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.

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

	2022-2023 Current Modified	2022-2023 YTD Actual	2022-2023 % of Budget
Revenues – Airport Revenue Fund	208,547,707	96,376,633	46.2%
Expenditures – Airport Maintenance and Operation Fund	128,096,952	44,252,449	34.5%
Ending Fund Balance – Airport Revenue Fund	96,672,171	N/A	N/A
Ending Fund Balance – Airport Maintenance and Operation Fund	26,011,327	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 San José Mineta International Airport.

FUND STATUS

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

Overall revenue performance at the Airport of $96.4 million is tracking at 46.2% of the estimated budget and is above the benchmark through December. The 2022-2023 budget was built assuming passenger levels of approximately 12.0 million, or an approximate 22% increase from the 2021-2022 level of 9.8 million passengers. Through December 2022, passenger levels of 6.3 million are up 31.9% (1.5 million) from the same period last fiscal year. Passenger airline operations (takeoffs and landings) are 25.9% higher than last year. In late December, Southwest Airlines experienced wide-scale disruptions that resulted in flight delays and cancellations nationwide. There were service impacts to the airport over this multi-day event; however, revenue and passenger numbers are still expected to reach budgeted levels by year-end. Landing Fees and Airfield revenues, which are associated with the number of flights rather than the number of passengers, are tracking in line with budgeted levels. Terminal Rental revenues are tracking very slightly below budgeted levels at 96.2% of the budgeted estimate due to lower than anticipated use of common gates and ticket counters. Conversely, Terminal Concessions, Parking and Roadway, 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. Terminal Concessions revenue has continued to be strong as passenger levels grow and additional concessions are opening at the Airport.

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

FUND STATUS

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 also tracking above budgeted levels, primarily the result of the timing of revenue collection.

The total budgeted revenue of $208.5 million includes $28.9 million in federal funding from the American Rescue Plan Act (ARPA) to partially offset the reduced revenue resulting from the pandemic's effect on passenger levels. Federal relief funding is received based on expenditure reimbursement requests and through December, $5.7 million has been received. Use of federal grant funding in 2022-2023 is determined based on the need to offset reduced revenues. It is expected that between $20.0 million and $28.9 million of the ARPA funding will be received in 2022-2023. If the $28.9 million is fully collected, the Airport will have $20.0 million remaining of ARPA available to use if needed before 2025.

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 $44.3 million are tracking at 34.5% of budget. Through December, Airport's personal services and non-personal/equipment expenditures of $32.9 million are tracking at 32.6% of the combined budgeted levels.

Personal services expenditures of $17.5 million are tracking below benchmark levels of 50.0% at 44.3% of budget. The savings are due to a 13.0% vacancy rate (29 vacancies) as of December 2022. Overtime expenditures of $252,000, or 57.6% 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 25.1% of budget; with encumbrances, non-personal/equipment expenditures of $40.3 million are at 65.6% of the total modified budget. It is anticipated that through close monitoring of spending levels, the Non-Personal/Equipment appropriation will end the year within budgeted levels.

Through December 2022, interdepartmental expenditures (charges for staff and services located in other City departments including the Police and Fire Departments) total $9.7 million, which represents approximately 48.5% of the interdepartmental budget. Expenditures are on track to end the year within budgeted levels.

Ending Fund Balance – The actions detailed in this report have no effect on the Ending Fund Balance of the Airport Revenue Fund and Airport Maintenance and Operation Fund. Further details on the adjustments can be found in Section III of this report, *Recommend Budget Adjustments and Clean-up Actions.*

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

	2022-2023 Current Modified	2022-2023 YTD Actual	2022-2023 % of Budget
Revenues	95,053,000	19,596,483	20.6%
Expenditures	144,093,594	13,123,450	9.1%
Unrestricted Ending Fund Balance	15,210,452	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 slightly below anticipated levels. Through the first half of 2022-2023, Building and Structure Construction Tax receipts totaled $9.5 million through December, 50.0% of the 2022-2023 Adopted Budget estimate of $19.0 million, reflecting higher than anticipated development permit activity in the commercial and industrial land use categories, and lower activity levels for residential permits. This collection level is 38.4% above prior year collections of $6.9 million for the same period. Based on collections through December, tax receipts are expected to meet the budgeted estimate of $19.0 million by the end of the year.

