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

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues – Airport Revenue Fund	202,383,952	95,732,259	47.3%
Expenditures – Airport Maintenance and Operation Fund	124,248,703	47,894,085	38.5%
Ending Fund Balance – Airport Revenue Fund	125,352,271	N/A	N/A
Ending Fund Balance – Airport Maintenance and Operation Fund	24,957,995	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

<u>Revenues</u> – 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 $95.7 million is tracking at 47.3% of the estimated budget and is in line with the benchmark through December. The 2021-2022 budget was built assuming passenger levels of approximately 7.5 million, or an approximate 75% increase from the 2020-2021 level of 4.2 million passengers. Through December 2021, passenger levels of 4.8 million are up 192.1% from the same period last fiscal year (1.6 million). Passenger airline operations (takeoffs and landings) are 61.2% higher than last year. Landing Fees, Terminal Rentals, and Airfield revenues which are associated with the number of flights rather than the number of passengers, are tracking slightly below budgeted levels. This can be attributed to lower than anticipated Airline landings, use of the common gates and ticket counters, and other Airfield revenue. Conversely, Parking and Roadway, Terminal Concessions, and General and Non-Aviation revenues are tracking above budgeted levels. Parking and Roadway revenues have been fueled by higher than anticipated public parking, Transportation Network Companies or app-based transportation options, and rental car concession revenues. Grant funding of $6.6 million from the American Rescue Plan Act (ARPA) was applied to Terminal Concessions to offset reduced revenue from concessionaires and consequently track above budgeted levels. Lastly, 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 of $202.4 million includes $59.6 million in federal funding from Coronavirus Aid, Relief, and Economic Security Act (CARES), Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA), and ARPA to partially offset the reduced revenue resulting from reduced passenger levels.

Federal relief funding is received based on expenditure reimbursement requests and through December, $20.9 million has been received. Use of federal grant funding in 2021-2022 is determined based on the need to offset reduced revenues. It is expected that $32.2 million of the CARES, CRRSA and ARPA funding will be received in 2021-2022. The timing and utilization of the remaining $27.4 million ARPA funds will be determined as needed by revenue performance.

Expenditures – Operating expenditures, appropriated in the Airport Maintenance and Operation Fund, include Airport Department Personal Services and Non-Personal/Equipment, Police and Aircraft Rescue and Fire Fighting Services, interdepartmental direct support, and overhead reimbursements. Overall expenditures through December of $47.9 million are tracking at 38.5% of budget. Through December, Airport's personal services and non-personal/equipment expenditures of $32.6 million are tracking at 35.3% of the combined budgeted levels.

Personal services expenditures of $17.6 million are tracking below benchmark levels of 50.0% at 48.4% of budget. The savings are due to a 9.3% vacancy rate (20 vacancies) as of December 2021. Overtime expenditures of $210,000, or 53.2% 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 26.9% of budget; with encumbrances, non-personal/equipment expenditures of $34.6 million, or 61.7% 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 2021, interdepartmental expenditures (charges for staff and services located in other City departments including the Police and Fire Departments) total $9.6 million, which represents approximately 49.2% of the interdepartmental budget. Expenditures are on track to end the year within budgeted levels.

Ending Fund Balance – A recommendation to decrease the Airline Agreement Reserve of $433,836 is included as a net result of actions detailed in this report. After accounting for these actions, the revised Ending Fund Balance (Airline Agreement Reserve) will be $124.9 million. Further details on the adjustments can be found in Section III of this report, *Recommend Budget Adjustments and Clean-up Actions.*

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

AMERICAN RESCUE PLAN FUND

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues	$152,583,154	$267,225	0.17%
Expenditures	$152,583,153	$65,495,149	42.9%
Unrestricted Ending Fund Balance	$133,250	N/A	N/A

FUND STATUS

Revenues – American Rescue Plan Fund revenues through December totaled $267,225, derived exclusively from allocated interest earnings to date, as revenues from federal assistance will be subsequently recognized as earned (expended) based on current accounting practices. A total of $152.6 million (71.9%) of the $212.3 million allocated to the City under the American Rescue Plan Act has been budgeted for 2021-2022, consistent with the Community and Economic Recovery spending plan modifications approved by City Council on November 30, 2021, related to the COVID-19 Pandemic Response and Community and Economic Recovery Budget Adjustments item. However, the revenue level ultimately recorded for 2021-2022 is expected to only offset actual expenditures, with any revenues associated with activities continuing into 2022-2023 to be rebudgeted.

Expenditures – A total of $152.6 million has been allocated from the American Rescue Plan Fund in 2021-2022 to resolve anticipated budgetary shortfalls based on revenue loss due to the COVID-19 pandemic ($55.0 million), and to fund urgent programs as outlined in the Community and Economic Recovery spending plan ($97.6 million), spread across a range of workstreams aligned to the City Council-approved City Roadmap. Transfers to the General Fund ($45.0 million) and the Convention and Cultural Affairs Fund ($2.5 million) for COVID-19 revenue loss account for $47.5 million (72.5%) of the total $65.5 million expended year-to-date, with $7.4 million remaining to be transferred consistent with the adjustments approved at the City Council meeting on November 30, 2021. Community and Economic Recovery program expenditures through December totaled $18.0 million (18.4% of budget), with an additional $11.9 million encumbered for near-term obligations, primarily for Resident Relief and Workforce Development, Food and Necessities Distribution, and Housing Stabilization initiatives. The pace of spending for Community and Economic Recovery program is anticipated to increase significantly over the latter half of 2021-2022, particularly across newly funded workstreams for which a ramp up period is expected.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

AMERICAN RESCUE PLAN FUND

FUND STATUS

Actions are recommended in this report to increase the transfer to the General Fund for revenue losses due to the COVID-19 pandemic by $1.4 million, offset by the corresponding recognition of American Rescue Plan Act funds allocated to the City. This funding will support City operations in 2021-2022, specifically the acquisition and implementation of a labor compliance system by the Office of Equality Assurance, as directed by the City Council with their approval of various actions related to the COVID-19 Pandemic Response and Community and Economic Recovery Budget Adjustments on November 30, 2021.

