Fund Balance*	*2020-2021 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$252,614	$97,358	$99,946	$2,588	$7,130	$9,718	3.8%

The **Ending Fund Balance** of $99.9 million was $2.6 million above the estimate used in the development of the 2021-2022 Adopted Budget. After accounting for net revenue and expenditure rebudgets of $7.1 million recommended in the Annual Report, this variance increases to $9.7 million above the estimate. Significant revenue rebudgets include Pavement Maintenance – VTA Measure B 2016 ($19.8 million), Measure B Highway Bridge Program ($3.0 million), TDA – Bicycle and Pedestrian Facilities ($2.6 million), and Walk n' Roll VTA Measure B ($1.2 million). Significant expenditure rebudgets include Route 101/Mabury Road Project Development ($5.6 million), Pavement Maintenance – VTA Measure B VRF ($4.5 million), and Pavement Maintenance – City ($1.2 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 2021-2022 Ending Fund Balance is recommended to be increased by approximately $1.4 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

DEVELOPMENT FEE PROGRAM FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2020-2021 Budget	***2020-2021 Actuals***	***Variance***	***% Variance***
Revenues				
Building:	$65,336	$68,301	$2,965	4.5%
Fire:	$14,602	$15,148	$546	3.7%
Planning:	$10,285	$10,699	$414	4.0%
Public Works:	$18,945	$19,897	$952	5.0%
Expenditures				
Building:	$39,491	$35,765	($3,726)	(9.4%)
Fire:	$10,730	$9,713	($1,017)	(9.5%)
Planning:	$8,308	$7,327	($981)	(11.8%)
Public Works:	$13,953	$13,078	($875)	(6.3%)

The Development Fee Program Funds include the Building Development Fee Program Fund, Fire Development Fee Program Fund, Planning Development Fee Program Fund, and Public Works Development Fee Program Fund. The Development Fee Programs were previously budgeted in the General Fund as full cost recovery programs; however, starting in 2020-2021, these fee programs have been reallocated into individual special funds to improve transparency and financial and budgetary administration.

Revenues generated from the Development Fee Program Funds totaled $114.0 million in 2020-2021. Overall, revenues exceeded budgeted levels in all funds. During the development of the 2020-2021 Adopted Budget, it was anticipated that revenues would experience a 30% drop from 2020-2021 Base revenue projections as a result of the impacts of the COVID-19 pandemic. However, revenues performed better than anticipated. While all Development Fee Program revenues exceeded budgetary estimates, the budget for the Building and Planning programs were revised upward later in the fiscal year subsequent to the adoption of the 2020-2021 budget, making actual revenue performance significantly better than initial expectations.

It is important to note that the relatively high levels of revenue compared to expenditures are due to the transfers from the General Fund to initially establish the individual funds. The difference between revenues and expenditures are held in the fund balance to be spent down as projects proceed through the development process.

Expenditures totaled $65.9 million and were primarily for the Personal Services and Non-Personal/Equipment expenditures of all four funds. This expenditure level was $6.6 million (9.1%) below the modified budget of $72.5 million primarily due to vacancy savings experienced in all four Development Fee Program Funds.

DEVELOPMENT FEE PROGRAM FUNDS

Ending Fund Balance Performance ($ in Thousands)							
Development Fee Program	***2020-2021 Modified Budget***	***2020-2021 Estimated Ending Fund Balance***	***2020-2021 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
Building	$65,336	$27,352	$32,536	$5,184	$0	$5,184	7.9%
Fire	$14,602	$4,080	$5,434	$1,354	$0	$1,354	9.3%
Planning	$10,285	$1,692	$3,372	$1,680	$0	$1,680	16.3%
Public Works	$18,945	$5,427	$6,819	$1,392	$0	$1,392	7.3%

The total **Ending Fund Balance** for all four Development Fee Programs of $48.2 million was $9.6 million above the estimate used in the development of the 2021-2022 Adopted Budget. These funds will be spent down in future years as projects proceed through the development process.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

GENERAL PURPOSE PARKING FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2020-2021 Budget	***2020-2021 Actuals***	***Variance***	***% Variance***
Revenues	$12,323	$12,822	$499	4.0%
Expenditures	$14,855	$13,888	($967)	(6.5%)

Revenues totaled $12.8 million and were generated from a transfer from the General Purpose Parking Capital Fund ($5.7 million), parking garages and lots ($5.5 million), parking meters ($1.6 million), miscellaneous revenue ($48,000), and interest earnings ($40,000). The revenue level was $499,000 (4.0%) above the modified budget and $16.2 million (56%) below the prior year level of $29.0 million.