Other major revenue sources in the Building and Structure Construction Tax Fund include grants from federal, state, and local agencies. In November 2022, the City invoiced the State of California Department of Transportation (Caltrans) for $8.0 million in state funds that were allocated for implementing improvements for the Warm Springs Quiet Zone. This reimbursement represents a majority of the grant revenue received in the Building and Structure Construction Tax Fund through December. Overall, grant revenue 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 the State of California for state funds earmarked for the East San José Corridor Safety Improvement Project ($300,000) and for a Sustainable Transportation Planning grant for the North San José Multimodal Transportation Improvement Plan ($250,000). The City will receive a total of $10 million from the state for the East San José Corridor Safety Improvement Project. A memorandum is anticipated to be brought forward to the City Council in the February/March time frame to approve an agreement with Caltrans and receive the funds. The remaining $9.7 million will be programmed in the development of the 2024-2028 Proposed Capital Improvement Program.

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

FUND STATUS

Expenditures – Overall expenditures of $13.1 million are tracking at 9.1% of the Modified Budget. In addition, $11.6 million has been encumbered to date, bringing total commitments ($24.7 million) through December to 17.2% 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 will be included in the 2023-2024 Adopted Capital Budget for project completion. This report also includes expenditure adjustments to establish the Vision Zero: Senter Road and Balfour Drive Safety Improvements project to fund project management staff, material, and installation of street light retrofits on Senter Road ($300,000), and the North San José Multimodal Transportation Improvement Plan for consultant services related to plan development ($250,000). 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 decrease of $59,555 to the Ending Fund Balance is included as a result of the action recommended in this report to transfer funds to the General Fund for the higher than anticipated interest rates related to the TRANs debt. After accounting for this action, the revised Ending Fund Balance will decrease to $15.15 million. Further details on the adjustment can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

CONSTRUCTION AND CONVEYANCE TAX FUNDS

	2022-2023 Current Modified	2022-2023 YTD Actual	2022-2023 % of Budget
Revenues	77,760,000	28,862,327	37.1%
Expenditures	151,152,905	22,013,995	14.6%
Unrestricted Ending Fund Balances	32,393,920	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, 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 commercial paper proceeds of $6.4 million. Through December, revenue in the C&C Tax Funds totaled $28.9 million, which is 37.1% of the 2022-2023 Modified Budget of $77.8 million.

C&C Tax receipts are the largest source of revenue for the C&C Tax Funds. Through December 2022, C&C Tax receipts totaled $18.9 million, which represents 37.8% of the 2022-2023 Adopted Budget estimate ($50.0 million) and is 36.4% below the prior year collection level. In addition, January Conveyance receipts have been received from Santa Clara County, which total $2.8 million and are 60.8% below the January 2022 Conveyance collection level. When taking into account total receipts through December and the estimated January collections, C&C Tax receipts in 2022-2023 total $21.7 million, 43.4% of the 2022-2023 budgeted estimate, and 41.0% below the prior year collection level. When the 2022-2023 Adopted Capital Budget was developed, C&C receipts were anticipated to total $50.0 million (22.4% decline from the 2021-2022 collection level) due to higher interest rates that impact mortgage rates coupled with uncertainty in the overall economy. However, due to sharper declines than anticipated through the first half of the fiscal year, C&C Tax receipts are now anticipated to end the year at $45.0 million. Therefore, a recommendation is included in this report to decrease the C&C Tax estimate by $5.0 million, from $50.0 million to $45.0 million. The $5.0 million decrease reduces the revenue estimate in each C&C Tax Fund as follows: Parks Central C&C Tax allocation ($3.2 million), Library C&C Tax allocation ($711,000), Service Yards C&C Tax allocation ($439,000), Fire C&C Tax allocation ($420,000), Communications C&C Tax allocation ($170,000), and Park Yards C&C Tax allocation ($60,000). As further described in *Section III. Recommended Budget Adjustments and Clean-up Action*, the loss of revenue is recommended to be offset by a reduction to the Ending Fund Balance of each respective fund.

