III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

This section provides financial information on the 2021-2022 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 2021-2022 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 2021-2022 Modified Budget, which includes fund balance and reserves. The 2021-2022 Estimated Ending Fund Balance and Actual Ending Fund Balance also includes reserves, except the reserve for encumbrances. The dollar variance compares the Estimated Ending Fund Balance used to develop the 2022-2023 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 2021-2022 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 2021-2022 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 2022-2023 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 2022-2023 Adopted Budget; discusses variances between these two amounts; and identifies any impact on the 2022-2023 budget related to recommended actions included in this report.

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III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2021-2022 Budget	***2021-2022 Actuals***	***Variance***	***% Variance***
Revenues	$71,616	$42,042	($29,574)	(41.3%)
Expenditures	$106,162	$56,063	($50,099)	(47.2%)

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 $42.0 million and were generated primarily from Passenger Facility Charges (PFCs) ($19.7 million), transfers from the Airport Surplus Revenue Fund ($15.8 million), grant income ($6.1 million), and interest earnings ($505,000). This revenue level was $29.6 million (41.3%) below the Modified Budget and $6.2 million (17.5%) higher than the prior year's level of $35.8 million.

The negative variance to the budget of $29.6 million (41.3%) was due primarily to lower than expected receipt of grant revenue by $32.2 million (84.0%). Timing issues were the main driver of grant-funded project delays, caused by the pandemic and the Federal Aviation Administration's grant application approval timeline. Passenger Facility Charge revenue ended the year above estimated levels by $4.4 million (28.8%) due to increased passenger activity largely in the spring of 2022. Overall, revenues in 2021-2022 of $42.0 million were higher than 2020-2021 revenues of $35.8 million due to increased Passenger Facility Charge revenue and an increased transfer from the Airport Surplus Revenue Fund to the Airport Renewal and Replacement Fund. Revenue rebudgets totaling $18,000 are recommended in this report to align the anticipated revenue with planned expenditures.

Expenditures totaled $56.1 million and consisted primarily of transfers to other Airport funds for debt service payments ($12.4 million) and various capital renewal and replacement projects ($27.9 million). Expenditures also included significant airfield projects such as the Aircraft Rescue and Fire Fighting Facility ($5.4 million) project, the Airfield Electrical Circuit Rehabilitation ($5.3 million) project, and the Airfield Configuration Updates ($5.1 million) project. This expenditure level was $50.1 million (47.2%) below the Modified Budget and $15.8 million (22.0%) below the prior year's level of $71.9 million.

After adjusting for rebudgets of $32.1 million included in the 2022-2023 Adopted Budget and additional rebudgets of $2.3 million recommended in this report, expenditure savings of $15.7 million were largely attributed to grant projects that were not awarded, pandemic-related construction slowdowns, and project deferrals that included the Terminal B Expansion Ramp project ($11.7 million) and portions of the Airfield Configuration Updates project ($7.1 million). The Airport continues to ensure passenger safety is a top priority and development of additional passenger, airline, and concession activity is important for planning for the Airport's future growth.

AIRPORT CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2021-2022 Modified Budget	***2021-2022 Estimated Ending Fund Balance***	***2021-2022 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$127,287	$39,885	$41,744	$1,859	($1,851)	$3,710	2.9%

The **Ending Fund Balance** of $41.7 million was $1.9 million above the estimate used in the development of the 2022-2023 Adopted Capital Budget. After accounting for $1.9 million of rebudget adjustments (net revenues and expenses) which were the result of project timing delays that included grant-funded projects and recommended in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions*, the revised fund balance variance is $3.7 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

AIRPORT OPERATING FUND - AIRPORT CUSTOMER FACILITY AND TRANSPORTATION FEE FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2021-2022 Budget	2021-2022 Actuals	Variance	% Variance
Revenues	$15,669	$13,725	($1,945)	(12.4%)
Expenditures	$10,593	$10,352	($241)	(2.3%)

Revenues totaled $13.7 million and were generated from rental car Customer Facility Charge (CFC) fees ($13.7 million) and interest earnings ($60,000). This revenue level was $1.9 million (12.4%) below the Modified Budget of $15.7 million and $4.3 million (23.7%) below the prior year's level of $18.0 million since the prior year's revenue contained contributions from the Rental Car Agencies and federal grant funding necessary to offset the depressed CFC fees.

The decrease in revenue from the prior year was primarily due to the application of CARES Act funding ($8.3 million) in 2020-2021 to offset the lower revenue from the pandemic's impact on air travel and rental car operations at the Airport. While air travel passenger levels were higher than expected in 2021-2022, the use of rental cars was down, resulting in lower CFC revenue and a negative variance to the 2021-2022 budget by $1.9 million (12.4%).

Expenditures totaled $10.4 million and were primarily attributed to transfers for debt service payments ($8.0 million) as well as shuttle bus transportation costs ($2.4 million). Expenditures were slightly below the budget with a variance of $241,000 (2.3%) due to lower than estimated shuttle bus costs and unused contingency funds. This expenditure level was $11.1 million (51.8%) below the prior year's level of $21.5 million due to a significant decrease in CFC funded debt service payments subsequent to refunding the bonds in March 2021.

Ending Fund Balance Performance ($ in Thousands)						
2021-2022 Modified Budget	*2021-2022 Estimated Ending Fund Balance*	*2021-2022 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$21,706	$8,489	$9,762	$1,272	$0	$1,272	5.9%

The 2021-2022 **Ending Fund Balance** of $9.8 million was $1.3 million above the estimate used in the development of the 2022-2023 Adopted Budget. This positive variance from the estimate resulted from increased passenger levels and CFC fees combined with reduced transportation costs.

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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)				
	2021-2022 Budget	*2021-2022 Actuals*	*Variance*	*% Variance*
Revenues	$202,284	$208,479	$6,195	3.1%
Expenditures	$144,330	$136,619	($7,711)	(5.3%)

Revenues in the Airport Revenue Fund totaled $208.5 million and were generated primarily from Airline Terminal Rental ($68.5 million), Parking and Roadway ($47.0 million), Federal Grant revenue ($32.1 million), Landing Fees ($24.5 million), Miscellaneous Revenue ($14.3 million), Terminal Building Concessions ($13.1 million), Airfield Area ($5.1 million), Petroleum Products ($2.5 million), and Transfers from the Airport Revenue Bond Improvement Fund ($932,000). The total revenue level was $6.2 million (3.1%) above the Modified Budget of $202.3 million.