Additional actions reallocate savings from the Digital Equity – Device Access appropriation of $1.0 million to the Digital Equity – Community WiFi appropriation due to the receipt of other grant funding and lower monthly service costs for student hotspots in the Digital Equity – Device Access project. These reallocated funds will address a funding gap resulting from labor and equipment cost increases for three remaining Community WiFi projects (Independence, Oak Grove, and Andrew P. Hill).These adjustments are further discussed in Section III, *Recommended Budget Adjustments and Clean-Up Actions* of this report.

It is important to note that actions are also included in Section III related to the closeout of the Coronavirus Relief Fund, the resources from which must be expended by December 31, 2021. One of the actions includes the increase of the Food and Necessities Distribution – Food Services appropriation by $725,000 to reclassify eligible expenses incurred in the American Rescue Plan Fund prior to December 31, 2021 to the Coronavirus Relief Fund. This action enables the continuation of services by Off the Grid through June 30, 2021 in the American Rescue Plan Fund, as directed by City Council on December 7, 2021, for the provision of prepared meals and grocery boxes to San José residents who have been affected by the COVID-19 pandemic.

Ending Fund Balance – No adjustments are recommended to the Ending Fund Balance in the American Rescue Plan Fund as part of this report.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues	74,297,295	8,384,747	11.3%
Expenditures	112,597,114	11,125,790	9.9%
Unrestricted Ending Fund Balance	17,061,440	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 below anticipated levels. Through the first half of 2021-2022, Building and Structure Construction Tax receipts totaled $6.9 million through December, 34.3% of the 2021-2022 Adopted Budget estimate of $20.0 million, due to lower than anticipated development permit activity in all land use categories (residential, commercial, and industrial). This collection level is 59.5% below prior year collections of $16.9 million for the same period. Based on collections through December and a look at projects in the pipeline for the remainder of the fiscal year, tax receipts are expected to end the year below the budgeted estimate of $20.0 million by approximately $1.0 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. These variances are largely due to timing differences for grant-supported projects, many of which are funded on a reimbursement basis. 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.

Expenditures – Overall expenditures of $11.1 million are tracking at 9.9% of the Modified Budget. In addition, $6.0 million has been encumbered to date, bringing total commitments ($17.1 million) through December to 15.2% of the Modified Budget, excluding reserved funds. Though expenditures are tracking below expected levels through December, a significant number of contractual obligations are anticipated later in the fiscal year. Any remaining project balances at year-end are anticipated to be rebudgeted and included in the 2022-2023 Adopted Capital Budget for project completion. This report also includes a limited number of expenditure adjustments, the most significant of which is an additional $695,000 for environmental studies for the Route 101/Mabury Road Project. Further detail regarding these recommendations 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

FUND STATUS

Ending Fund Balance – A net decrease of $898,000 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 decrease to $16.2 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

CONSTRUCTION AND CONVEYANCE TAX FUNDS

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues	72,809,026	35,825,384	49.2%
Expenditures	131,106,184	27,655,242	21.1%
Unrestricted Ending Fund Balance	50,485,330	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 Tax 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, all revenue in the C&C Tax Funds totaled $35.8 million, which is 49.2% of the 2021-2022 Modified Budget of $72.8 million.

C&C Tax receipts are the largest source of revenue for the C&C Tax Funds. Through December, C&C Tax collections totaled $29.7 million, which represents approximately 78% of the 2021-2022 Adopted Budget estimate of $38.0 million. The 2021-2022 Adopted Capital Budget was built on the assumption that C&C Tax receipts would total $40.0 million in 2020-2021 and drop to $38.0 million in 2021-2022. This drop was due to uncertainty regarding the pandemic's long-term effect on the local real estate market, which is the primary driver of this revenue source. However, 2020-2021 C&C Tax receipts ended the year at $53.1 million, therefore, in 2021-2022 receipts can drop by 28.5% and meet the budgeted estimate. Due to the extremely strong year-to-date collections through the first half of the fiscal year, collections in 2021-2022 are anticipated to exceed the budgeted estimate by $22.0 million and reach $60.0 million. Therefore, a recommendation is included in this report to increase the C&C Tax estimate by $22 million, from $38.0 million to $60.0 million. The $22.0 million increase to the C&C Tax estimate would be distributed as follows: Parks C&C Tax allocation ($14.1 million), Library C&C Tax allocation ($3.1 million), Service Yards Tax allocation ($1.9 million), Fire C&C Tax allocation ($1.8 million), Communications C&C Tax allocation ($748,000), and Park Yards C&C Tax allocation ($264,000). As described in Section III. *Recommended Budget Adjustments and Clean-up Action,* the additional revenue is recommended to be placed in the Ending Fund Balance of each respective fund, or be allocated to urgent project needs.

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 robust year-over-year growth in home prices. Additionally, it is taking less time to sell these more expensive homes. The average days on the market for single-family and multi-family dwellings decreased from an average of 26 days in December 2020 to an average of 16 days in December 2021. The median single-family home price, which totaled $1.2 million in December 2020, has grown by over 20% to $1.5 million in December 2021. Finally, property transfers through the first half of the fiscal year has grown by almost 15% compared to July through December 2020 sales.