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 is experiencing a significant slowing of property transfers. In addition, while remaining relatively strong, home prices have begun to decline. In December 2022, the median single-family home price totaled $1.3 million, which is 11.9% lower than the December 2021 price of $1.5 million. In addition, homes are staying on the market for longer periods of time before selling: the average days-on-market through December 2022 totaled 25 days, which is significantly above the average of 16 days experienced year-to-date through December 2021. Finally, as mentioned, property sales activity has been significantly declining; property sales for the first half of the fiscal year dropped almost 32% compared to the prior-year sales.

<u>Expenditures</u> – Overall, expenditures in the various C&C Tax Funds are anticipated to end the year within budgeted levels. Through December, expenditures totaled $22.0 million, or 14.6% of the 2022-2023 Modified Budget of $151.2 million. An additional $15.5 million has been encumbered through December, bringing the total amount committed to $38.7 million, or 24.8% of the 2022-2023 Modified Budget. This report recommends expenditure adjustments to the following projects:

- Trail: Coyote Creek (Mabury Road to Empire Street) ($1.3 million Parks City-Wide C&C Tax Fund);
- Building Forward Library Infrastructure Grant ($944,000 Library C&C Tax Fund);
- Building Forward Library Infrastructure Grant – Local Match ($600,000 Library C&C Tax Fund);
- Hanchett Park Development ($300,000 Parks Council District 6 C&C Tax Fund);
- Happy Hollow Park and Zoo Public Announcement System ($180,000 Parks City-Wide C&C Tax Fund);
- Guadalupe Gardens Prototype Park ($150,000 Parks City-Wide C&C Tax Fund);
- Cypress Community Center Roof Replacement ($90,000 Parks Council District 1 C&C Tax Fund); and
- Bascom Community Center Marquee ($26,000 Parks Council District 6 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*.

<u>Ending Fund Balance</u> – 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 decreased by $3.8 million (from $32.4 million to $28.6 million) as a net result of the actions cited above and other clean-up actions as detailed in Section III of this report.

CONSTRUCTION EXCISE TAX FUND

	2022-2023 Current Modified	2022-2023 YTD Actual	2022-2023 % of Budget
Revenues	129,859,479	19,319,699	14.9%
Expenditures	174,434,482	44,833,352	25.7%
Unrestricted Ending Fund Balance	11,566,581	N/A	N/A

FUND STATUS

Revenues – Construction Excise Tax receipts totaled \$4.9 million through December, 30.9% of the 2022-2023 Adopted Budget estimate of \$16.0 million, reflecting lower than anticipated residential development permit activity partially offset by higher commercial activity. This collection level is 18.5% below prior year collections of \$6.1 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 approximately \$2.0 million below the budget estimate of \$16.0 million. A recommendation is included in this report to decrease the revenue for Construction Excise Tax by \$2.0 million to bring the budget estimate in line with expected year-end tax receipts.

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 other net revenue adjustment recommendations that increase revenue in the Construction Excise Tax Fund by a total amount of \$651,000. The adjustments consist of a decrease to the estimate for Revenue from Local Agencies based on actual revenue received from the Valley Transportation Agency Measure B VRF funds for pavement maintenance (\$269,000), an increase to the estimate for Revenue from State of California for Transportation Development Act grant funds for bicycle and pedestrian facilities (\$700,000) and a Sustainable Transportation Planning grant for work on a Decision Support System (\$100,000), and an increase to the estimate for Revenue from the Federal Government for Vision Zero multimodal traffic safety education (\$120,000).

CONSTRUCTION EXCISE TAX FUND

FUND STATUS

<u>Expenditures</u> – Overall expenditures of $44.8 million are tracking at 25.7% of the Modified Budget. An additional $61.9 million has been encumbered to date, bringing total commitments ($106.7 million) through December to 61.2% of the Modified Budget, excluding reserved funds. Any remaining project balances at year-end are anticipated to be rebudgeted and included in the 2023-2024 Adopted Capital Budget for project completion. This report also includes a limited number of expenditure adjustments, the notable ones are listed below.