Revenues ended the year slightly above the budget primarily due to higher than anticipated revenue from parking lots, garages and parking meters. Parking lots and garages revenue exceeded the budget by $544,000 (11.1%) due to an increasing level of activity in the Downtown area. In addition, parking meter revenue exceeded the budget by $225,000 (16.7%) as more parking meter areas became operational after being turned off in response to the economic impacts of the COVID-19 pandemic. Revenues tracked significantly below the prior year primarily due to the continued impact of the COVID-19 pandemic on the revenue from parking garages, lots, and parking meters ($14.6 million received in 2019-2020 compared to $7.0 million received in 2020-2021) and a reimbursement of $14.2 million in 2019-2020 from the Successor Agency to the Redevelopment Agency for prior advances for debt service associated with the 4th and San Fernando Street Garage. A transfer in 2020-2021 of $5.7 million from the General Purpose Parking Capital Fund helped offset the revenue loss and fund parking operations.

Expenditures totaled $13.9 million and were primarily attributed to Department of Transportation (DOT) non-personal/equipment expenditures ($5.0 million), DOT personal services ($2.2 million), overhead expenditures ($2.1 million), a transfer to the General Purpose Parking Capital Fund ($754,000), and transfers to the General Fund ($715,000). The expenditure level was $967,000 (6.5%) below the modified budget and $23.6 million (62.9%) below the prior year level of $37.5 million. A rebudget of $200,000 in non-personal/equipment funding for the purchase of mobile device terminals for Parking Enforcement Services is recommended in this report.

Expenditures ended the year below the budget primarily due to savings in contractual services for parking operations ($476,000), DOT position vacancies ($216,000), costs for the automated downtown public toilets ($157,000), garage security ($50,000), and Public Works position vacancies ($50,000). Expenditures were below the prior year primarily due to a transfer of $21.9 million in 2019-2020 to the General Purpose Parking Capital Fund for the reimbursement from the Successor Agency for prior advances for debt service associated with the 4th and San Fernando Garage ($14.2 million) and to fund capital improvements to City's parking infrastructure ($7.7 million).

GENERAL PURPOSE PARKING FUND

Ending Fund Balance Performance ($ in Thousands)						
2020-2021 Modified Budget	***2020-2021 Estimated Ending Fund Balance***	***2020-2021 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$15,718	$241	$1,629	$1,388	($200)	$1,188	7.6%

The **Ending Fund Balance** of $1.9 million was $1.4 million above the estimate used in the development of the 2021-2022 Adopted Budget. After accounting for rebudget adjustments recommended in the Annual Report, the positive variance drops to $1.2 million. This additional fund balance is recommended to be allocated to the 2021-2022 Ending Fund Balance for future use.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2020-2021 Budget	***2020-2021 Actuals***	***Variance***	***% Variance***
Revenues	$160,473	$160,605	$132	0.1%
Expenditures	$169,304	$165,796	($3,508)	(2.1%)

Revenues totaled $160.6 million and were generated primarily from Recycle Plus collection charges ($150.2 million), AB939 Fees ($4.1 million), and Recycle Plus negotiated hauler payments ($2.7 million). This revenue level was $132,000 (0.1%) above the Modified Budget of $160.5 million and $13.9 million (9.4%) above the prior year level of $146.8 million.

The variance to the budget was mainly due to higher Recycle Plus collection charges ($2.2 million), higher Household Hazardous Waste Revenue from County ($379,000), higher AB939 Fees ($375,000), and higher revenues in Lien-Related Charges ($263,000). The higher than anticipated revenues were primarily offset by revenue that was not received in 2020-2021 due to delays in the sale of the Las Plumas property to the Valley Transportation Authority, which is now scheduled to occur in 2021-2022. The variance to the prior year was due primarily to increased Recycle Plus collection charges ($13.3 million).

Expenditures totaled $165.8 million and were primarily for Single-Family Dwelling (SFD) Recycle Plus contracts ($72.0 million), yard trimmings/street sweeping contract ($25.5 million), Multi-Family Dwelling (MFD) Recycle Plus contracts ($25.3 million), SFD back-end processing ($18.8 million), Environmental Services Department (ESD) personal services costs ($7.6 million), the International Disposal Corporation of California, Inc. (IDC) disposal agreement ($5.4 million), ESD non-personal/equipment costs ($4.2 million), Reimbursement of Citywide Overhead expenses ($2.9 million), costs for the County Revenue Collection Fee ($1.1 million), Finance Department personal services costs ($743,000), the transfer to support City Hall Debt Service ($611,000), and Information Technology Department personal services costs ($532,000). This expenditure level was $3.5 million (2.1%) below the Modified Budget of $169.3 million and $6.1 million (3.8%) above the prior year level of $159.7 million.