Expenditures – Overall, expenditures in the various C&C Tax Funds are anticipated to end the year within budgeted levels. Through December, expenditures totaled $27.7 million, or 21.1% of the 2021-2022 Modified Budget of $131.1 million. An additional $11.0 million has been encumbered through December, bringing the total amount committed to $38.7 million, or 29.5% of the 2021-2022 Modified Budget. This report recommends expenditure adjustments to the following projects:

- Northside Community Center HVAC Replacement ($273,000 – Council District 3 C&C Tax Fund)
- Urban Confluence Silicon Valley ($273,000 – Council District 3 C&C Tax Fund)
- Overfelt Master Plan ($100,000 – Council District 5 C&C Tax Fund)
- Strategic Capital Replacement and Maintenance Needs ($50,000 – Council District 6)
- Guadalupe Oak Grove Outdoor Classroom ($30,000 – Council District 10 C&C Tax Fund)
- Happy Hollow Park Zoo Exhibit Improvements ($433,000 – Parks City-Wide C&C Tax Fund)
- Facilities Improvements - Library ($228,000 – Library C&C Tax Fund)
- Branch Efficiency Projects ($177,000 – Library C&C Tax Fund)
- Automation Projects and systems Maintenance ($44,000 – Library 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.*

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 $11.1 million (from $50.5 million to $61.6 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

CONSTRUCTION EXCISE TAX FUND

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues	116,074,040	32,283,184	27.8%
Expenditures	149,441,776	31,072,158	16.4%
Unrestricted Ending Fund Balance	9,197,749	N/A	N/A

FUND STATUS

Revenues – The Construction Excise Tax, a major funding source for the Traffic Capital Program, is tracking below anticipated levels. Through the first half of 2021-2022, Construction Excise Tax receipts totaled $6.1 million through December, 33.7% of the 2021-2022 Adopted Budget estimate of $18.0 million, due to lower than anticipated residential and commercial development permit activities. This collection level is 51.2% below prior year collections of $12.4 million for the same period. Based on collections through December and a look at projects in the pipeline for the remainder of the fiscal year, tax receipts are expected to end the year below the modified budget estimate of $18.0 million by $2.0 million.

Other major revenue sources in the Construction Excise Tax Fund, including grants from federal, state, and local agencies, are tracking below estimated levels. These variances are largely due to timing differences for grant-supported projects, many of which are funded on a reimbursement basis. 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 revenue adjustment recommendations to increase the estimate for Revenue from Local Agencies by a total of $6.9 million, based on a revised estimate of the VTA measure B allocation from $19.0 million to $25.6 million ($6.6 million) and revenue from the VTA related to pre-development work for the BART Phase 2 project ($307,000).

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

FUND STATUS

Expenditures – Overall expenditures of $31.1 million are tracking at 16.4% of the Modified Budget. An additional $37.3 million has been encumbered to date, bringing total commitments ($68.4 million) through December to 36.0% of the Modified Budget, excluding reserved funds. Any remaining project balances at year-end are anticipated to be rebudgeted and included in the 2022-2023 Adopted Capital Budget for project completion. This report also includes a limited number of expenditure adjustments, the notable ones are listed below.

- Increase the Pavement Maintenance – VTA Measure B project ($6.6 million);
- Establish the BART Design and Construction Phase 2 project ($307,000); and
- Establish the Street Tree Inventory and Management Plan project ($350,000).

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 decrease of $700,000 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 decrease to $8.5 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

CONVENTION AND CULTURAL AFFAIRS FUND

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues	9,740,130	9,769,697	100.3%
Expenditures	10,231,995	7,480,174	73.1%
Unrestricted Ending Fund Balance	1,793,259	N/A	N/A

FUND STATUS

Revenues – Convention and Cultural Affairs Fund revenues through December totaled $9.8 million, or 100.3% of the budgeted estimate of $9.7 million, as most of the fund's revenue is derived from completed transfers from the Transient Occupancy Tax (TOT) Fund ($7.1 million) and the American Rescue Plan Fund ($2.5 million). Excluding other sources, the current transfer from the TOT Fund (50% of projected TOT) represents an 11.7% increase relative to the same prior year period, aligning with the TOT revenue estimate included in the 2021-2022 Adopted Budget which assumed an increase of TOT revenue following the unprecedented impacts of COVID-19. However, as discussed in the Selected Special and Capital Funds, Transient Occupancy Tax Fund section of this report, year-to-date revenues and key performance indicators for hotel activity have fallen short of expectations for the first half of 2021-2022, 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 $750,000, from $7.1 million to $6.4 million.

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 2021, totaling $7.5 million, represent 73.1% of the Modified Budget, including $5.3 million to date (72.7% of budget) for Convention Facilities Operations.

Due to the evolving COVID-19 pandemic, corresponding mitigation measures, and vaccination roll-out, convention and cultural facilities were effectively closed for the majority of 2020-2021, with Team San Jose focusing on securing these facilities and maintaining the basic functionality of mechanical systems while completing limited, carry-over capital projects. Team San Jose's food and beverage operations were also mobilized to provide contractual meal preparation and delivery services to sheltered populations vulnerable to COVID-19, which are now anticipated to continue through June 2022. While large-scale events, primarily at the Convention Center and Center for the Performing Arts, have yet to materialize in 2021-2022, theatre activity has started to resume, with the associated building rental and food and beverage revenues contributing to lower than anticipated operating losses relative to forecast.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION AND CULTURAL AFFAIRS FUND

FUND STATUS

Prior to the recent COVID-19 surge, net City support for facility operations was on pace to remain within budgeted levels ($7.3 million); however, the intensity and duration of the surge has introduced added uncertainty for the resumption of event activity levels. The Administration will continue to work closely with Team San Jose to monitor and revise the outlook for facility operations as the impacts of the COVID-19 surge become clearer.

Ending Fund Balance – The adjustments recommended in this report reduce Ending Fund Balance in the Convention and Cultural Affairs Fund by $1,356,765, from $1,793,259 to $436,494, which includes both the offset of the reduced transfer from the TOT Fund of $750,000 and a technical adjustment that resulted in an increase to Convention Facilities Operations expenditures by $606,765 (from $7.6 million to $8.2 million) to account for the timing of final payment and deferral of offsetting revenue related to 2020-2021 activity. However, deferral of this offsetting revenue recognition is anticipated to lower the final net obligation for Convention Facilities Operations in 2021-2022. Further details on the above adjustments can be found in Section III, *Recommended Budget Adjustments and Clean-up/ Rebudget Actions, of this report.*

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION CENTER FACILITY DISTRICT REVENUE

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues	9,700,000	3,014,259	31.1%
Expenditures	13,749,000	239,642	2.1%
Unrestricted Ending Fund Balance	2,482,218	N/A	N/A