- Increase Bicycle and Pedestrian Facilities project ($700,000);
- Establish the San José Decision Support System project ($299,935); and
- Establish the Vision Zero: Multimodal Traffic Safety Education project ($120,000).

Further detail regarding these recommendations can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

<u>Ending Fund Balance</u> – A net decrease of $6.9 million to the Ending Fund Balance is included as a result of the actions recommended in this report, including a downward adjustment of $7.9 million based on the reconciliation of final audited actuals as part of the 2021-2022 Annual Consolidated Financial Report that included the deferral of One Bay Area Grant 2 – Pavement Maintenance grant revenue previously recorded in 2021-2022, and partially offset by recognizing $2.8 million of that revenue in 2022-2023. Of the remaining $5.1 million, $2.5 million is expected to be recognized in future years as capital work proceeds while $2.3 million in revenue related to the OBAG 2 – Pavement Maintenance grant will not be received nor expended. After accounting for all these actions, the revised Ending Fund Balance will decrease to $4.6 million. Further details on the adjustments can be found in Section III of this report, *Recommended Budget Adjustments and Clean-up Actions*.

DEVELOPMENT FEE PROGRAM FUNDS

	2022-2023 Current Modified	2022-2023 YTD Actual	2022-2023 % of Budget
Revenues			
Building:	$33,966,338	$18,605,545	54.8%
Fire:	$7,892,700	$4,223,403	53.5%
Planning:	$8,341,858	$4,051,186	48.6%
Public Works:	$13,875,000	$6,520,627	47.0%
Expenditures			
Building:	$43,194,207	$16,664,772	38.6%
Fire:	$10,538,206	$4,418,498	41.9%
Planning:	$8,189,456	$3,713,616	45.3%
Public Works:	$15,266,427	$8,009,459	52.5%
Unrestricted Ending Fund Balance			
Building:	$25,277,230	N/A	N/A
Fire:	$644,956	N/A	N/A
Planning:	$4,495,441	N/A	N/A
Public Works:	$5,392,411	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 $33.4 million through December, which is 52.1% of the 2022-2023 Modified Budget of $64.1 million. These revenue collections are primarily from licenses and permits, and fees, rates, and charges as a result of development activity. Total revenues represent an increase of 9.5% compared to the prior year level for the same period ($30.2 million).

DEVELOPMENT FEE PROGRAM FUNDS

FUND STATUS

The Building Development Fee Program revenues through December of $18.6 million are tracking above anticipated levels at 54.8% of the budget estimate due to a higher than anticipated level of development permit activity and are projected to end the year above the estimated budget by $2.0 million.

The Fire Department related fees and charges collections of $4.2 million through December 2022 are tracking above anticipated levels at 53.5% of the budget estimate. The 2022-2023 budgeted estimate of $7.8 million represents a 13% increase from the 2021-2022 actual collection level of $6.9 million; however, year-to-date performance relative to same period in 2021-2022 is 38.5% higher. This trend is largely driven by higher than anticipated revenue from Fire Code Plan Inspections, which has exceeded prior year levels by 58.7% ($905,384) in response to building code changes effective in January 2023. Developers/contractors strived to secure approvals for projects under the previous code requirements, advancing activity levels for small, medium, and large projects that required Fire Code Plan Inspections.

The Planning Development Fee Program revenues through December of $4.1 million are tracking slightly below anticipated levels at 48.6% of the estimated budget and are projected to end the year below the estimated budget by $700,000.

Through December, the Public Works Development Fee revenue of $6.5 million is 5.0% above the prior year collection level of $6.2 million. The Public Works Development Fee Program total revenue collections are comprised of $3.8 million from the Development Services Fee Program, $2.7 million from the Utility Fee Program, and approximately $27,000 of interest. The Public Works Development Fee Program Fund is tracking slightly below anticipated levels for this fiscal year, 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 exceed the budgeted estimate of $13.9 million by $1.0 million.

Expenditures – Overall expenditures for all Development Fee Program Funds totals $32.8 million through December, which is 42.5% of the 2022-2023 Modified Budget of $77.2 million. In addition, $1.4 million has been encumbered to date, bringing total commitments ($34.2 million) through December to 44.2% of the Modified Budget.