The variance to the budget was mainly due to savings in ESD non-personal/equipment expenses ($1.7 million) and personal services ($799,000) costs, Finance Department non-personal/equipment expenses ($245,000), Finance Department personal services ($167,000), County Revenue Collection Fee expenses ($104,000), and Public Works non-personal/equipment expenditures ($102,000). The higher expenditure level compared to the prior year was due primarily to higher costs for SFD Recycle Plus ($3.2 million), MFD Recycle Plus ($1.5 million), ICD disposal agreement ($841,000), overhead expenditures ($681,000), and SFD back-end processing ($415,000), offset primarily by lower ESD non-personal/equipment expenses ($610,000).

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Ending Fund Balance Performance ($ in Thousands)

2020-2021 Modified Budget	*2020-2021 Estimated Ending Fund Balance*	*2020-2021 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments*	*Revised Variance*	*Revised Variance as % of Modified Budget*
$185,266	$24,784	$20,330	($4,454)	$3,817	($637)	(0.3%)

The **Ending Fund Balance** of $20.3 million was $4.5 million below the estimate used in the development of the 2021-2022 Adopted Budget primarily due primarily to the delayed sale of the Las Plumas property ($4.0 million), and higher than estimated expenditures. After accounting for rebudget adjustments recommended in this report, the variance decreases to $637,000 below the estimate. Accordingly, the 2021-2022 Ending Fund Balance in the Integrated Waste Management Fund is recommended to be increased by $3.8 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE CLEAN ENERGY OPERATING FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2020-2021 Budget	***2020-2021 Actuals***	***Variance***	***% Variance***
Revenues	$304,700	$295,681	($9,019)	(3.0%)
Expenditures	$332,533	$314,506	($18,027)	(5.4%)

Revenues totaled $295.7 million and were primarily generated from the sale of electricity ($280.4 million), Commercial Paper proceeds ($15.0 million), interest earnings ($192,000), and miscellaneous revenue ($100,000). This revenue level was $9.0 million (3.0%) below the Modified Budget of $304.7 million, and $41.9 million (12.4%) below prior year actuals.

The variance to the budget was primarily due to lower energy sales ($8.6 million), which were impacted by a relatively large amount of unpaid bills from customers negatively affected by the pandemic. Interest revenue of $192,000 was also below ($558,000) the Modified Budget due to a lower cash balance carried in 2020-2021 and a lower-than-expected interest rate.

The significant drop in revenue when compared to 2019-2020 is largely attributed to the impact of the Power Charge Indifference Adjustment (PCIA) fee that increased by 41% in 2021, and has risen by over 900% between 2013 and 2021. Prior to May 2021, SJCE's rates were set to ensure that the pricing of SJCE's GreenSource product was 0.25% below PG&E generation rates after accounting for the PCIA. With the dramatic rise of the PCIA in 2021, the need for SJCE to lower its rates as an offset created significant financial strain. On May 11, 2021, the City Council approved adjusting SJCE's 2021 service offerings and rates to help alleviate financial impacts from the increasing PCIA, and included increasing GreenSource to 8% above PG&E generation rates, inclusive of the PCIA. On June 22, 2021, the City Council approved the use of $15.0 million in Commercial Paper proceeds to support SJCE's cash flow needs at the end of 2020-2021 and authorized a total of $95.0 million through 2021-2022.

Expenditures including encumbrances totaled $314.5 million and consisted primarily of Cost of Energy expenditures ($284.9 million), Commercial Paper repayment ($10.0 million), Community Energy Department non-personal/equipment ($8.4 million) and personal services ($5.3 million) expenditures, City overhead reimbursement ($2.1 million), and PG&E security fees ($1.5 million). This expenditure level was $18.0 million (5.4%) below the Modified Budget of $332.5 million, which reflected savings in the Cost of Energy ($10.1 million), Community Energy Department non-personal/equipment ($1.1 million) and personal services ($443,000) expenditures, and debt service interest payments ($460,000). This expenditure level was 3% above the prior year level of $305.5 million

SAN JOSE CLEAN ENERGY OPERATING FUND

Ending Fund Balance Performance ($ in Thousands)						
2020-2021 Modified Budget	*2020-2021 Estimated Ending Fund Balance*	*2020-2021 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$358,440	$43,752	$28,124	($15,628)	$0	($15,628)	(4.4%)

The **Ending Fund Balance** of $28.1 million was $15.6 million below the estimate used in the development of the 2021-2022 Adopted Budget. The variance can be attributed to additional Commercial Paper proceeds ($15.0 million) offset by lower than estimated energy sales ($14.6 million), a correction to the fund's beginning fund balance ($6.8 million), lower cost of energy ($3.2 million), and a higher encumbrance balance ($7.7 million).