FUND STATUS

Revenues – Convention Center Facility District Revenue (CCFD) Fund's total revenues through December 2021 totaled $3.0 million, which represents a decline of 25.2% from the prior year level for the same period ($4.0 million). However, prior year-to-date revenues included a transfer of $2.3 million from the Convention Center Facility District Capital Fund to return excess funds, which were originally planned for capital projects, to support debt service obligations in 2020-2021. Excluding this transfer, actual CCFD Special Tax revenues of $3.0 million through December 2021 have increased 74.4% relative to the prior year level, mirroring Transient Occupancy Tax (TOT) performance. While this revenue level (31.1% of the budgeted estimate) represents a significant rebound from the historic lows experienced in 2020-2021, reported hotel revenue continues to lag (89.1%) relative to the forecast used for development of the 2021-2022 Adopted Budget. This underperformance is partially due to the timing of remittances but is also indicative of a slower resumption of hotel room demand than anticipated ahead of the winter season and the recent surge of COVID-19 infection rates attributable to the Omicron variant.

Overall, the average room rate across the City's reporting hotels decreased by $78.81 (from $181.72 to $102.91) in 2020-2021 relative to 2019-2020, with average occupancy decreasing 18.4% (from 57.56% to 39.15%). Occupancy levels hovered 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%, room rate of $112.37, and revenue per available room (RevPAR) of $58.78 for June 2021. This incremental rebound has continued into the first half of 2021-2022, with the occupancy and room rates reaching 58.05% and $125.14 in November 2021 – the highest performance levels to date since April 2020. As of November 2021, cumulative average occupancy was 57.16%, the room rate was $120.55, and RevPAR was $68.91.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION CENTER FACILITY DISTRICT REVENUE

FUND STATUS

The 2021-2022 Adopted Budget estimate was built on the assumption that 2020-2021 receipts, excluding one-time transfers from the Convention Center Facility District Capital Fund ($4.0 million) and the recognition of restricted remittances ($4.6 million) from hotels annexed in 2020-2021, would total $4.7 million and increase 106.4% to $9.5 million in 2021-2022 as the tourism and hospitality industry steadily recovered from the impacts of COVID-19. The proportionately higher increase of estimated collections in the CCFD Fund, in comparison to the TOT Fund, is attributable to the ongoing receipt of revenue from the hotels annexed toward the end of 2020-2021.

Since 2020-2021 actual CCFD Special Tax receipts of $4.3 million ended below the estimate, excluding one-time transfers and revenues from annexations, the current budget estimate represents a 122.8% increase from prior year performance. Based on the relatively low CCFD performance through the first half of the fiscal year, and the assumption that short-term activity will be suppressed due to the recent COVID-19 surge, the 2021-2022 Mid-Year Budget Review includes a recommendation to decrease the budgeted estimate in the CCFD Fund by $1.0 million, from $9.5 million to $8.5 million. As the CCFD tax largely mirrors TOT tax performance, budgetary adjustments are also recommended in the General Fund, Convention and Cultural Affairs Fund, and the Transient Occupancy Tax Fund, which are further discussed in Section I, *General Fund Status Report and Section II, Selected Special/Capital Funds Status Report*.

<u>*Expenditures*</u> – Overall expenditures through December 2021, totaling $239,642, represent 2.1% 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 $13.7 million (99.1%) of the $13.8 million of 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 ($3.2 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.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONVENTION CENTER FACILITY DISTRICT REVENUE

FUND STATUS

Due to the formal annexation of five hotels in May 2021 and the recognition of $4.6 million of previously restricted CCFD Special Tax remittances, accumulated fund balances within the CCFD 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. The Administration is evaluating a refunding of the existing Series 2011 and Series 2011A bonds to take advantage of the currently low interest rate environment. Depending on the timing of this refunding, additional external resources may be needed to support debt service payments in 2022-2023, and will be evaluated as part of the 2022-2023 budget development process.

Ending Fund Balance – The revenue adjustment recommended in this report results in a decrease to Ending Fund Balance in the CCFD Fund of $1.0 million, from $2.5 million to $1.5 million. Further details on the above adjustments can be found in Section III, *Recommended Budget Adjustments and Clean-up/Rebudget Actions*, of this report.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

DEVELOPMENT FEE PROGRAM FUNDS

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues			
Building:	$32,518,421	$16,894,680	52.0%
Fire:	$7,680,534	$3,054,518	39.8%
Planning:	$6,738,655	$4,070,286	60.4%
Public Works:	$13,125,000	$6,208,257	47.3%
Expenditures			
Building:	$39,340,821	$17,646,738	44.9%
Fire:	$9,746,142	$4,759,154	48.8%
Planning:	$7,142,693	$3,817,713	53.4%
Public Works:	$13,898,398	$7,287,919	52.4%
Unrestricted Ending Fund Balance			
Building:	$26,096,966	N/A	N/A
Fire:	$3,775,291	N/A	N/A
Planning:	$2,992,003	N/A	N/A
Public Works:	$6,111,007	N/A	N/A

This section discusses the status of the Development Fee Program Funds, which 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.

FUND STATUS

Revenues – Overall revenues for all Development Fee Program Funds total $30.2 million through December, which is 50.3% of the 2021-2022 Modified Budget of $60.1 million. These revenue collections are primarily from licenses and permits, and fees, rates, and charges as a result of development activity. Total revenues represent a decrease of 62.8% compared to the prior year level for the same period ($81.2 million). However, prior year-to-date revenues included a transfer from the General Fund to each of the Development Fee Program Fund ($52.4 million) to close out the Development Fee Programs that were previously budgeted in the General Fund. Once these transfers are excluded, actual year-to-date revenues of $30.2 million through December 2021 have increased 5.1% compared to the prior year level.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

DEVELOPMENT FEE PROGRAM FUNDS

FUND STATUS

The Building and Planning Development Fee Program Funds are tracking above anticipated levels primarily due to higher than anticipated activity and are projected to end the year above budgeted levels (by $1.4 million in Building and $1.2 million in Planning). However, the Fire Development Fee Program Fund is tracking below anticipated levels primarily due to a large number of Accessory Dwelling Unit (ADU) projects that do not generate fees associated with Fire Development and is anticipated to end the year below budgeted levels by $1.0 million. The Administration will continue to monitor Fire Development Fee Program revenue levels through the remainder of the fiscal year, which will have an impact on potential fee rate increases for 2022-2023 to ensure that the program remains cost recovery. The Public Works Development Fee Program Fund is tracking slightly below anticipated levels primarily due to the cyclical nature of development projects. It is normal for this program to see a decrease in the rate of fee collection in the months leading into the winter as this is not an advantageous time to begin construction projects for developers. Fee collection is anticipated to increase in the third and fourth quarters of the fiscal year as developers prepare for spring and summer projects. Due to these factors, the Public Works Development Fee Program Fund is projected to end the year at budgeted levels.