The positive revenue variance of $6.2 million was primarily due to revenues out-performing the budgeted estimate in the following categories: Parking and Roadway ($15.9 million), Airline Terminal Rental revenue ($10.7 million), Terminal Building Concession ($8.2 million), and Miscellaneous revenue ($448,000). Overall, revenues surpassed budgeted levels due to stronger than expected passenger and activity levels at SJC as the air-travel environment continues to rebound from the pandemic's effects. These positive revenue variances were partially offset by negative variances in Landing Fees ($963,000), Petroleum Products ($281,000), transfers from the Fiscal Agent Fund ($198,000), and Federal Grant revenue ($27.5 million), the large variance a result of strong revenue performance in other categories that reduced the need for Federal Grant revenue offsets.

The total 2021-2022 revenue level was $28.2 million (15.6%) above the 2020-2021 level of $180.3 million primarily due to the rebound in passenger levels and activity at SJC as recovery from the COVID-19 pandemic progresses.

Expenditures in the Airport Maintenance and Operation Fund totaled $136.6 million and were primarily for Airport Department non-personal/equipment ($46.4 million including encumbrances), Airport personal services expenditures ($34.8 million), transfers to the General Fund for Police and Fire services ($18.0 million), Overhead ($5.5 million), and Interdepartmental Services expenditures ($1.3 million). Additionally, there were Airline Reserve Funds Distribution payments ($27.4 million) made to distribute the airlines' portion of the net remaining revenue resulting from the 2021-2022 financial performance. This expenditure level was $7.7 million (5.3%) below the Modified Budget of $144.3 million and $39.0 million (40.0%) above the prior year level of $97.5 million.

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

The negative variance to the budget of $7.7 million was primarily due to non-personal/equipment expenditure savings ($9.0 million) resulting from reduced expenditures due to the pandemic's continued effect on air-travel. Additionally, there were savings from a lower than anticipated use of the Tenant Business Loan Program ($2.9 million) and personal services vacancy savings ($2.5 million). These savings were partially offset by the increased airline reserve funds distribution allocation ($7.4 million). The $39.0 million (40.0%) increase over the prior year was primarily due to increased Airline Reserve Funds Distribution ($26.1 million) and non-personal/equipment expenditures ($9.7 million).

Ending Fund Balance Performance ($ in Thousands)						
2021-2022 Modified Budget	***2021-2022 Estimated Ending Fund Balance***	***2021-2022 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$458,429	$107,305	$132,480	$25,175	$0	$25,175	5.5%

The 2021-2022 combined **Ending Fund Balance** of $132.5 million was $25.2 million above the budgeted estimate used to develop the 2022-2023 Adopted Operating Budget. The variance from the estimate was due to lower than estimated expenses combined with higher than estimated revenues from Parking and Roadway, Terminal Rental, Terminal Building Concessions, and Miscellaneous.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2021-2022 Budget	*2021-2022 Actuals*	*Variance*	*% Variance*
Revenues	$74,821	$26,496	($48,325)	(64.6%)
Expenditures	$113,340	$29,366	($83,974)	(74.1%)

Revenues totaled $26.5 million and were generated primarily from Building and Structure Construction Tax receipts ($21.2 million), grant funding ($4.2 million), interest earnings ($890,000), and other revenue ($159,000). The revenue level was $7.5 million (22.0%) below the prior year level of $44.0 million. The 2021-2022 revenues were lower than the budgeted estimate of $74.8 million by approximately $48.3 million, resulting primarily from lower than budgeted grant revenues ($49.4 million) and interest earnings ($346,000), offset by higher Building and Structure Construction Tax receipts ($1.2 million) and other revenue ($159,000).

At $21.2 million, Building and Structure Construction Tax receipts in 2021-2022 were above the budgeted estimate of $20.0 million, but 12.5% lower than the 2020-2021 collections of $24.2 million. During the development of the 2023-2027 Capital Improvement Program, the Building and Structure Construction Tax revenue estimate was decreased by $1.0 million, from the $20.0 million estimate included in the 2021-2022 Modified Budget, to align with lower than anticipated collections. This year-over-year lower collection level for Building and Structure Construction Tax revenues is attributable to decreases in valuation of permits for building projects in all land use categories (residential, commercial, and industrial). The total valuation of projects submitted in 2021-2022 was $1.5 billion, 20.5% below the $1.9 billion valuation of projects that were received in 2020-2021. Residential valuation of $367.4 million in 2021-2022 was 5.8% lower than the 2020-2021 level of $390.1 million. A total of 1,887 new residential units received permits in 2021-2022, which was below 2020-2021 levels of 1,975 units. Commercial valuation of $821.7 million ended 2021-2022 at 27.1% below the prior year level of $1,128.0 million. Industrial activity of $325.9 million was 15.7% lower than the 2020-2021 level of $386.6 million. The 2022-2023 Adopted Budget estimate of $19.0 million allows for a decrease of 10.4% from the actual 2021-2022 collection level. Examples of major projects for the year include permits for a four-story, 127-room hotel located on Silver Creek Valley Road west of Route 101; an eight-story, 782-unit multi-family project located on South Bascom Avenue; and a three-story, 150,000 square foot self-storage facility located on Horning Street just south of Route 101.

Grant related revenues of $41.0 million, which were not received in 2021-2022 due to project delays, were anticipated and rebudgeted during the development of the 2022-2023 Adopted Budget. An additional rebudget of grant funding in the amount of $7.0 million is recommended as part of this report.

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

Expenditures including encumbrances totaled $29.4 million and were $84.0 million (74.1%) below the modified budget. A significant portion of the expenditure savings ($65.0 million), excluding reserves, was anticipated and rebudgeted as part of the 2022-2023 budget process. An additional $8.8 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects to continue in 2022-2023. Once rebudgets are included, expenditures in the Building and Structure Construction Tax Fund approach budgeted levels for 2021-2022. The expenditure level was $7.6 million (20.5%) below the prior year level of $36.9 million.