As described in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions*, budget actions are recommended to recognize Commercial Paper proceeds ($53.0 million), increase the Cost of Energy appropriation ($22.2 million), and recognize additional energy sales revenue ($10.4 million) in 2021-2022 that align with the base financial model used to develop Commercial Paper program needs as approved by the City Council on June 22, 2021. After accounting for all recommended adjustments, approximately $24.9 million is recommended to be allocated to the 2021-2022 Ending Fund Balance.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2020-2021 Budget	*2020-2021 Actuals*	*Variance*	*% Variance*
Revenues	$336,451	$99,283	($237,168)	(70.5%)
Expenditures	$571,496	$403,626	($167,870)	(29.4%)

Revenues totaled $99.3 million and were generated primarily from Wastewater Revenue Notes ($43.4 million), a transfer from the Sewer Service and Use Charge (SSUC) Fund ($38.3 million), Revenue from Local Agencies for projects and debt service payments ($11.5 million), interest income ($3.5 million), and a transfer from the Clean Water Financing Authority (CWFA) 2009A Bond Fund ($2.3 million). This revenue level was $237.2 million (70.5%) below the Modified Budget and $62.8 million (38.8%) below the prior year level of $162.1 million.

The variance to the budget was due primarily to postponing the issuance of wastewater revenue notes ($188.6 million) to align with project spending, lower contributions from Santa Clara and the tributary agencies for projects ($45.9 million) due to the impacts of rescheduling the Digested Sludge Dewatering Facility project from 2020-2021 into 2021-2022 (Santa Clara and the tributary agencies are billed on a quarterly basis according to the most recent expenditure data available throughout the fiscal year), and lower interest income ($4.9 million), offset by a transfer from the CWFA 2009A Bond Fund ($2.3 million) due to the completion of obligations and debt service related to bonds issued in 2009 to support South Bay Water Recycling projects. The decrease from the prior year was due primarily to decreased contributions from Santa Clara and the tributary agencies for projects and debt service payments ($89.7 million) and decreased interest income ($1.8 million), offset partially by higher revenue from the issuance of wastewater revenue notes ($25.6 million) for capital projects, an increased transfer from the Sewer Service and Use Charge Fund ($3.3 million) for capital projects and debt service, and an unbudgeted transfer from the CWFA 2009A Bond Fund ($2.3 million).

Expenditures totaled $403.6 million and were primarily attributed to capital improvement projects and associated support allocations ($396.1 million) and debt service payments ($7.5 million), which consisted 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 ($126.0 million), Filter Rehabilitation ($47.6 million), Digester and Thickener Facilities Upgrade ($45.3 million), Nitrification Clarifier Rehabilitation ($34.5 million), Aeration Tanks and Blower Rehabilitation ($23.5 million), Digested Sludge Dewatering Facility ($18.9 million), Advanced Facility Control and Meter Replacement ($16.0 million), Headworks Improvements ($14.7 million), Program Management ($14.6 million), Energy Generation Improvements ($13.3 million), and Yard Piping and Road Improvements ($12.2 million). This expenditure level was $167.9 million (29.4%) below the Modified Budget and $7.7 million (1.9%) below the prior year level of $411.3 million.

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

After accounting for rebudgets included in the 2021-2022 Adopted Budget, the variance between the Modified Budget and actual expenditures falls to $128.3 million, with a majority of the variance attributed to the Digested Sludge Dewatering Facility ($115.5 million) and the remaining $12.8 million being distributed throughout the remaining projects and allocations in the fund. Expenditures were slightly below the prior year, with the most significant positive year-over-year variances being Filter Rehabilitation ($45.8 million), Digested Sludge Dewatering Facility ($6.4 million), Program Management ($4.4 million), and Yard Piping and Road Improvements ($3.0 million). The most significant negative year-over-year variances were Energy Generation Improvements ($35.0 million), Aeration Tanks and Blower Rehabilitation ($14.8 million), Digester and Thickener Facilities Upgrade ($8.2 million), and New Headworks ($5.5 million).

Ending Fund Balance Performance ($ in Thousands)						
2020-2021 Modified Budget	***2020-2021 Estimated Ending Fund Balance***	***2020-2021 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$577,888	$48,831	($60,479)	($109,310)	$84,382	($24,928)	(4.3%)

The **Ending Fund Balance** of negative $60.5 million was $109.3 million below the estimate used in the development of the 2021-2022 Adopted Budget. The negative Ending Fund Balance is attributable to $241.3 million in 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. The Ending Fund Balance has a negative balance but this does not represent a negative cash balance or a cash flow problem within the fund. Budget adjustments to revise the financing proceeds from wastewater notes are recommended in this report to resolve the budgetary gap and ensure sufficient capacity to support expenditures for Fiscal Year 2021-2022. The wastewater revenue notes will only be drawn as necessary to ensure appropriate funds are available for the projects.