Expenditures – Overall expenditures for all Development Fee Program Funds totals $33.5 million through December, which is 47.8% of the 2021-2022 Modified Budget of $70.1 million. In addition, $1.5 million has been encumbered to date, bringing total commitments ($35.0 million) through December to 49.9% of the Modified Budget.

Appropriations in these funds are tracking within budgeted levels with the exception of the overhead expenditures, which are tracking to exceed by a total of $753,000 due to higher levels of activity; the Planning Development Fee Program – Non-Personal/Equipment appropriation that is tracking to exceed by $150,000; and the Shared Resources – Non-Personal/Equipment appropriation for the Information Technology Department by $72,000. Recommended adjustments to these appropriations are included in this report. In addition, a total adjustment of $955,000 across all Development Fee Program Funds is included in this report to adjust for the salary and benefit increases that were approved after the adoption of the 2021-2022 Adopted Budget.

Ending Fund Balance – A net decrease to the Ending Fund Balance of $1.5 million is recommended in this report to offset actions related to the Salary and Benefits Program, overhead, personal services for shared resources, and non-personal/equipment in the Building Development Fee Program Fund ($150,000), Fire Development Fee Program Fund ($487,000), Planning Development Fee Program Fund ($344,000), and Public Works Development Fee Program Fund ($536,000). With these actions, the revised Ending Fund Balance totals $37.5 million, which will primarily be spent down as projects move through the development pipeline. These funds will be spent down in future years as projects proceed through the development process. Further details on the above adjustments can be found in Section III, *Recommended Budget Adjustments and Clean-up/Rebudget Actions*, of this report.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues	182,800,322	153,418,872	83.9%
Expenditures	190,771,959	63,797,422	33.4%
Unrestricted Ending Fund Balance	1,889,499	N/A	N/A

FUND STATUS

Revenues – Budgeted revenues in the Integrated Waste Management (IWM) Fund include payments received from residential solid waste generators under the Recycle Plus Integrated Waste Management Program (Recycle Plus Collection Charges, $172.2 million); revenue from the sale of surplus property ($3.8 million), AB 939 fees ($3.7 million); payments received from the Construction and Demolition Diversion Deposit (CDDD) Program ($815,000); revenue from land rentals ($505,000); interest earnings ($402,000); revenue received from Santa Clara County for Household Hazardous Waste programs ($400,000); Recycle Plus Late Fees ($333,000); SB 332 Beverage Container Recycling payments ($250,000); and a transfer from the General Fund ($102,000), which reimbursed the IWM Fund for vehicles previously purchased for the illegal dumping response team who have since been shifted to the General Fund.

Through December, revenues totaled $153.4 million, or 83.9% of budget, and were generated primarily from Recycle Plus Collection Charges ($150.5 million); AB 939 fees ($1.1 million); Recycle Plus Late Fees ($501,000); Household Hazardous Waste payments from Santa Clara County ($489,000); SB 332 Beverage Container Recycling payments ($257,000); revenue from land rentals ($195,000); interest earnings ($160,000); and CDDD revenues ($59,000). Overall, revenues are expected to end the year slightly above budget.

For 2021-2022, the Recycle Plus rates increased by 11% for single-family dwellings and 7% for multi-family dwellings. Similar levels of rate increases are preliminarily anticipated for residential customers in 2022-2023 to meet the requirements of the City's hauler agreements. The level of rate increase and potential trade-offs will be evaluated by the Administration and presented for City Council discussion during the 2022-2023 budget development and rate-setting process.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

FUND STATUS

Expenditures – Through December, $63.8 million (33.4%) was expended, with an additional $114.8 million (60.2% of budget) encumbered, bringing the total commitments to $178.6 million (93.6% of budget). The year-to-date expenditures and encumbrances of $178.6 million are attributed primarily to the Recycle Plus contracts for Single-Family Dwelling ($85.8 million), Yard Trimmings/Street Sweeping ($30.5 million), and Multi-Family Dwelling ($26.8 million). Additional expenditures include Single Family Dwelling Processing ($19.4 million), Environmental Services Department (ESD) Personal Services ($4.0 million), IDC Disposal Agreement ($4.8 million), and ESD Non-Personal/Equipment ($2.9 million) appropriations.

Overall, expenditures are expected to meet budgeted levels with some potential savings. At this time, ESD anticipates savings in their Non-Personal/Equipment appropriation ($730,000) due to savings from consulting services and Personal Services appropriation ($700,000) due to vacancies in the department. Savings are also projected in Personal and Non-Personal/Equipment appropriations for other City departments ($257,000). Staff will continue to closely monitor expenditures as the fiscal year progresses.

This report includes actions to decrease the Single-Family Recycle Plus appropriation by $85,000 and increase the IDC Disposal Agreements appropriation by the same amount. The decrease in costs for the Single-Family Recycle Plus contract is due to savings in the bulky item collection program where activity has leveled off instead of continuing at the same pace as last fiscal year during the COVID-19 pandemic. The IDC Disposal Agreement has seen increased contractual costs for 2021-2022, primarily due to an increased amount of garbage disposed at the landfill resulting from the COVID-19 pandemic. Further details on the adjustments can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions.*

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

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ CLEAN ENERGY FUND

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues	359,192,000	199,624,345	55.6%
Expenditures	346,233,150	177,043,757	51.1%
Unrestricted Ending Fund Balance	32,158,423	N/A	N/A

FUND STATUS

Revenues – Revenues through December totaled $199.6 million, or 55.6% of the modified budget estimate of $359.2 million. Budgeted revenues in the San José Clean Energy (SJCE) Fund consist of Energy Sales ($303.4 million), Commercial Paper proceeds ($53.0 million), energy program grants ($2.3 million), and interest earnings ($507,000). The largest source of revenue in this fund, Energy Sales, collected $144.9 million through December, 47.8% of the modified estimate, and is anticipated to exceed budgeted projections by year-end.