Ending Fund Balance Performance ($ in Thousands)						
2021-2022 Modified Budget	***2021-2022 Estimated Ending Fund Balance***	***2021-2022 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$176,339	$94,604	$99,342	$4,738	$1,814	$2,923	1.7%

The **Ending Fund Balance** of $99.3 million was $4.7 million above the estimate used in the development of the 2022-2023 Adopted Budget. After accounting for net rebudget adjustments of $1.8 million recommended in this report, the positive variance is reduced to $2.9 million. Significant expenditure rebudgets include Route 101/Mabury Road Project Development ($2.4 million), ITS: Transportation Incident Management Center ($902,000), Monterey Road Safety Improvements ($717,000), Safety Traffic Signal Modifications and Construction ($610,000), and Automated Traffic Signal Performance Measures ($507,000).

As described in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions*, a limited number of revisions to existing projects are recommended in this report. After accounting for all recommended adjustments, a net increase of $2.8 million is recommended to be allocated to the 2022-2023 Ending Fund Balance.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2021-2022 Budget	***2021-2022 Actuals***	***Variance***	***% Variance***
Revenues	$103,427	$102,404	($1,023)	(1.0%)
Expenditures	$132,269	$85,812	($46,457)	(35.1%)

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 2021-2022 totaled $102.4 million and were comprised of C&C Tax receipts ($64.5 million), transfers between funds ($26.6 million), developer contributions and miscellaneous revenue ($8.5 million), state and federal grants ($1.9 million), and interest earnings ($1.0 million). The revenue level is $1.0 million below the budgeted estimate of $103.4 million, primarily due to lower developer contributions and miscellaneous revenue ($6.9 million), grant revenue ($575,000) and interest earnings ($386,000), partially offset by higher than budgeted C&C tax proceeds ($4.5 million) and transfers ($2.4 million). A significant portion of the developer contributions and miscellaneous revenue and grant revenue was rebudgeted as part of the 2022-2023 Adopted Budget ($7.2 million) or is recommended to be rebudgeted as part of this report ($534,000).

C&C Tax revenue collections of $64.5 million was received in 2021-2022, which is $4.5 million above the 2021-2022 Modified Budget and the estimated collection level of $60.0 million. The actual tax receipts in 2021-2022 is 21.3% above the tax receipts in 2020-2021 ($53.1 million), primarily due to the continued strong activity levels experienced in the local real estate market, which is the primary driver of this revenue source. In 2022-2023, C&C Tax collections are budgeted at $50.0 million, which allows for a 22% drop in tax revenue. This decline is anticipated due to higher interest rates that will impact mortgage rates coupled with uncertainty in the overall economy. Given the volatile nature of the C&C Tax actual receipts will be closely monitored in the first half of 2022-2023, and adjustments may be made through the Mid-Year Budget Review process, if deemed necessary. Further information regarding the local real estate market, which drives this tax revenue, can be found in the Transmittal Memorandum at the beginning of this report.

Expenditures in the various C&C Tax Funds totaled $85.8 million in 2021-2022 and were derived primarily from various capital projects and transfers to other funds across the 17 C&C Tax funds (Council Districts 1-10, Parks City-Wide, Parks Central, Park Yards, Fire, Library, Service Yards, and Communications). This expenditure level is $46.5 million (35.1%) below the budgeted level of $132.3 million, which is primarily the result of unexpended capital project funding. The 2021-2022 expenditure level of $85.8 million was $15.6 million (22.3%) above the prior year's level of $70.2 million.

CONSTRUCTION AND CONVEYANCE TAX FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2021-2022 Modified Budget	*2021-2022 Estimated Ending Fund Balance*	*2021-2022 Actual Ending Fund Balance*	*Variance*	*Recommended Rebudget Adjustments Impact*	*Revised Variance*	*Revised Variance % (incl. Rebudget*
$210,759	$107,423	$122,254	$14,831	($9,267)	$5,564	2.6%

The **Ending Fund Balance** of $122.3 million was $14.8 million above the $107.4 million estimate used to develop the 2022-2023 Adopted Capital Budget. After accounting for net revenue and expenditure rebudget adjustments of $9.3 million recommended in the Annual Report, the variance decreases to $5.6 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 Overfelt Gardens Improvements Reserve ($450,000; Parks City-Wide C&C Tax Fund), Acquisition of Materials ($150,000; Library Construction and Conveyance Tax Fund), Program Management – Library Capital Program ($130,000; Library Construction and Conveyance Tax Fund), Pedestrian Bridge Assessment ($105,000; Parks Central C&C Tax Fund), Five Wounds Trail ($100,000; Council District 3 C&C Tax Fund), Parkland Dedication and Park Impact Ordinance Fees Nexus Study ($75,000; Park Central C&C Tax Fund), and Family Camp Capital Improvements Reserve ($6,000 Parks City-Wide C&C Tax Fund). The remaining fund balance is recommended to be allocated to the respective funds' 2022-2023 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.*

CONSTRUCTION EXCISE TAX FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2021-2022 Budget	*2021-2022 Actuals*	*Variance*	*% Variance*
Revenues	$133,755	$87,674	($46,080)	(34.5%)
Expenditures	$198,226	$111,002	($87,224)	(44.0%)

Revenues totaled $87.7 million and were primarily generated from grant funding ($69.1 million), Construction Excise Tax receipts ($16.2 million), interest earnings ($1.1 million), miscellaneous revenue ($798,000), developer contributions ($342,000), and traffic impact and other fees ($61,000). The majority of grant funding consists of allocations for pavement maintenance from the State of California and the Valley Transportation Authority ($50.3 million). The revenue level was $46.1 million (34.5%) below the budgeted estimate and $1.7 million (1.9%) below the prior year level of $89.4 million[1].

The 2021-2022 revenue level was lower than the 2021-2022 Modified Budget estimate of $133.8 million, primarily due to lower receipts from grant funds ($43.8 million), Construction Excise Tax receipts ($1.8 million), and interest earnings ($1.1 million), and partially offset by higher than estimated miscellaneous revenue ($698,000). Grant related revenues of $5.2 million which were not received in 2021-2022 due to project delays were anticipated and rebudgeted as part of the development of the 2022-2023 Adopted Budget. An additional $40.6 million is recommended to be rebudgeted as part of this report, primarily VTA Measure B 2016 pavement maintenance funds that were not received in 2021-2022. The revenue variance to the prior year mainly resulted from lower collections from traffic impact fees ($6.3 million), Construction Excise Tax receipts ($3.9 million), and interest earnings ($740,000), which were partially offset by higher grant-related revenues ($8.6 million).