After accounting for adjustments recommended in the Annual Report, the 2021-2022 Ending Fund Balance in the San José-Santa Clara Treatment Plant Capital Fund is recommended to be decreased by $28,000.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2020-2021 Budget	*2020-2021 Actuals*	*Variance*	*% Variance*
Revenues	$271,562	$275,180	$3,618	1.3%
Expenditures	$285,338	$269,037	($16,301)	(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 $275.2 million and were generated primarily from sewer service and use charges for residential ($142.0 million), commercial ($25.7 million), and industrial ($5.4 million) users; a transfer from the SSUC Fund to the Plant Operating Fund ($62.3 million); contributions from tributary agencies ($20.2 million) and the City of Santa Clara ($13.3 million); and Connection Fees ($1.6 million). This revenue level was $3.6 million (1.3%) above the Modified Budget and $5.3 million (1.9%) above the prior year level of $269.9 million.

The variance to the budget of $3.6 million (1.3%) was mainly due to higher SSUC charges ($2.4 million) and contributions from tributary agencies ($2.3 million), partially offset by lower interest revenues ($595,000) and connection fees ($457,000). Revenues came in $5.3 million (1.9%) higher than the prior year due primarily due to higher SSUC charges ($8.9 million), offset by lower Connection Fees ($1.8 million) and a lower transfer from the SSUC Fund to the Plant Operating Fund ($1.7 million).

Expenditures totaled $269.0 million and consisted primarily of transfers to the Plant Operating Fund ($62.3 million), the Plant Capital Fund ($38.3 million), and the Sewer Service and Use Charge Capital Fund ($32.0 million); Environmental Services Department (ESD) personal services ($54.1 million) and non-personal/equipment ($34.8 million) costs; overhead reimbursements ($17.6 million); and Department of Transportation (DOT) personal services ($14.7 million) and non-personal/equipment ($7.1 million) costs. This expenditure level was $16.3 million (5.7%) below the Modified Budget, and $10.7 million (4.1%) above the prior year level of $258.3 million.

Expenditures ended the year $16.3 million (5.7%) below the budget primarily due to ESD personal services ($4.9 million) and non-personal/equipment ($4.6 million) expenditure savings, savings in the Legacy Lagoons Remediation budget due to rescheduling the project to 2022-2023 ($2.5 million), savings from the major litigation costs budget ($1.5 million) which saw minimal activity in 2020-2021, DOT non-personal/equipment ($575,000) and personal services ($376,000) expenditure savings, and savings in the Workers' Compensation Claims allocation ($385,000). Expenditures ended the year $10.7 million (4.1%) above previous year expenditures due primarily to increased ESD non-personal/equipment expenditures ($6.4 million), an increased transfer to the Plant Capital Fund ($3.3 million), as well as increased personal services expenditures in ESD ($1.2 million) and DOT ($1.2 million).

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

These increases were offset primarily by a decreased transfer from the Sewer Service and Use Charge Fund to the Plant Operating Fund ($1.7 million), and decreased expenditures for major litigation activities ($401,000), and DOT non-personal/equipment expenditures ($331,000).

Ending Fund Balance Performance ($ in Thousands)						
2020-2021 Modified Budget	***2020-2021 Estimated Ending Fund Balance***	***2020-2021 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$412,555	$149,853	$146,789	($3,064)	($1,516)	($4,579)	(1.1%)

The **Ending Fund Balance** of $146.8 million was $3.1 million below the estimate used in the development of the 2021-2022 Adopted Budget and primarily due to higher than estimated expenditures and encumbrances incurred in the ESD non-personal/equipment allocation ($5.0 million), offset primarily by lower than estimated expenditures for Major Litigation Costs ($1.4 million) and Workers' Compensation Claims ($458,000).

After accounting for rebudget adjustments recommended in the Annual Report, the Ending Fund Balance will be $145.3 million and the variance increases to $4.6 million. The increase to the Ending Fund Balance is primarily due to downward adjustments to previously approved rebudget actions since actual year-end expenditures were higher than anticipated for the following projects: Legacy Lagoon Remediation ($2.5 million) in the Plant Operating Fund and Computerized Maintenance Management System Upgrade ($70,000) in the SSUC Fund. These downward adjustments are offset by other rebudgets (upward adjustments) that are recommended in this report.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2020-2021 Budget	*2020-2021 Actuals*	*Variance*	*% Variance*
Revenues	$37,020	$35,947	($1,073)	(2.9%)
Expenditures	$94,718	$58,644	($36,074)	(38.1%)

The Sanitary Sewer Capital Funds include the Sewer Service and Use Charge Capital Improvement Fund (SSUCC Fund) and the Sanitary Sewer Connection Fee Fund (Connection Fee Fund).

Revenues totaled $35.9 million and were generated from a transfer from the Sewer Service and Use Charge (SSUC) Fund ($32.0 million), joint participation payments ($1.9 million), interest revenue ($1.2 million), connection fees ($515,000), and funding received from the Valley Transportation Authority ($277,000). This revenue level was $1.1 million (2.9%) below the Modified Budget and $4.1 million (10.2%) below the prior year level of $40.0 million.