DEVELOPMENT FEE PROGRAM FUNDS

FUND STATUS

Appropriations in these funds are tracking within budgeted levels with the exception of the personal services for the Public Works Department, Fire Department, Office of Economic Development and Cultural Affairs, City Attorney's Office, and Development Fee Program Shared Resources, which are tracking to exceed by a total of $1.3 million. Public Works personal services costs are tracking high due primarily to unbudgeted costs for work on the Downtown West and BART Phase II projects. A recommended adjustment to the Public Works Development Fee Program Personal Services appropriation in the amount of $127,000 for the Salary and Benefits Program will address a portion of the higher costs. It is likely another increase to the appropriation will be necessary to align budgeted amounts to actual expenses and will be brought forward as part of the 2022-2023 year-end budget process. The other Personal Services appropriations will be monitored, and any adjustments will be brought forward as part of the 2022-2023 year-end budget process.

The Building Development Fee Program Personal Services appropriation is tracking to end the year with estimated savings of $6.0 million due to vacancies. The Building Division Plan Review team had eight engineering positions vacant as of December 2022, and an overall vacancy rate of 33% for the last year. To address the plan check backlog and improve response times, an adjustment in the Building Development Fee Program Fund to reallocate $1.0 million from personal services vacancy savings to non-personal/equipment expenses to fund six peak staffing positions is recommended in this report.

<u>*Ending Fund Balance*</u> – A net decrease to the Ending Fund Balance of $377,000 is recommended in this report to offset actions related to the Salary and Benefits Program and transfers to the General Fund for TRANs debt service. With these actions, the revised Ending Fund Balance totals $35.4 million, which will primarily 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 Actions*, of this report.

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INTEGRATED WASTE MANAGEMENT FUND

	2022-2023 Current Modified	2022-2023 YTD Actual	2022-2023 % of Budget
Revenues	194,400,776	166,060,289	85.4%
Expenditures	206,840,059	$66,052,018	31.9%
Unrestricted Ending Fund Balance	2,270,833	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, $186.6 million); AB 939 fees ($4.8 million); payments received from the Construction and Demolition Diversion Deposit (CDDD) Program ($800,000); Recycle Plus Late Fees ($554,000); revenue from land rentals ($512,000); revenue received from Santa Clara County for Household Hazardous Waste programs ($400,000); interest earnings ($293,000); SB 332 Beverage Container Recycling payments ($254,000); and tags for extra garbage ($206,000).

Through December, revenues totaled $166.1 million, or 85.4% of budget, and were generated primarily from Recycle Plus Collection Charges ($163.1 million); AB 939 fees ($1.4 million); Recycle Plus Late Fees ($580,000); revenue from land rentals ($271,000); SB 332 Beverage Container Recycling payments ($254,000); interest earnings ($134,000); revenues from tags for extra garbage ($125,000); and CDDD revenues ($61,000). The high percentage of revenue received year-to-date is due to payments from the Recycle Plus – Single Family Dwellings, which is paid upfront towards the beginning of the fiscal year. Overall, revenues are expected to end the year slightly above budget.

For 2022-2023, the Recycle Plus rates increased by 8% for single-family dwellings and 4% for multi-family dwellings. Similar levels of rate increases are preliminarily anticipated for residential customers in 2023-2024 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 2023-2024 budget development and rate-setting process.

INTEGRATED WASTE MANAGEMENT FUND

FUND STATUS

Expenditures – Through December, $66.1 million (31.9%) was expended, with an additional $128.4 million (62.1% of budget) encumbered, bringing the total commitments to $194.4 million (94.0% of budget). The year-to-date expenditures and encumbrances of $194.4 million are attributed primarily to the Recycle Plus contracts for Single-Family Dwelling ($94.5 million), Yard Trimmings/Street Sweeping ($32.9 million), and Multi-Family Dwelling ($30.3 million). Additional expenditures include Single Family Dwelling Processing ($20.7 million), IDC Disposal Agreement ($4.9 million), Environmental Services Department (ESD) Personal Services ($4.2 million), and ESD Non-Personal/Equipment ($3.1 million) appropriations.