At $16.2 million, Construction Excise Tax receipts in 2021-2022 were 9.9% below the budgeted estimate of $18.0 million and below 2019-2020 collections of $20.1 million. During the development of the 2023-2027 Capital Improvement Program, the Construction Excise Tax revenue estimate was decreased by $3.0 million, from the $18.0 million estimate included in the 2021-2022 Modified Budget, to align with lower than anticipated collections due to the continued impact of the COVID-19 pandemic. Residential and Commercial permit valuations in 2021-2022 were lower than 2020-2021, with a large decrease in valuation for commercial building projects. The total valuation of residential and commercial projects submitted in 2021-2022 was $1,189.1 million, 21.7% below the $1,518.1 million valuation of residential and commercial projects submitted in 2020-2021 (the Construction Excise Tax does not apply to industrial projects).

[1] The 2020-2021 Annual Report reported total actual revenues of $101.2 million. However, after the release of the report, an adjustment was made to reduce total revenue collections in 2020-2021 by $11.8 million due to a reversal of an accrual of Revenue from Federal Government (Pavement Maintenance (OBAG2) Grant) because the payment was received in 2021-2022 and not in 2020-2021. The revised total amount of actual revenues collected in 2020-2021 was $89.4 million.

CONSTRUCTION EXCISE TAX FUND

Residential valuation of $367.4 million in 2021-2022 was 5.8% lower than the 2020-2021 level of $390.1 million.

A total of 1,887 new residential units received permits in 2021-2022, which was below 2020-2021 actuals of 1,975 units. More significantly, commercial valuation of $821.7 million was 27.2% below the prior year level of $1,128.0 million. Examples of major projects for the year include permits for a four-story, 127-room hotel located on Silver Creek Valley Road west of Route 101 and an eight-story, 782-unit multi-family project located on South Bascom Avenue.

The 2022-2023 Adopted Budget estimate of $16.0 million for Construction Excise Tax allows for a decrease of 1.4% from the actual 2021-2022 collection level.

Expenditures including encumbrances totaled $111.0 million and were $87.2 million (44.0%) below the 2021-2022 Modified Budget. A portion of the expenditure savings ($33.3 million) was anticipated and rebudgeted as part of the 2022-2023 budget process, in addition to the rebudgeting of reserves ($54.0 million). An additional $44.5 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2022-2023. The expenditure level was $14.0 million below the prior year level of $125.0 million, primarily due to lower expenditures on pavement maintenance projects.

Ending Fund Balance Performance ($ in Thousands)

2021-2022 Modified Budget	*2021-2022 Estimated Ending Fund Balance*	*2021-2022 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$260,341	$99,052	$105,355	$6,303	$3,880	$2,423	0.9%

The **Ending Fund Balance** of $105.4 million was $6.3 million above the estimate used in the development of the 2022-2023 Adopted Budget. After accounting for net revenue and expenditure rebudgets of $3.9 million recommended in the Annual Report, this variance decreases to $2.4 million above the estimate. Significant revenue rebudgets include Pavement Maintenance – VTA Measure B 2016 ($29.9 million), TDA – Bicycle and Pedestrian Facilities ($4.4 million), and Measure B Highway Bridge Program ($3.0 million). Significant expenditure rebudgets include Pavement Maintenance – VTA Measure B 2016 ($17.6 million), Pavement Maintenance SB1 Road Repair and Accountability Act 2017 ($11.7 million), Pavement Maintenance – VTA Measure B VRF ($8.4 million), Highway 680 and Jackson Avenue Traffic Signal ($1.4 million), and Pavement Maintenance – Complete Street Project Development ($1.0 million).

As described in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget 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 2022-2023 Ending Fund Balance is recommended to be increased by approximately $4.7 million.

DEVELOPMENT FEE PROGRAM FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2021-2022 Budget	***2021-2022 Actuals***	***Variance***	***% Variance***
Revenues				
Building:	$34,518	$36,575	$2,057	6.0%
Fire:	$7,681	$6,975	($706)	(9.2%)
Planning:	$7,739	$8,248	$509	6.6%
Public Works:	$13,125	$14,482	$1,357	10.3%
Expenditures				
Building:	$39,496	$35,471	($4,025)	(10.2%)
Fire:	$10,233	$9,929	($304)	(3.0%)
Planning:	$7,754	$7,309	($445)	(5.7%)
Public Works:	$15,316	$14,918	($398)	(2.6%)

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 $66.3 million in 2021-2022. Revenues exceeded budgeted levels in the Building, Planning, and Public Works Development Fee Funds, while revenues ended the year below budgeted levels in the Fire Development Fee Fund due to lower than anticipated activity as a result of a large amount of Accessory Dwelling Unit permits that typically do not require a significant level of fire-related inspections. The budget for the Building and Planning programs were revised upward later in the fiscal year subsequent to the adoption of the 2021-2022 budget, making actual revenue performance significantly better than initial expectations.

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 $67.6 million and were primarily for the Personal Services and Non-Personal/Equipment expenditures in all four Development Fee Program Funds. This expenditure level was $5.2 million (7.1%) below the modified budget of $72.8 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	***2021-2022 Modified Budget***	***2021-2022 Estimated Ending Fund Balance***	***2021-2022 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
Building	$67,441	$30,769	$34,027	$3,258	$0	$3,258	4.8%
Fire	$13,521	$2,748	$2,887	$139	$0	$139	1.0%
Planning	$11,135	$4,014	$4,335	$321	$0	$321	2.9%
Public Works	$20,284	$5,942	$6,724	$782	$0	$782	3.9%

The total **Ending Fund Balance** for all four Development Fee Program Funds of $48.0 million was $4.5 million above the estimate used in the development of the 2022-2023 Adopted Budget. These funds will be spent down in future years as projects proceed through the development process. Correspondingly, the 2022-2023 Ending Fund Balance for the Development Fee Program Funds is recommended to be increased by $4.5 million. It is important to note that, after accounting for the clean-up/rebudget actions included in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2022-2023 Ending Fund Balance in the Fire Development Fee Program Fund is $645,000, or only 6% of the Fire Development Fee Program Fund's Modified Budget. The Administration will continue to carefully monitor this fund's status throughout the fiscal year and recommend adjustments as appropriate should revenue or expenditure expectations significantly change.