The variance to the budget was due to lower joint participation payments ($1.0 million) and interest revenue ($342,000), offset by revenue received from the VTA for sanitary sewer relocation on Capitol Expressway ($277,000) that was unanticipated and slightly higher connection fee revenues ($15,000). The negative variance to the prior year was due primarily to lower joint participation payments ($3.0 million), interest income ($904,000), and connection fees ($442,000).

Expenditures totaled $58.6 million due to the progress on a variety of capital projects, the largest of which were: 60" Brick Interceptor, Phase VIA and VIB ($23.6 million), Condition Assessment Sewer Repairs ($7.3 million), Immediate Replacement & Diversion Projects ($5.1 million), Urgent Rehabilitation and Repair Projects ($4.7 million), Cast Iron Pipe – Remove & Replace ($4.2 million), Infrastructure – Sanitary Sewer Condition Assessment ($3.5 million), Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements ($2.7 million), Master Planning Updates ($1.1 million), Sierra Road Sanitary Sewer Improvement ($1.1 million), and Miscellaneous Capacity Improvements ($880,000). This expenditure level was $36.1 million (38.1%) below the Modified Budget and $21.8 million (27.1%) below the prior year level of $80.5 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL FUNDS

Expenditures were below the budget by $36.1 million (38.1%) as a result of savings across a number of projects: Urgent Rehabilitation and Repair Projects ($9.0 million), Cast Iron Pipe – Remove and Replace ($5.8 million), Condition Assessment Sewer Repairs ($4.9 million), Immediate Replacement and Diversion Projects ($4.2 million), Infrastructure – Sanitary Sewer Condition Assessment ($2.2 million), Rehabilitation of Sanitary Sewer Pump Stations ($1.7 million), 60" Brick Interceptor, Phase VIA and VIB ($1.3 million), Sierra Road Sanitary Sewer Improvement ($1.2 million), Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements ($1.1 million), Master Planning Updates ($670,000), Preliminary Engineering – Sanitary Sewer ($631,000), Public Art ($580,000), and the Reinforced Concrete Pipe Rehabilitation Program ($500,000). Several of these projects are recommended to be rebudgeted to 2021-2022 in this report as a result of project delays or were rebudgeted in the 2021-2022 Adopted Budget. The lower expenditure level compared to the prior year is largely attributed to lower costs for 60" Brick Interceptor, Phase VIA and VIB ($12.3 million), Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements ($5.5 million), Urgent Rehabilitation and Repair Projects ($4.3 million), and Immediate Replacement and Diversion Projects ($2.9 million), partially offset by increased costs for Infrastructure – Sanitary Sewer Condition Assessment ($1.8 million) and Sierra Road Sanitary Sewer Improvement ($1.1 million).

Ending Fund Balance Performance ($ in Thousands)						
2020-2021 Modified Budget	*2020-2021 Estimated Ending Fund Balance*	*2020-2021 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$115,522	$26,849	$55,114	$28,265	$0	$28,265	24.5%

The **Ending Fund Balance** of $55.1 million was $28.3 million above the estimate used in the development of the 2021-2022 Adopted Budget. The actual ending fund balance was above the estimate largely due to lower than anticipated expenditures across several projects, including Urgent Rehabilitation and Repair Projects ($9.0 million), Cast Iron Pipe – Remove and Replace ($5.8 million), Condition Assessment Sewer Repairs ($4.9 million), Immediate Replacement and Diversion Projects ($4.2 million), Infrastructure – Sanitary Sewer Condition Assessment ($2.2 million), Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements ($1.0 million), Master Planning Updates ($670,000), Preliminary Engineering – Sanitary Sewer ($631,000), and the Reinforced Concrete Pipe Rehabilitation Program ($500,000).

After accounting for all recommended adjustments in the Annual Report, the 2021-2022 Ending Fund Balance is recommended to be increased by approximately $27.7 million for the SSUCC Fund and approximately $557,000 for the Connection Fee Fund.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

TRANSIENT OCCUPANCY TAX FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2020-2021 Budget	***2020-2021 Actuals***	***Variance***	***% Variance***
Revenues	$8,474	$8,092	($382)	(4.5%)
Expenditures	$13,293	$11,291	($2,002)	(15.1%)

Revenues generated from Transient Occupancy Tax (TOT) receipts, including related penalties, totaled $8.1 million in 2020-2021. Including revenues from interest earnings ($15,000) and special events permits ($7,000), the 2020-2021 revenue level of $8.1 million was approximately $382,000 (4.5%) below the modified budget of $8.5 million, and $13.2 million (62.0%) below the prior year level of $21.3 million. This successive annual decline exemplifies the continued impacts of the COVID-19 pandemic on the hospitality industry. The public health threat posed by COVID-19 abruptly disrupted business and leisure activity in the latter half of 2019-2020, resulting in plummeting demand for hotel rooms and revenue potential, during which occupancy reached an historic low of 15.13% in April 2020. While still suppressed relative to pre-COVID-19 levels, demand for hotel rooms stabilized from July 2020 to March 2021 and performance steadily improved from April 2021 through June 2021, coinciding with vaccination levels and the relaxation of public health restrictions. This gradual, incremental rebound was expected; however, the consistency and degree of this recent upward trajectory remain uncertain, especially as new variants of the virus emerge and continue to threaten public health.