In anticipation of PG&E's proposed rate increase assumed to begin in January 2022 upon the California Public Utility Commission's (CPUC) approval, the City Council approved in December a new rate package that kept SJCE rates set at 8% above PG&E's proposed increase of 15% to 35% after accounting for the Franchise Fee Surcharge and PCIA, and increased the renewable energy content for San José Clean Energy's GreenSource and GreenValue products to 60% and 40% respectively (TotalGreen continued at 100%). To-date, the CPUC has not yet approved PG&E's rate increase; therefore, SJCE's revised projection is based on a Council-approved rate increase of 30% above PG&E for January through February 2022 and an 8% rate premium above PG&E for March through December 2022, based on the assumption that PG&E's new rate package will be approved and in effect by March 1, 2022. As a result, an action is recommended in this report to increase the Sale of Energy revenue estimate by $32.0 million, from $303.4 million to $335.4 million.

SJCE reestablished its Commercial Paper (CP) program on June 22, 2021, when City Council authorized the issuance of up to $95.0 million in CP to ensure sufficient cash flow for SJCE over the course of the fiscal year. To-date, SJCE has drawn $15.0 million of CP in June 2021 (2020-2021) and $45.0 million of CP from July through December 2021 (2021-2022). Current projections estimate that another $4.0 million will be drawn by the end of June 2022 for a total of $49.0 million in 2021-2022 and $64.0 million overall.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ CLEAN ENERGY FUND

FUND STATUS

Expenditures – Expenditures budgeted in this fund enable the Community Energy Department to supply San José residents and businesses with cleaner energy options and access to energy efficiency community programs. The largest allocation is Cost of Energy ($316.8 million) at 91.5% of the total budget. The next largest budgeted expenditures are Community Energy Non-Personal/Equipment ($10.5 million) that provides for data management, power supply management, and outside legal/ regulatory, technical, and financial consulting services, and Personal Services funding for Community Energy Department ($7.5 million), City Attorney's Office ($940,000), Finance Department ($166,000), and City Manager's Office ($82,000). Through December, expenditures totaled $177.0 million, or 51.1% of the Modified Budget of $346.2 million. Of that, Cost of Energy expended $166.3 million, or 54.1% of its budget of $307.2 million. Still, Cost of Energy is anticipated to end the year under budget, and as a result, this report includes a recommendation to decrease the appropriation by $11.7 million, from $307.2 million to $295.5 million. Community Energy Department executed long-term agreements with developers of new renewable energy facilities, and two of the projects covered under those agreements began delivering energy to SJCE in January 2022. These new long-term agreements commit SJCE to lower costs for contracted clean energy, and substantially contribute to the lower forecasted expenditures through the remainder of the fiscal year. This report also includes recommendations to increase the Commercial Paper Debt Service Interest/Fees allocation by $300,000 and increase Personal Services appropriations for City Attorney's Office ($43,000) and Finance Department ($88,000) for additional staff support and salary and benefit adjustments.

Ending Fund Balance – A recommendation to increase the Ending Fund Balance by $43.3 million is included as a net result of the actions detailed in this report. After accounting for these actions, the revised unrestricted Ending Fund Balance will be $75.4 million, which significantly improves the fund's financial footing heading into 2022-2023. 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

SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues	351,596,000	92,988,078	26.4%
Expenditures	523,240,780	46,702,783	8.9%
Unrestricted Ending Fund Balance	9,135,984	N/A	N/A

FUND STATUS

Revenues – Budgeted revenue for the San José-Santa Clara Treatment Plant Capital Fund consists of financing proceeds ($238.5 million); contributions from the City of Santa Clara and other Tributary Agencies ($75.5 million); a transfer from the City of San José Sewer Service and Use Charge (SSUC) Fund ($33.4 million); interest earnings ($3.9 million); and Calpine Metcalf Energy Center Facilities Repayments ($389,000). Through December, $93.0 million (26.4%) has been received, primarily due to the transfer from SSUC ($33.4 million) and tributary agency payments ($58.7 million). Financing proceeds are expected to be received in the fourth quarter of 2021-2022. Overall, revenue is anticipated to end the year at budgeted levels.

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 $523.2 million. The major budgeted expenditures in this fund are the Digested Sludge Dewatering Facility ($148.1 million), New Headworks ($83.9 million), Filter Rehabilitation ($49.3 million), Digester and Thickener Facility Upgrades ($37.1 million), Nitrification Clarifier Rehabilitation ($29.2 million), Yard Piping and Road Improvement ($21.3 million), Support Building Improvements ($20.5 million), Aeration Tanks and Blower Rehabilitation ($20.3 million), Program Management ($15.9 million), Advanced Facility Control and Meter Replacement ($14.2 million), Headworks Improvements ($10.1 million), Stormwater System Improvements ($9.4 million), Owner Controlled Insurance Program ($8.2 million), Outfall Bridge and Levee Improvements ($7.2 million), Facility Wide Water System Improvements ($5.6 million), Plant Electrical Reliability ($5.5 million), Debt Service for the Plant Capital Improvement Program ($5.4 million) projects, Energy Generation Improvements ($3.2 million), and Treatment Plant Distributed Control System ($3.2 million).

Through December, $46.7 million (8.9%) of the budget was expended and an additional $218.9 million was encumbered, bringing overall commitments through December to 41.8% of the budget. A large portion of the budget is currently anticipated to be expended or encumbered on projects over the course of the fiscal year, with appropriations in this fund tracking to remain within budgeted levels.