Overall, expenditures are expected to meet budgeted levels with some potential savings. At this time, there is anticipated savings in the ESD Personal Services appropriation ($750,000) due to vacancies in the department. Savings are also projected in Non-Personal/Equipment appropriations for other City departments ($165,000). Staff will continue to closely monitor expenditures as the fiscal year progresses. This report also includes adjustments to increase Banking Services ($55,000) and Workers' Compensation ($50,000) appropriations.

Ending Fund Balance – A decrease to the Ending Fund Balance of $162,809 is recommended in this report to offset actions related to the Salary and Benefits Program, Banking Services, TRANs Debt Service Transfer and Workers' Compensation. With these actions, the revised Ending Fund Balance totals $2.1 million. Further details on the above adjustments can be found in Section III, *Recommended Budget Adjustments and Clean-up/Rebudget Actions*, of this report.

SAN JOSE CLEAN ENERGY FUND

	2022-2023 Current Modified	2022-2023 YTD Actual	2022-2023 % of Budget
Revenues	416,796,865	267,252,264	64.1%
Expenditures	333,717,298	212,602,544	63.7%
Unrestricted Ending Fund Balance	168,486,381	N/A	N/A

FUND STATUS

Revenues – Revenues through December totaled $267.3 million, or 64.1% of the Modified Budget estimate of $416.8 million. Budgeted revenues in the San José Clean Energy (SJCE) Fund consist of Energy Sales ($411.9 million), energy program grants ($4.2 million), and interest earnings ($700,000). The largest source of revenue in this fund, Energy Sales, collected $264.7 million through December, 64.3% of the Modified Budget estimate, and is anticipated to exceed budgeted projections by year-end.

The City Council-approved rate package for 2022 set rates for GreenSource, SJCE's standard service, at 8% above PG&E's rates – inclusive of the Power Charge Indifference Adjustment (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 PCIA had been steadily rising (PCIA increased over 900% between 2013 and 2021, and 41% from 2020 to 2021). Then in 2022, the PCIA decreased considerably, down 75% from 2021. Lower PCIA combined with the increase in energy rates in 2022 created a favorable financial environment for SJCE, which was a marked improvement from 2021.

In 2021, SJCE's financials projected a cash flow shortage for which City Council approved a total Commercial Paper (CP) Notes authorization of up to $95.0 million; a total of $60.0 million was drawn. SJCE's improved financial position enables SJCE to begin to repay CP and attain 90 days of operating expenses in reserve in 2022-2023. The City Council-approved rate package for 2023 is forecast to further improve SJCE's financial condition. On December 6, 2022, City Council approved SJCE's shift to cost-of-service rate setting in place of setting rates at a discount or premium to PG&E's standard generation rates, inclusive of PG&E added fees. Beginning on January 1, 2023, SJCE rates are estimated to be slightly below PG&E rates (1-3%) and Community Energy Department staff estimate building operating reserves to 180 days by the end of calendar year 2023. The new rate schedule means that SJCE's standard service, GreenSource, will cost less in 2023 and will be less expensive than PG&E. SJCE will, therefore, transfer its GreenValue customers to its GreenSource product. Customers will save money and receive 20 percent more renewable energy in 2023 (from 40% to 60%). The GreenValue product will be suspended.

SAN JOSE CLEAN ENERGY FUND

FUND STATUS

Increased load demand, the result of extreme weather events such as the summer 2022 heat wave, contribute to SJCE's increased revenue projections. As a result, actions are recommended in this report to increase the Sale of Energy revenue estimate by $94.0 million, from $411.9 million to $505.9 million.

<u>*Expenditures*</u> – 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 ($297.2 million) at 89.1% of the total budget. The next largest budgeted expenditures are Community Energy Non-Personal/Equipment ($10.2 million) that provide for data management, power supply management, and outside legal/regulatory, technical, and financial consulting services; Personal Services funding for Community Energy Department staff ($8.3 million); energy programming including Disadvantaged Communities – Green Tariff and Energy Efficiency Programs ($4.1 million); and Personal Services funding for the City Attorney's Office ($1.1 million), Finance Department ($298,000), City Manager's Office ($155,000), and Public Works Department ($123,000). Through December, expenditures totaled $212.6 million, or 63.7% of the Modified Budget of $333.7 million. Of that, Cost of Energy expended $200.0 million, or 67.3% of its budget of $297.2 million.