INTEGRATED WASTE MANAGEMENT FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2021-2022 Budget	*2021-2022 Actuals*	*Variance*	*% Variance*
Revenues	$182,800	$187,571	$4,771	2.6%
Expenditures	$190,817	$186,696	($4,121)	(2.2%)

Revenues totaled $187.6 million and were generated primarily from Recycle Plus collection charges ($174.6 million), AB939 Fees ($4.1 million), property sales ($3.8 million), and a State of California CalRecycle grant ($1.5 million). This revenue level was $4.8 million (2.6%) above the Modified Budget of $182.8 million and $27.0 million (16.8%) above the prior year level of $160.6 million.

The variance to the budget was mainly due to higher than anticipated revenue from Recycle Plus collection charges ($2.4 million), CalRecycle grant funds ($1.5 million), late fees ($662,000), and AB939 Fees ($414,000). The variance to the prior year was due primarily to increased Recycle Plus collection charges ($24.4 million).

Expenditures totaled $186.7 million and were primarily for Single-Family Dwelling (SFD) Recycle Plus contracts ($85.0 million), yard trimmings/street sweeping contract ($30.5 million), Multi-Family Dwelling (MFD) Recycle Plus contracts ($27.7 million), SFD back-end processing ($19.4 million), Environmental Services Department (ESD) personal services costs ($8.4 million), the International Disposal Corporation of California, Inc. (IDC) disposal agreement ($4.9 million), Reimbursement of Citywide Overhead expenses ($2.8 million), ESD non-personal/equipment costs ($3.9 million), and costs for the County Revenue Collection Fee ($1.3 million). This expenditure level was $4.1 million (2.2%) below the Modified Budget of $190.8 million and $20.9 million (12.6%) above the prior year level of $165.8 million.

The variance to the budget was mainly due to savings in Single-Family Recycle Plus ($1.3 million) costs, ESD non-personal/equipment expenses ($1.3 million), and ESD personal services ($638,000) costs. The higher expenditure level compared to the prior year was due primarily to higher costs for SFD Recycle Plus ($13.0 million), Yard Trimming Collection and Processing ($5.0 million), MFD Recycle Plus ($2.4 million), and ESD personal services expenses ($730,000).

INTEGRATED WASTE MANAGEMENT FUND

Ending Fund Balance Performance ($ in Thousands)						
2021-2022 Modified Budget	***2021-2022 Estimated Ending Fund Balance***	***2021-2022 Actual Ending Fund Balance***	***Variance***	***Recommended Rebudget Adjustments***	***Revised Variance***	***Revised Variance as % of Modified Budget***
$205,899	$24,219	$24,091	($128)	$0	($128)	(0.1%)

The **Ending Fund Balance** of $24.1 million was $128,000 below the estimate used in the development of the 2022-2023 Adopted Budget primarily due to the higher than estimated expenditures in Finance Department's non-personal/equipment costs and Planning, Building and Code Enforcement Department's personal services costs. A budget action is recommended to establish funding in the amount of $1.5 million for a CalRecycle Organics Local Assistance Grant, which the City received funds up-front in 2021-2022. After accounting for adjustments recommended in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2022-2023 Ending Fund Balance in the Integrated Waste Management Fund is recommended to be decreased by $1.5 million.

SANITARY SEWER CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2021-2022 Budget	*2021-2022 Actuals*	*Variance*	*% Variance*
Revenues	$39,895	$37,510	($2,385)	(6.0%)
Expenditures	$70,831	$31,924	($38,907)	(54.9%)

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 $37.5 million and were generated from a transfer from the Sewer Service and Use Charge (SSUC) Fund ($35.0 million), joint participation payments ($1.0 million), interest revenue ($763,000), connection fees ($433,000), and funding received from the Valley Transportation Authority ($284,000). This revenue level was $2.4 million (6.0%) below the Modified Budget and $1.6 million (4.3%) above the prior year's level of $35.9 million.

The variance to the budget was due to lower joint participation payments than estimated ($1.5 million) and interest revenue ($1.0 million). The positive variance to the prior year was due primarily to higher transfer from the SSUC Fund ($3.0 million).

Expenditures totaled $31.9 million due to the progress on a variety of capital projects, the largest of which were: 60" Brick Interceptor, Phase VIA and VIB ($7.1 million), Urgent Rehabilitation and Repair Projects ($6.1 million), Cast Iron Pipe – Remove and Replace ($4.4 million), Condition Assessment Sewer Repairs ($4.0 million), Infrastructure – Sanitary Sewer Condition Assessment ($2.8 million), and Sierra Road Sanitary Sewer Improvement ($966,000). This expenditure level was $38.9 million (54.9%) below the Modified Budget and $26.7 million (45.6%) below the prior year's level of $58.6 million.

SANITARY SEWER CAPITAL FUNDS

Expenditures were below the budget by $38.9 million (54.9%) as a result of savings across a number of projects: Immediate Replacement and Diversion Projects ($5.4 million), Blossom Hill and Leigh Sanitary Improvements ($5.0 million), Urgent Rehabilitation and Repair Projects ($4.0 million), Cast Iron Pipe - Remove and Replace ($3.3 million), and Almaden Supplement Sewer Rehabilitation – North ($3.1 million). Several of these projects are recommended to be rebudgeted to 2022-2023 in this report as a result of project delays or were rebudgeted in the 2022-2023 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 ($10.5 million), Immediate Replacement and Diversion Projects ($3.1 million), Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements ($2.5 million), Sierra Road Sanitary Sewer Improvements ($1.2 million), and Urgent Rehabilitation and Repair Projects ($1.1 million).

Ending Fund Balance Performance ($ in Thousands)						
2021-2022 Modified Budget	***2021-2022 Estimated Ending Fund Balance***	***2021-2022 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$108,385	$47,549	$74,076	$26,527	$4,703	$21,824	20.1%

The **Ending Fund Balance** of $74.1 million was $26.5 million above the estimate used in the development of the 2022-2023 Adopted Budget. The actual ending fund balance was above the estimate largely due to lower than anticipated expenditures across several projects, including Immediate Replacement and Diversion Projects ($5.4 million), Urgent Rehabilitation and Repair Projects ($4.0 million), Cast Iron Pipe – Remove and Replace ($3.3 million), Condition Assessment Sewer Repairs ($2.8 million), and Infrastructure – Sanitary Sewer Condition Assessment ($2.8 million). After accounting for all recommended adjustments in the Annual Report as included in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2022-2023 Ending Fund Balance is recommended to be increased by $20.9 million for the SSUCC Fund and $814,000 for the Sanitary Sewer Connection Fee Fund.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE CLEAN ENERGY OPERATING FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2021-2022 Budget	***2021-2022 Actuals***	***Variance***	***% Variance***
Revenues	$407,841	$400,792	($7,049)	(1.7%)
Expenditures	$350,773	$339,376	($11,397)	(3.2%)

Revenues totaled $400.8 million and were primarily generated from the sale of electricity ($351.1 million) and Commercial Paper proceeds ($45.0 million), grant revenue ($4.6 million), and interest earnings ($98,000). This revenue level was $7.0 million (1.7%) below the Modified Budget of $407.8 million, yet $105.1 million (35.5%) above prior year actuals.