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

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues	98,579,382	86,941,886	88.2%
Expenditures	119,996,926	50,092,109	41.7%
Unrestricted Ending Fund Balance	4,235,121	N/A	N/A

FUND STATUS

Revenues – Budgeted revenue for the San José-Santa Clara Treatment Plant Operating Fund consists primarily of transfers from the Sewer Service and Use Charge Fund ($64.0 million), contributions from the City of Santa Clara ($13.8 million) and participating tributary agencies ($19.4 million), and interest earnings ($1.1 million). Through December, revenues totaled $86.9 million, or 88.2% of the budgeted estimate.

The largest source of revenue, a transfer from the Sewer Service and Use Charge Fund ($64.0 million), has been received in full, as well as $22.7 million from the City of Santa Clara and participating tributary agencies. Contributions from City of Santa Clara and participating tributary agencies are made in four installments throughout the year based on the amounts provided in 2021-2022 Adopted Operating Budget; this year's reimbursement revenue is anticipated to be the same amount as budgeted and no adjustment is needed. Based on current earnings through December, interest revenue for this fund may end the year $500,000 lower than the budgeted estimate of $1.1 million. Overall, revenues are estimated to end the year within budgeted levels.

Expenditures – Expenditures in this fund represent the costs required for the operations and maintenance of the San José-Santa Clara Water Pollution Control Plant and associated regulatory activities. Through December, $50.1 million (41.7%) has been expended, and an additional $21.4 million (17.8%) has been encumbered, bringing the total commitments to $71.5 million (59.6%). Across various departments' Personal Services appropriations within the fund, expenditure levels are tracking slightly below expectations with $27.4 million (45.8%) expended and are projected to end the year below budgeted levels. Non-Personal/Equipment commitments are above the previous year's levels with $39.7 million committed through December, compared to $25.0 million through December 2020. 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

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues	39,206,000	35,830,030	91.4%
Expenditures	64,377,201	9,203,229	14.3%
Unrestricted Ending Fund Balances	38,001,087	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 ($35.0 million), reimbursements from the West Valley Sanitation District (WVSD) and City of Cupertino for joint projects ($2.4 million), and interest earnings ($1.8 million).

Revenue through the end of December totals $35.8 million (91.4%), consisting mainly of the transfer from the Sewer Service and Use Charge Fund ($35.0 million). Interest revenue totaling $344,0000 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 budgeted expenditures in this fund are Urgent Rehabilitation and Repair Projects allocation ($8.1 million), the 60" Brick Interceptor Rehabilitation project ($7.9 million), Condition Assessment Sewer Repair ($6.8 million), Immediate Replacement and Diversion Projects ($6.8 million), Cast Iron Pipe – Remove and Replace ($5.6 million), Blossom Hill-Leigh Sanitary Improvements ($5.1 million), Infrastructure – Sanitary Sewer Condition Assessment ($4.5 million), Almaden Sewer Rehabilitation ($3.1 million), Capital Program and Public Works Department Support Service Costs ($2.3 million), Sierra Road Sanitary Sewer Improvement ($2.2 million), Master Planning Updates ($1.8 million) and Rehabilitation of Sanitary Sewer Pump Stations ($1.7 million). Additional expenses include the Public Art allocation ($914,000) and a transfer to the City Hall Debt Service Fund ($259,000).

Through December, $9.2 million (14.3%) of the budget was expended and an additional $13.7 million (21.3%) was encumbered, bringing the total amount committed to 35.6%. 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

Included in this report are adjustments to rebudget savings from 2020-2021 for the following projects: Cast Iron Pipe – Remove and Replace ($2.0 million), Urgent Rehabilitation and Repair Projects ($2.0 million), and Infrastructure – Sanitary Sewer Condition Assessment ($1.0 million). 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 $5.0 million is included as a net result of the rebudgets detailed in this report. After accounting for these actions, the revised Ending Fund Balance will be $33.0 million.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

TRANSIENT OCCUPANCY TAX FUND

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues	15,055,000	4,944,947	32.5%
Expenditures	17,679,968	11,216,998	63.4%
Unrestricted Ending Fund Balance	393,029	N/A	N/A

FUND STATUS

Revenues – Transient Occupancy Tax (TOT) Fund revenues through December totaled $4.9 million, which represents an increase of 75.5% from the prior year level for the same period ($2.8 million), indicative of a sustained, though more gradual than initially forecasted, increase in demand for hotel rooms following the unprecedented impacts of COVID-19. While this revenue level (32.5% of the budgeted estimate) represents a significant rebound from the historic lows experienced in 2020-2021, reported hotel revenue continues to lag (89.1%) relative to the forecast used for development of the 2021-2022 Adopted Budget. This underperformance is partially due to the timing of remittances but is also indicative of a slower resumption of hotel room demand than anticipated ahead of the winter season and the recent surge of COVID-19 infection rates attributable to the Omicron variant.

Overall, the average room rate across the City's reporting hotels decreased by $78.81 (from $181.72 to $102.91) in 2020-2021 relative to 2019-2020, with average occupancy decreasing 18.4% (from 57.56% to 39.15%). Occupancy levels hovered 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%, room rate of $112.37, and revenue per available room (RevPAR) of $58.78 for June 2021. This incremental rebound has continued into the first half of 2021-2022, with the occupancy and room rates reaching 58.05% and $125.14 in November 2021 – the highest performance levels to date since April 2020. As of November 2021, cumulative average occupancy was 57.16%, the room rate was $120.55, and RevPAR was $68.91.

The 2021-2022 Adopted Budget estimate was built on the assumption that 2020-2021 receipts would total $8.3 million and increase 80.7% to $15.0 million in 2021-2022 as the tourism and hospitality industry steadily recovered from the impacts of COVID-19. Since 2020-2021 actual receipts totaled $8.1 million, the current budget estimate represents an 85.9% increase from prior year performance. However, due to the relatively low TOT performance through the first half of the fiscal year, and the assumption that short-term activity will be suppressed due to the recent COVID-19 surge, the 2021-2022 Mid-Year Budget Review includes a recommendation to decrease the TOT budgeted estimate in the Transient Occupancy Tax Fund by $1.5 million, from $15.0 million to $13.5 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 2021, totaling $11.2 million, represent 63.4% 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.