High market prices, due in part to pipeline restraints, low gas storage, and temporary downtime at energy plants for required planned maintenance, and high demand indicate a need to increase the Cost of Energy allocation by $71.7 million, from $293.3 million to $365.0 million. As the SJCE's rate structure allows for increased revenues to offset the increased cost while still building reserve levels, actions are recommended to repay $20 million of the outstanding $60 million of Commercial Paper debt in 2022-2023, with the remaining $40 million expected to be repaid in 2023-2024. SJCE operating reserves are expected to reach 180 days by the end of 2023.

<u>*Ending Fund Balance*</u> – A recommendation to decrease the Ending Fund Balance by $700,000 is included as a net result of the actions described above and additional adjustments detailed in *Section III, Recommended Budget Adjustments and Clean-up Actions* of this report. After accounting for these actions, the revised unrestricted Ending Fund Balance will be $167.8 million, which reflects a stronger position from a year ago in 2021-2022 when the Ending Fund Balance was $80.6 million.

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUND

	2022-2023 Current Modified	2022-2023 YTD Actual	2022-2023 % of Budget
Revenues	134,756,429	111,030,560	82.4%
Expenditures	168,779,000	59,809,487	35.4%
Unrestricted Ending Fund Balance	126,821	N/A	N/A

FUND STATUS

<u>Revenues</u> – Budgeted revenue for the San José-Santa Clara Treatment Plant Operating Fund consists primarily of transfers from the Sewer Service and Use Charge Fund ($86.8 million), contributions from the City of Santa Clara ($14.5 million) and participating tributary agencies ($20.5 million), and interest earnings ($350,000).

Through December, revenues totaled $111.0 million, or 82.4% of the budgeted estimate. The largest source of revenue, a transfer from the Sewer Service and Use Charge Fund ($86.8 million), has been received in full, as well as $23.5 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 2022-2023 Adopted Operating Budget; this year's reimbursement revenue is anticipated to be the same amount as budgeted and no adjustment is needed. The reconciliation of the 2022 payments from the Tributary Agencies will be completed in the third quarter, with any money due back to the tributaries to be expended in the *Prior Year Fiscal Agency Payment* appropriation established as part of the 2021-2022 Annual Report. This methodology differs from the past where money due to tributaries was credited against the reimbursement revenue from the tributaries. Based on current earnings through December, interest revenue for this fund may end the year $1 million higher than the budgeted estimate of $350,000. Overall, revenues are estimated to end the year within budgeted levels.

<u>Expenditures</u> – 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, $59.8 million (35.4%) has been expended, and an additional $19.9 million (11.8%) has been encumbered, bringing the total commitments to $79.7 million (47.2%). Across various departments' Personal Services appropriations within the fund, expenditure levels are tracking slightly below expectations with $28.1 million (44.4%) expended and are projected to end the year below budgeted levels. Due to increasing costs of chemicals and other one-time expenses, ESD Non-Personal/Equipment appropriation is tracking slightly above budget, with $37.1 million (73.7%) expended.

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUND

FUND STATUS

An adjustment to reallocate personal services savings to the non-personal/equipment budget is anticipated to be recommended as part of the 2022-2023 year-end budget cleanup process. The department is taking these costs into account in their estimated rate increases. Overall, expenditures are projected to end the year at or slightly below budgeted levels.

Ending Fund Balance – A decrease to the Ending Fund Balance of $1,929 is recommended in this report to offset actions related to the Salary and Benefits Program. With these actions, the revised Ending Fund Balance totals $124,892. Further details on the above adjustments can be found in Section III, *Recommended Budget Adjustments and Clean-up/Rebudget Actions*, of this report.

SEWER SERVICE AND USE CHARGE CAPITAL IMPROVEMENT FUND

	2022-2023 Current Modified	2022-2023 YTD Actual	2022-2023 % of Budget
Revenues	37,395,000	35,973,305	96.2%
Expenditures	71,447,170	6,884,019	9.6%
Unrestricted Ending Fund Balances	27,596,465	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), interest earnings ($1.4 million), and reimbursements from the West Valley Sanitation District (WVSD) and City of Cupertino for joint projects ($1.02 million).