The 2021-2022 variance to budget ($7.0 million) was largely due to lower usage of Commercial Paper ($8.0 million) combined with lower than budgeted grant revenue ($2.0 million) and lower interest revenue ($409,000), offset by higher energy sales ($3.4 million). In June 2021, City Council approved a total Commercial Paper authorization of up to $95.0 million for San José Clean Energy (SJCE), $53.0 million of which was allocated in 2021-2022 to cover a projected cash flow shortage. Factors including rising Power Charge Indifference Adjustment (PCIA) fees, a delayed PG&E rate increase, high energy market prices, and bad debt for customer bills due to the pandemic negatively impacted cash flow projections through the first half of 2021-2022.

However, in December 2021, City Council approved SJCE's rate package for 2022 that set rates for its standard product (GreenSource) at 8% above PG&E's rates – inclusive of the PCIA and Franchise Fee Surcharge – based on a PG&E rate increase of 33% that was approved by the California Public Utilities Commission in February 2022. The increased energy rates combined with lower PCIA fees created a favorable environment for SJCE in the second half of 2021-2022. Energy sales of $351.2 million were above the Modified Budget estimate (1.0%) of $347.7 million. Conversely, the amount of Commercial Paper drawn ($45.0 million) fell below the Modified Budget estimate of $53.0 million as SJCE's financial environment markedly improved from the outlook at the beginning of the fiscal year.

Expenditures including encumbrances totaled $339.4 million and consisted primarily of Cost of Energy expenditures ($317.2 million), Community Energy Department non-personal/equipment ($8.6 million) and personal services ($6.0 million) expenditures, City overhead reimbursement ($3.0 million), and PG&E security fees ($1.3 million). This expenditure level was $11.4 million (3.2%) below the Modified Budget of $350.8 million, which reflected savings in the Cost of Energy ($3.6 million), Community Energy Department non-personal/equipment ($2.0 million) and personal services expenditures ($1.5 million), Energy Efficiency Programs ($1.6 million), State electrical energy surcharge payments ($1.2 million), and Letter of Credit Fees ($385,000). This expenditure level was 7.9% above the prior year's level of $314.5 million, primarily attributable to higher Cost of Energy expenditures ($32.3 million).

SAN JOSE CLEAN ENERGY OPERATING FUND

Ending Fund Balance Performance ($ in Thousands)						
2021-2022 Modified Budget	***2021-2022 Estimated Ending Fund Balance***	***2021-2022 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$447,040	$85,706	$100,614	$14,908	$0	$14,908	3.3%

The **Ending Fund Balance** of $100.6 million was $14.9 million above the estimate used in the development of the 2022-2023 Adopted Budget. The variance can primarily be attributed to higher energy sales ($11.1 million), a lower encumbrance balance ($6.3 million), above estimated levels of grant revenue ($4.1 million), and lower than estimated Community Energy Department non-personal/equipment expenditures ($1.0 million), offset by higher than estimated cost of energy ($8.3 million).

As described in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions*, budget actions are recommended to increase the debt service interest payment for Commercial Paper ($854,000), decrease the transfer to the General Fund for the City Hall debt service payment ($162,000), and increase City Attorney's Office, Community Energy, and Finance Departments' personal services budgets ($93,000) for a 1.5% general wage increase approved after the approval of the 2022-2023 Adopted Budget. After accounting for all recommended adjustments, approximately $14.1 million is recommended to be allocated to the 2022-2023 Ending Fund Balance.

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2021-2022 Budget	*2021-2022 Actuals*	*Variance*	*% Variance*
Revenues	$351,596	$189,223	($162,373)	(46.2%)
Expenditures	$520,035	$426,906	($93,129)	(17.9%)

Revenues totaled $189.2 million and were generated primarily from Wastewater Revenue Notes ($86.5 million), Revenue from Local Agencies for projects and debt service payments ($67.2 million), a transfer from the Sewer Service and Use Charge (SSUC) Fund ($33.4 million), and interest income ($1.8 million). This revenue level was $162.3 million (46.2%) below the Modified Budget and $89.9 million (90.6%) above the prior year's level of $99.3 million.

The variance to the budget was due primarily to postponing the issuance of wastewater revenue notes ($151.9 million) to align with the timing of project spending, lower contributions from Santa Clara and the tributary agencies for projects ($8.2 million) as a result of the prior year's reconciliation for actual Treatment Plant expenditures and usage (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 ($2.1 million). The increase from the prior year was due primarily to increased contributions from Santa Clara and the tributary agencies for projects and debt service payments ($55.8 million) and higher revenue from the issuance of wastewater revenue notes ($43.1 million), offset partially by a decreased transfer from the Sewer Service and Use Charge Fund ($4.9 million) due to lower debt service payments, and interest earnings ($1.7 million).

Expenditures totaled $426.9 million and were primarily attributed to capital improvement projects and associated support allocations ($424.3 million) and debt service payments ($2.4 million). The largest expenditures included Digested Sludge and Dewatering Facilities ($150.8 million), New Headworks ($80.6 million), Filter Rehabilitation ($47.3 million), Nitrification Clarifier Rehabilitation ($24.9 million), Digester and Thickener Facilities Upgrade ($24.2 million), Aeration Tanks and Blower Rehabilitation ($16.1 million), Program Management ($13.6 million), and Advanced Facility Control and Replacement ($12.5 million). This expenditure level was $93.1 million (17.9%) below the Modified Budget and $23.3 million (5.8%) higher than the prior year's level of $403.6 million.