Proportional reductions equal to the TOT revenue reduction ($1.5 million) are recommended in this report to the Transfer to the Convention and Cultural Affairs Fund ($750,000), Cultural Grants Reserve ($375,000), and San José Convention and Visitors Bureau allocation ($375,000). Prior year savings from the Cultural Grants and Cultural Grants Administration appropriations were set-aside in the Cultural Grants Reserve in the event of further revenue declines to minimize the potential impact on arts and cultural programming partners. Additional adjustments in the Convention and Cultural Affairs Fund are recommended to offset the reduced transfer from the TOT Fund using Ending Fund Balance that remained undesignated in the event of such revenue underperformance.

Ending Fund Balance – The adjustments recommended in this report maintain Ending Fund Balance in the TOT Fund at the current budgeted level of $393,029. Further details on the above adjustments can be found in Section III, *Recommended Budget Adjustments and Clean-up/Rebudget Actions,* of this report.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL FUND

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues	8,052,000	7,901,262	98.1%
Expenditures	20,475,746	1,011,921	4.9%
Unrestricted Ending Fund Balance	3,641,130	N/A	N/A

FUND STATUS

Revenues – Budgeted revenues for the Water Utility Capital Fund consists primarily of transfers from the Water Utility Operating Fund ($7.8 million). Additional sources of revenue include interest ($177,000), Service Connection Fees ($25,000), Advanced System Design ($25,000), and Meter Installation Fees ($25,000).

The largest source of revenue for this fund, transfers from the Water Utility Operating Fund, has been received in full ($7.8 million). Interest revenue is tracking as expected with $92,000 (51.8%). Service Connection Fees and Meter Fees are tracking slightly lower than expected; however, the revenues are still expected to end the year at their estimated amounts. Overall, revenues are expected to meet budgeted estimates by the end of the year.

Expenditures – Expenditures in this fund represent the costs for improvements and rehabilitation of the San José Municipal Water System. Most of the expenditures in this fund are budgeted for the Water Resources Administration and Operation ($5.4 million), the Annual Water Main Replacement ($4.9 million), North San José Reliability Well Development and Construction ($4.2 million), Infrastructure Replacement ($1.4 million) and System Maintenance and Repairs ($1.1 million) projects.

Through December, $1.0 million (4.9%) has been expended, and an additional $4.3 million (20.1%) has been encumbered, bringing the total commitments to 26.1%. The Water Resources Administration and Operations ($228,000), Systems Maintenance and Repairs ($361,000) and Safety and Security Improvements ($200,000) projects are tracking above the previous year's totals thru December. However, savings in other appropriations are tracking at or slightly below budget. 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

WATER UTILITY FUND

	2021-2022 Current Modified	2021-2022 YTD Actual	2021-2022 % of Budget
Revenues	57,406,791	25,354,231	44.1%
Expenditures	61,038,502	31,540,684	51.7%
Unrestricted Ending Fund Balance	246,840	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 ($49.8 million). Additional sources of revenue include Metered Sales of recycled water ($6.8 million), interest revenue ($434,000), 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 for potable water, is tracking slightly below budget with $21.3 million (42.8%) received through December. This decrease is likely due to conservation efforts resulting from the goal to reduce water use by 15% that was approved by the City Council on November 30, 2021. The full impact of conservation efforts on revenue are yet to be seen; however, an anticipated decrease in Metered Sales of potable water and recycled water may impact revenue by the end of the fiscal year. Close attention will be paid to Metered Sales revenues through the remainder of the year to ensure any necessary budgetary actions are taken. Metered Sales of recycled water are tracking as expected with $3.3 million (48.7%) received through the end of December. Late Fee revenue is tracking above expectations with $633,000 received through December (compared to a budget of $300,000), while interest revenue is tracking below budgeted levels with $18,000 received through December.

Expenditures – Expenditures in this fund represent the costs required for the operations 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 (ESD) ($41.5 million) for the purchase of water and related operational needs. Beyond that, Personal Services appropriations to ESD ($7.7 million) and other City departments ($1.2 million) account for the next largest segment of operational expenditures. Non-operational expenses include transfers to other funds, including the Water Utility Capital Fund ($7.8 million), the General Fund for Late Fees ($300,000), and the City Hall Debt Service Fund ($246,000). Other expenditures include overhead ($1.7 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, $31.5 million (51.7%) has been expended, and an additional $2.6 million (4.3%) has been encumbered, bringing the total commitments to 56.0%. Across Personal Services appropriations, expenditure levels of $4.5 million through December are tracking slightly above expectations, with 51.1% expended, though are projected to end the year at budgeted levels. Non-Personal/Equipment commitments are below the previous year's levels with $19.5 million (46.9% of budget) expended through December, compared to $20.0 million through December 2020.

This report includes actions in ESD to increase the Personal Services appropriation by $700,000 and decrease the Non-Personal/Equipment appropriation by $700,000. The additional personal services budget is needed for two reasons: 1) to fund the non-pensionable and general wage increases that were negotiated and agreed to by the City that were reached after the adoption of the budget and to account for a projected increase in costs for 2021-2022 ($270,000); and 2) staffing resources required to address drought-related and COVID-related operational issues ($430,000). Drought-related impacts include increased engineering staff time to provide operation and maintenance support in switching water supplies, water system operations, and further water quality compliance with the emergency drought declaration and the 15% water reduction target approved by the City Council in November. The COVID-related impacts include changes to the meeting protocols that support operations and maintenance support, which now require more time and coordination. The Non-Personal/Equipment appropriation is recommended to be reduced by $700,000 as a result of a projected reduction of expenses related to the purchase of wholesale water because of the water conservation goals. Overall, expenditures are projected to end the year at budgeted levels.

Ending Fund Balance – The Ending Fund Balance does not change as a result of the adjustments recommended in this report. Further details on the adjustments can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions.*