Overall, the average room rate across the City's reporting hotels decreased by $78.81 (from $181.72 to $102.91), with average occupancy decreasing 18.4% (from 57.56% to 39.15%). Occupancy levels ranged between 30.2% and 42.5% from July 2020 to March 2021, with room rates ranging between $95.29 and $105.11. However, room demand and revenues began to exhibit incremental gains over the final quarter of 2020-2021, closing at an occupancy rate of 52.31% and room rate of $112.37 for June 2021. This incremental rebound is projected to continue into 2021-2022 under the assumption that business and leisure activities will steadily resume as public health restrictions are lifted or modified. Accordingly, the 2021-2022 Adopted Budget estimate of $15.0 million assumed an 80.7% increase in TOT collections relative to 2020-2021 estimated receipts of $8.3 million, based on modeling of the continued impacts of COVID-19 and segmentation of the San Jose market. Based on actual 2020-2021 collections, revenues now need to increase by 85.8% in 2021-2022 to meet budgeted levels.

Expenditures totaled $11.3 million and were primarily for the transfer to the Convention and Cultural Affairs Fund ($4.6 million), the San José Convention and Visitors Bureau ($2.5 million), Cultural Grants ($2.4 million), and Cultural Grants Administration ($1.8 million). This expenditure level was $2.0 million (15.1%) below the modified budget of $13.3 million, and $15.3 million (or 57.6%) below the prior year level of $26.6 million. A total of $1.8 million from 2020-2021 savings in the Cultural Grants and Cultural Grants Administration appropriations is recommended to be set aside in the Cultural Grants Reserve for future distribution as projections of TOT revenue performance for 2021-2022 are revisited during development of the 2022-2023 Preliminary Forecast in Fall 2021.

TRANSIENT OCCUPANCY TAX FUND

Because TOT receipts fell short of estimated levels for 2020-2021, reconciling reductions in 2021-2022 totaling approximately $234,000 are recommended to the transfer to the Convention and Cultural Affairs Fund ($177,000), San José Convention and Visitors Bureau ($59,000), and Cultural Grants ($59,000) appropriations.

Ending Fund Balance Performance ($ in Thousands)						
2020-2021 Modified Budget	*2020-2021 Estimated Ending Fund Balance*	*2020-2021 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$13,742	$393	$2,069	$1,676	$0	$1,676	12.2%

The **Ending Fund Balance** of $2.1 million was $1.7 million above the estimate used in the development of the 2021-2022 Adopted Budget, attributable to savings from the Cultural Grants and Cultural Grants Administration appropriations ($1.9 million) that were partially offset by lower than expected TOT revenue ($0.2 million). Net reconciling adjustments of $1.7 million recommended in the Annual Report, inclusive of reductions to the transfer to the Convention and Cultural Affairs Fund and San José Convention and Visitors Bureau, result in a net-zero impact to the Ending Fund Balance for 2021-2022, fully allocating net savings for the establishment of the Cultural Grants Reserve.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2020-2021 Budget	*2020-2021 Actuals*	*Variance*	*% Variance*
Revenues	$7,620	$7,721	$101	1.3%
Expenditures	$17,383	$8,579	($8,804)	(50.6%)

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

Revenues totaled $7.7 million and were generated from a transfer from the Water Utility Fund ($7.3 million), interest income ($339,000), and fees paid by developers ($82,000). The fees consist of Service Connection Fees ($38,000), Major Facilities Fees ($28,000), Meter Installation Fees ($8,000), and Advanced System Design Fees ($7,000). This revenue level was $101,000 (1.3%) above the Modified Budget primarily due to interest income ($94,000) and Major Facilities Fees ($28,000), which are not assumed due to the unpredictable nature of this revenue stream, offset by lower revenue from other developer fees ($21,000). Revenues were $2.0 million (34.0%) above the prior year level of $5.8 million, due primarily to an increased transfer from the Water Utility Fund for capital projects ($2.5 million), offset by decreased Major Facility Fee revenue ($268,000), decreased developer fee revenue ($184,000) and decreased interest revenue ($87,000).

Expenditures totaled $8.6 million for several capital projects, the largest of which were the Fowler Pump Station Replacement ($3.6 million), the Water Resources Administration & Operations Facility ($1.7 million), Infrastructure Improvements ($572,000), and Annual Water Main Replacement ($555,000). This expenditure level was $8.8 million (50.6%) below the Modified Budget and $340,000 (4.1%) above the prior year level of $8.2 million.