Revenue through the end of December totals $36.0 million (96.2%), consisting mainly of the transfer from the Sewer Service and Use Charge Fund ($35.0 million). Interest revenue totaling $605,0000 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 ($11.5 million), Condition Assessment Sewer Repair ($7.9 million), Immediate Replacement and Diversion Projects ($7.9 million), Cast Iron Pipe – Remove and Replace ($7.2 million), Sanitary Sewer Interceptor Management Program ($6.0 million), Fourth Major Interceptor Project VIIA ($5.5 million), Blossom Hill-Leigh Sanitary Improvements ($4.5 million), Infrastructure – Sanitary Sewer Condition Assessment ($4.5 million), Almaden Sewer Rehabilitation ($3.1 million), and Capital Program and Public Works Department Support Costs ($2.3 million).

Through December, $6.9 million (9.6%) of the budget was expended and an additional $11.8 million (16.5%) was encumbered, bringing the total amount committed to $18.7 million (26.2%). There are 25 Sanitary Capital Projects anticipated to be awarded between now and June 30, 2023. Anticipated expenditures for these projects are estimated to be over $35 million. Overall, expenditures and encumbrances are expected to meet budgeted levels by the end of the year.

SEWER SERVICE AND USE CHARGE CAPITAL IMPROVEMENT FUND

FUND STATUS

Ending Fund Balance – A recommendation to decrease the Ending Fund Balance by $35,466 is included in this report as a result of the establishment of a transfer to the General Fund due to an increased TRANs debt service need in the General Fund. With these actions, the revised Ending Fund Balance totals $27.56 million. Further details on the above adjustments can be found in Section III, *Recommended Budget Adjustments and Clean-up/Rebudget Actions*, of this report.

WATER UTILITY FUND

	2022-2023 Current Modified	2022-2023 YTD Actual	2022-2023 % of Budget
Revenues	64,043,637	30,590,163	47.8%
Expenditures	65,532,820	33,588,470	51.3%
Unrestricted Ending Fund Balance	2,560,613	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 ($55.9 million). Additional sources of revenue include Metered Sales of recycled water ($7.7 million), Late Fees associated with Metered Sales of recycled and non-recycled water ($300,000), interest revenue ($133,300), 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 $25.3 million (45.3%) received through December. This decrease is likely due to the continued conservation efforts resulting from the goal to reduce water use by 15% that was approved by the City Council on November 30, 2021. Staff estimates that water usage going forward will likely increase, therefore increasing revenues, but close attention will continue to 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 higher than expected with $4.5 million (58.4%) received through the end of December. Late Fee revenue is tracking above expectations with $794,000 received through December (compared to a budget of $300,000), while interest revenue is tracking below budgeted levels with $9,700 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) ($45.0 million) for the purchase of water and related operational needs. Beyond that, Personal Services appropriations to ESD ($8.4 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).

WATER UTILITY FUND

FUND STATUS

Through December, \$33.6 million (51.3%) has been expended, and an additional \$2.4 million (3.7%) has been encumbered, bringing the total commitments to \$36.0 million (54.9%). Across Personal Services appropriations, expenditure levels of \$4.7 million through December are tracking slightly above expectations, with 49.2% expended, though projected to end the year at budgeted levels. Non-Personal/Equipment commitments are above the previous year's levels with \$21.0 million (46.4% of budget) expended through December, compared to \$19.5 million through December 2021. Overall, expenditures are expected to meet budgeted levels with some potential savings in Non-Personal/Equipment appropriations due to the projected reduction of expenses related to the purchase of wholesale water attributable to water conservation goals.

Ending Fund Balance – A decrease to the Ending Fund Balance of \$179,673 is recommended in this report to offset actions related to the Salary and Benefits Program, Banking Services, and Workers' Compensation. With these actions, the revised Ending Fund Balance totals \$2.4 million. Further details on the above adjustments can be found in Section III, *Recommended Budget Adjustments and Clean-up/Rebudget Actions*, of this report.