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

After accounting for rebudgets included in the 2022-2023 Adopted Budget, the variance between the Modified Budget and actual expenditures falls to $93.1 million, with a majority of the variance attributed to Support Building Improvements ($17.9 million), Digester and Thickener Facilities Upgrade ($12.9 million), and Yard Piping and Road Improvements ($10.7 million). Expenditures were slightly higher than the prior year, with the most significant increases year-over-year being Digested Sludge Dewatering Facilities ($132.0 million), Storm Drain System Improvements ($7.5 million), and Outfall Bridge and Levee Improvements ($6.0 million). The most significant decreases year-over-year were New Headworks ($45.4 million), Digester and Thickener Facilities Upgrade ($21,1 million), Energy Generation Improvements ($12.3 million), Nitrification Clarifier Rehabilitation ($9.6 million), and Aeration Tanks and Blower Rehabilitation ($7.5 million).

Ending Fund Balance Performance ($ in Thousands)						
2021-2022 Modified Budget	***2021-2022 Estimated Ending Fund Balance***	***2021-2022 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$529,171	$88,537	($56,902)	($145,439)	$150,190	$4,751	0.9%

The **Ending Fund Balance** of negative $56.9 million was $145.4 million below the estimate used in the development of the 2022-2023 Adopted Budget. The negative Ending Fund Balance is attributable to $253.2 million in encumbrances for construction projects that have not yet incurred actual expenditures and the corresponding deferral of issuing $151.9 million in wastewater revenue notes to 2022-2023 when the actual expenditures for the capital projects are expected. The wastewater revenue notes provide funding for project expenditures at the Regional Wastewater Facility, but notes are issued only after expenses are incurred. This creates a time lag between when a contract encumbered and when the revenue is needed to pay for expenses. While the Ending Fund Balance shows a negative amount, this does not represent a negative cash balance or a cash flow problem within the fund. Rebudgeting the financing proceeds from wastewater notes in the amount of $151.9 million is recommended in this report to resolve the budgetary gap and ensure sufficient capacity to support the expenditures that are anticipated for 2022-2023. 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 *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2022-2023 Ending Fund Balance in the San José-Santa Clara Treatment Plant Capital Fund is recommended to be increased by $4.8 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2021-2022 Budget	***2021-2022 Actuals***	***Variance***	***% Variance***
Revenues	$273,141	$277,074	$3,932	1.4%
Expenditures	$293,183	$278,169	($15,013)	(5.1%)

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 $273.1 million and were generated primarily from sewer service and use charges for residential ($143.2 million), commercial ($21.3million), and industrial ($4.7 million) users; a transfer from the SSUC Fund to the Plant Operating Fund ($64.0 million); contributions from tributary agencies ($22.6 million) and the City of Santa Clara ($17.3 million); and Connection Fees ($1.3 million). This revenue level was $3.9 million (1.4%) above the Modified Budget and $1.9 million (0.7%) above the prior year's level of $271.2 million.

The variance to the budget of $3.9 million (1.4%) was mainly due to higher contributions from the City of Santa Clara ($3.6 million), tributary agencies ($3.2 million) and connection fees ($1.3 million), partially offset by lower Sewage Treatment Plant Connection Fees ($2.4 million), SSUC charges ($1.4 million) and interest revenues ($687,000). Revenues came in $1.9 million (0.7%) higher than the prior year due primarily due to higher contributions from the City of Santa Clara ($4.0 million) and tributary agencies ($2.3 million), and a higher transfer from the SSUC Fund to the Plant Operating Fund ($1.7 million), offset by lower SSUC Charges ($3.8 million), interest earnings ($617,000), and Connection Fees ($301,000).

Expenditures totaled $278.2 million and consisted primarily of transfers to the Treatment Plant Operating Fund ($64.0 million), the Sewer Service and Use Charge Capital Fund ($35.0 million), and the Treatment Plant Capital Fund ($33.4 million); Environmental Services Department (ESD) personal services ($55.8 million) and non-personal/equipment ($39.8 million) costs; overhead reimbursements ($17.6 million); and Department of Transportation (DOT) personal services ($15.6 million) and non-personal/equipment ($8.8 million) costs. This expenditure level was $15.0 million (5.1%) below the Modified Budget, and $9.1 million (3.4%) above the prior year's level of $269.1 million.

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Expenditures ended the year $15.0 million (5.1%) below the budget primarily due to ESD personal services ($5.1 million) and non-personal/equipment ($3.6 million) savings, no expenditures for the Legacy Lagoons Remediation project due to rescheduling the project to 2022-2023 ($2.5 million), savings from the major litigation costs budget ($1.3 million) which saw minimal activity in 2021-2022, DOT personal services ($485,000) and non-personal/equipment ($274,000) savings, and Public Works Department's personal services savings ($415,000). Expenditures ended the year $9.1 million (3.4%) above the previous year's expenditures due primarily to increased transfers to the Sewer Service and Use Charge Capital Fund ($3.0 million) and the Treatment Plant Capital Fund ($1.7 million); ESD non-personal/equipment ($4.7 million) and personal services ($1.5 million) expenditures; and increased DOT personal services ($850,000) and non-personal/equipment ($1.7 million) expenditures.

Ending Fund Balance Performance ($ in Thousands)						
2021-2022 Modified Budget	***2021-2022 Estimated Ending Fund Balance***	***2021-2022 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$428,944	$158,495	$154,985	($3,510)	$390	($3,899)	(0.9%)

The **Ending Fund Balance** of $155.0 million was $3.5 million below the estimate used in the development of the 2022-2023 Adopted Budget and primarily due to lower than estimated sewer service and use charges revenue from commercial customers ($3.7 million) and industrial customers ($600,000), interest revenues and ($850,000) and Connection Fees ($1.1 million), offset primarily by lower than estimated expenditures for DOT non-personal/equipment services ($1.8 million) and Major Litigation Costs ($1.3 million).

After accounting for rebudget adjustments, the 2021-2022 Ending Fund Balance variance increases to $3.9 million. The recommended various actions in *Section IV – Recommended Budget Adjustments and Clean-Up Actions* result in the following changes to the 2022-2023 Ending Fund Balance: a decrease of $1.6 million in the Sewer Service and Use Charge Fund, a decrease of $2.6 million in the San José-Santa Clara Treatment Plant Operating Fund, a decrease of $1.0 million in the Sewage Treatment Plant Connection Fee Fund, and an increase of $144,000 in the San José-Santa Clara Treatment Plant Income Fund.