Expenditures were below the budget by $8.8 million (50.6%) as a result of savings and unexpended funds across a number of projects, which included: Annual Water Main Replacement ($2.8 million), North San José Well #5 Development and Construction ($1.9 million), North San José Reliability Well #6 Construction ($1.1 million), and the Water Resources Administration & Operations Facility ($773,000). Several of these projects have been rebudgeted in the 2021-2022 Adopted Budget or are recommended to be rebudgeted in this report because of project delays. Expenditures were above the prior year primarily due to the start of the Water Resources Administration & Operations Facility project ($1.7 million), as well as higher expenses for Fowler Pump Station Replacement ($297,000) and Safety and Security Improvements ($192,000), partially offset by decreased spending for Annual Water Main Replacement ($930,000).

WATER UTILITY CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2020-2021 Modified Budget	*2020-2021 Estimated Ending Fund Balance*	*2020-2021 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$25,772	$18,443	$17,752	($691)	$1,286	$595	2.3%

The **Ending Fund Balance** of $17.8 million was $691,000 below the estimate used in the development of the 2021-2022 Adopted Budget. After accounting for rebudgets of $1.3 million recommended in the Annual Report, this variance increases to $595,000 above the estimate. A downward adjustment of $3.1 million for the North San José Well Development Construction project is recommended in this report to correct an error during the development of the 2022-2026 Adopted Capital Improvement Plan.

After accounting for all recommended adjustments in the Annual Report, the 2021-2022 Ending Fund Balance is recommended to be increased by approximately $16,000 for the Major Facilities Fund and approximately $579,000 for the Water Utility Capital Fund.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2020-2021 Budget	*2020-2021 Actuals*	*Variance*	*% Variance*
Revenues	$52,781	$53,573	$792	1.5%
Expenditures	$57,630	$57,950	$320	0.6%

Revenues totaled $53.6 million and were generated from potable ($46.2 million) and recycled water ($6.3 million) sales, late fees ($892,000), interest earnings ($124,000), and miscellaneous revenues ($61,000). This revenue level was $792,000 (1.5%) above the Modified Budget and $1.8 million (3.5%) above the prior year level of $51.8 million.

Revenues ended the year above the budget primarily due to higher than anticipated late fee revenues ($592,000), potable water sales ($435,000), and recycled water sales ($114,000), offset by lower than anticipated interest revenue ($331,000) and miscellaneous revenues ($39,000). The increase over the prior year was due primarily to higher than anticipated potable water sales ($924,000) and recycled water sales ($708,000) and late fees ($556,000), offset by lower miscellaneous revenues ($284,000) and interest revenue ($102,000).

Expenditures totaled $58.0 million and were primarily for Environmental Services Department (ESD) non-personal/equipment costs of $39.8 million ($28.2 million was attributed to the purchase of wholesale potable water and $5.4 million to wholesale recycled water), ESD personal services costs ($7.4 million), a transfer to the Water Utility Capital Fund ($7.3 million), and the reimbursement of overhead costs ($1.8 million). This expenditure level was $320,000 (0.6%) above the Modified Budget due to unexpected and required water purchase obligations in the fourth quarter of 2020-2021 resulting in a negative balance of $942,000 in the ESD non-personal/equipment budget. This overage was corrected with a ratification by City Council on September 28, 2021. The expenditure level was $5.1 million (9.6%) above the prior year level of $52.9 million.

The variance to the budget was mainly due to higher ESD non-personal/equipment expenditures ($942,000), offset by savings in Customer Information System Transition costs ($142,000), Information Technology Department non-personal/equipment expenditures ($128,000), City Attorney's Office personal services costs ($127,000), and ESD personal services expenditures ($80,000). Expenditures were above the prior year due primarily to a higher transfer to the Water Utility Capital Fund ($2.5 million), higher ESD non-personal/equipment ($2.0 million) and personal services ($535,000) expenditures.

WATER UTILITY OPERATING FUND

Ending Fund Balance Performance ($ in Thousands)						
2020-2021 Modified Budget	***2020-2021 Estimated Ending Fund Balance***	***2020-2021 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$70,469	$13,665	$13,424	($241)	$0	($241)	(0.3%)

The **Ending Fund Balance** of $13.4 million was $241,000 below the estimate used in the development of the 2021-2022 Adopted Budget. The Ending Fund Balance was lower than the estimate primarily due to higher than estimated ESD non-personal/equipment costs ($1.6 million), and lower than estimated interest revenues ($310,000), offset primarily by higher water sales revenues ($586,000) and late fee revenues ($592,000). Accordingly, the 2021-2022 Ending Fund Balance in the Water Utility Fund is recommended to be decreased by $241,000.