WATER UTILITY CAPITAL FUNDS

Revenue and Expenditure Performance ($ in Thousands)				
	2021-2022 Budget	***2021-2022 Actuals***	***Variance***	***% Variance***
Revenues	$8,052	$8,067	$15	0.2%
Expenditures	$20,522	$11,917	($8,605)	(41.9%)

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

Revenues totaled $8.1 million and were generated from a transfer from the Water Utility Fund ($7.8 million), interest income ($241,000), and fees paid by developers ($26,000). The fees consist of Service Connection Fees ($14,000), Advanced System Design Fees ($5,000), Major Facilities Fees ($4,000), and Meter Installation Fees ($3,000). This revenue level was $15,000 (0.2%) above the Modified Budget primarily due to interest income ($64,000), offset by lower revenue from the developer fees ($49,000). Revenues were $346,000 (4.5%) above the prior year's level of $7.7 million, due primarily to an increased transfer from the Water Utility Fund for capital projects ($500,000), offset by decreased interest revenue ($121,000) and Major Facility Fee revenue ($25,000).

Expenditures totaled $11.9 million for several capital projects, the largest of which were Annual Water Main Replacement ($4.5 million), the Water Resources Administration and Operations Facility ($2.1 million), System Maintenance and Repairs ($1.8 million), and Infrastructure Improvements ($1.3 million). This expenditure level was $8.6 million (41.9%) below the Modified Budget and $3.3 million (38.9%) above the prior year's level of $8.6 million.

Expenditures were below the budget by $8.6 million (41.9%) as a result of savings and unexpended funds across a number of projects, which included: the Water Resources Administration and Operations Facility ($3.3 million), North San José Reliability Well #6 Construction ($2.1 million), and North San José Well #5 Development and Construction ($1.9 million). Several of these projects have been rebudgeted in the 2022-2023 Adopted Budget or are recommended to be rebudgeted in this report because of project delays. Expenditures were above the prior year primarily due to higher expenses for the Water Main Replacement ($4.2 million), higher expenses for System Maintenance Repairs ($785,000), Infrastructure Replacement ($741,000), and the start of the Water Resources Administration and Operations Facility project ($358,000). These higher project expenditures were offset by lower expenditures for the Fowler Pump Station Replacement project, which neared completion at the end of 2021-2022.

WATER UTILITY CAPITAL FUNDS

Ending Fund Balance Performance ($ in Thousands)						
2021-2022 Modified Budget	*2021-2022 Estimated Ending Fund Balance*	*2021-2022 Actual Ending Fund Balance*	*Variance*	*Recommended Annual Report Rebudget Adjustments*	*Revised Variance*	*Revised Variance % (incl. Rebudget Adjustment)*
$29,463	$14,024	$17,715	$3,691	$3,564	$127	0.4%

The **Ending Fund Balance** of $17.7 million was $3.7 million above the estimate used in the development of the 2022-2023 Adopted Budget. After accounting for the $3.6 million of recommended adjustments in the Annual Report as included in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2022-2023 Ending Fund Balance is recommended to be increased by approximately $105,000 for the Water Utility Capital Fund and approximately $22,000 for the Major Facilities Fund.

WATER UTILITY OPERATING FUND

Revenue and Expenditure Performance ($ in Thousands)				
	2021-2022 Budget	***2021-2022 Actuals***	***Variance***	***% Variance***
Revenues	$57,907	$56,106	($1,801)	(3.1%)
Expenditure	$60,481	$59,812	($669)	(1.1%)

Revenues totaled $56.1 million and were generated from potable ($47.1 million) and recycled water ($7.3 million) sales, late fees ($957,000), interest earnings ($57,000), and miscellaneous revenues ($171,000). This revenue level was $1.8 million (3.1%) below the Modified Budget and $2.5 million (4.7%) above the prior year's level of $53.6 million.

Revenues ended the year below the budget primarily due to lower than anticipated potable water sales ($2.7 million) and interest revenue ($377,000), offset by higher than anticipated recycled water sales ($510,000), late fee revenues ($157,000) and miscellaneous revenues for metal recycling ($71,000). The increase over the prior year was due primarily to higher than anticipated recycled water sales ($948,000), potable water sales ($936,000), miscellaneous revenues ($110,000), and late fees ($65,000), offset by lower interest revenue ($67,000).

Expenditures totaled $59.8 million and were primarily for Environmental Services Department (ESD) non-personal/equipment costs of $38.0 million ($27.7 million was attributed to the purchase of wholesale potable water and $5.7 million to wholesale recycled water), ESD personal services costs ($8.6 million), a transfer to the Water Utility Capital Fund ($7.8 million), and the reimbursement of overhead costs ($1.7 million). This expenditure level was $669,000 (1.1%) below the Modified Budget mainly due to an effort to generate savings in the ESD non-personal/equipment budget – encumbrances were liquidated and spending was halted towards the end of the fiscal year ($443,000), and savings from the customer information system transition allocation ($145,000) and Information Technology Department non-personal/equipment expenses ($118,000). These savings were offset by unanticipated charges for Compensated Absence Liabilities, resulting in a negative balance of $185,362 in the ESD Department's Personal Services appropriation. The personal services' overage will be corrected with a ratification action by City Council on October 18, 2022, to align expenditures with final appropriated levels. Overall, the expenditure level was $1.9 million (3.2%) above the prior year's level of $58.0 million primarily due to higher ESD personal services expenditures ($1.2 million) and a higher transfer to the Water Utility Capital Fund ($500,000), offset by lower ESD non-personal/equipment expenditures ($546,000).

WATER UTILITY OPERATING FUND

Ending Fund Balance Performance ($ in Thousands)						
2021-2022 Modified Budget	***2021-2022 Estimated Ending Fund Balance***	***2021-2022 Actual Ending Fund Balance***	***Variance***	***Recommended Annual Report Rebudget Adjustments***	***Revised Variance***	***Revised Variance % (incl. Rebudget Adjustment)***
$74,365	$14,653	$13,923	($730)	$0	($730)	(1.0%)

The **Ending Fund Balance** of $13.9 million was $730,000 below the estimate used in the development of the 2022-2023 Adopted Budget. The Ending Fund Balance was lower than the estimate primarily due to higher than estimated ESD non-personal/equipment costs ($2.1 million) and lower interest earnings ($143,000), offset by higher than estimated revenue from water sales ($440,000), revenue from the Municipal Water Services Arrearages Program ($541,000), and late fees ($157,000), and lower encumbrances ($328,000). Accordingly, as included in *Section IV – Recommended Budget Adjustments and Clean-Up Actions,* the 2022-2023 Ending Fund Balance in the Water Utility Fund is recommended to be decreased by $730,000.