2017-2018

MID-YEAR
BUDGET
REVIEW

SECTION
II

SELECTED SPECIAL/ CAPITAL FUNDS STATUS REPORT

II. Selected Special/Capital Funds Status Report

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

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

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

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Revenues – Airport Revenue Fund	155,157,757	76,866,538	49.5%
Expenditures – Airport Maintenance and Operation Fund	96,284,427	41,409,083	43.0%

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

FUND STATUS

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

Overall revenue performance at the Airport of $76.9 million is tracking at 49.5% of the estimated budget and is slightly above the benchmark through December. With the exception of Terminal Rentals, all revenue categories are tracking at or above estimated levels. Through December 2017, passenger levels are 16.8% greater than the same period last fiscal year and compared to the 2017-2018 Adopted Budget estimate of 3.0% growth, while passenger airline operations (takeoffs and landings) are 18.2% greater than last year and compared to the 2017-2018 Adopted Budget estimate of 3.0% growth. Airfield revenues are exceeding budgeted levels primarily due to higher than anticipated in-flight kitchen revenues and ground support concession revenues while landing fees are on target. Terminal Rentals are tracking slightly below budget, primarily in the common ticket counters and common gates categories. Revenue categories most significantly impacted by increasing passenger levels are Terminal Concessions and Parking and Roadway. The parking and roadway revenue exceeds estimated levels due to the higher than anticipated ground transportation and public parking revenues while terminal concessions revenue is trending greater than budget in food and beverage, retail, and advertising sectors. Total general and non-aviation revenues, consisting of fees associated with hangars, land and building rentals, petroleum program, general aviation, interest earnings, and other non-aviation (miscellaneous) revenues, are tracking above budgeted levels due to higher than anticipated interest earnings and impacts from the bond refunding completed earlier in 2017. Overall, revenues are tracking to exceed budgeted estimates by year-end.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

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

FUND STATUS

Expenditures – Operating expenditures, appropriated in the Airport Maintenance and Operation Fund, include Personal Services, Non-Personal/Equipment, Police and Aircraft Rescue and Fire Fighting services, direct support, and overhead reimbursements. Overall expenditures are tracking below budget estimates at 43.0% spent. Through December 2017, Airport's Personal Services and Non-Personal/Equipment expenditures are tracking at 37.1% of budgeted levels.

Personal Services expenditures are tracking at 41.0% of budget compared to the benchmark of 46.2%. Savings are due to vacancies across the department. At the close of December 2017, the Department had 41 vacancies or 19.4% of budgeted positions. Overtime expenditures of $205,364 are tracking above budget at 60.4% and will be closely monitored for the remainder of the fiscal year. Non-Personal/Equipment expenditures (excluding encumbrances) are tracking at 34.4%, with total committed tracking at 70.2% of budgeted levels. It is anticipated that through conservative spending and close monitoring, the Non-Personal/Equipment appropriation will end the year within budgeted levels.

Through December 2017, interdepartmental expenditures (charges for staff and services located in other City departments including the Police and Fire Departments) total $11.1 million, which represents approximately 60% of the interdepartmental budget.

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Ending Fund Balance – Airport Revenue Fund	89,542,384	N/A	N/A
Ending Fund Balance – Airport Maintenance and Operation Fund	29,781,217	N/A	N/A

Fund Balance – This report includes an adjustment to the Ending Fund Balance in the Airport Revenue Fund resulting from the transfer of excess reserve of $264,000 from the Airport Fiscal Agent Fund. After accounting for this action, the revised Ending Fund Balance in the Airport Revenue Fund is $89.8 million. No change to the Ending Fund Balance in the Airport Maintenance and Operation Fund is recommended at this time.

Status of Selected Special and Capital Funds

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Revenues	31,664,000	16,962,935	53.6%
Expenditures	67,917,735	11,290,082	16.6%

FUND STATUS

Revenues – Tax revenue in the Building and Structure Construction Tax Fund, which is a major funding source for the Traffic Capital Program, is tracking above anticipated levels. Through the first half of 2017-2018, Building and Structure Construction Tax receipts totaled $13.5 million, which is 74.8% of the 2017-2018 Adopted Budget estimate of $18.0 million, reflecting higher than anticipated residential and commercial development permit activity. This collection level slightly exceeds prior year collections ($121,000, or 0.9%) through December of $13.3 million. Should the current level of permitting activity and corresponding collections continue, it is anticipated that tax receipts could exceed the budgeted estimate by $4.5 million. Other major revenue sources in the Building and Structure Construction Tax Fund, including grants from federal and local agencies, are generally tracking below estimated levels, corresponding with year-to-date project activity. These variances are largely due to timing differences for grant-supported projects, many of which are funded on a reimbursement basis. Staff will continue to closely monitor these revenue sources as the fiscal year progresses, with budget adjustments brought forward by year-end if Building and Structure Construction Tax receipts continue to outperform estimates.

Expenditures – Overall expenditures of $11.3 million are tracking at 16.6% of the Modified Budget. In addition, $8.6 million has been encumbered to date, bringing total commitments ($19.9 million) through December to 29.3% of the Modified Budget, excluding reserved funds. While expenditures are tracking below expected levels through December, year-end expenditures are anticipated to reach approximately $56.5 million, or 83.2% of the Modified Budget. Any remaining project balances at year-end are anticipated to be rebudgeted to 2018-2019 as part of the 2018-2019 Adopted Capital Budget for project completion. Some of the larger projects for which funding is expected to be rebudgeted to 2018-2019 include: Autumn Street Extension, Branham and Snell Street Improvements, East Santa Clara Street Bridge at Coyote Creek, McLaughlin Avenue Pedestrian/Bike Safety Enhancements, and Route 101/Blossom Hill Road Interchange. Project timelines have been impacted by delayed land and property acquisition, contract awards, and the progression of planning and design phases for these larger-scale, complex projects. This report also includes a limited number of expenditure adjustments, which are described below. Further detail regarding these recommendations can be found in Section III of this report, Recommended Budget Adjustments, and Clean-up Actions.

Status of Selected Special and Capital Funds

BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

FUND STATUS

Included in this report are recommendations to decrease the Park Avenue Multimodal Improvements and Safety - Traffic Signal Modifications/Construction appropriations to reconcile prior rebudget actions with final expenditures for the 2016-2017 fiscal year, and to shift projected cost savings from the St. John Street Multimodal Improvements Phase I to the St. John Bike/Pedestrian Improvements (OBAG) project for unanticipated expenditures resulting from additional utility work. In addition, this report recommends recognition of a $150,000 grant for a new Safety - Traffic Education (Senter and Monterey Corridors) project, which the Vision Zero team will oversee to provide traffic safety education on the Senter and Monterey Corridors.

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Unrestricted Ending Fund Balance	1,910,774	N/A	N/A

Ending Fund Balance – A recommendation to increase the Ending Fund Balance by $22,834 is included in this report as a net result of the actions described above. This amount is inclusive of a technical adjustment to decrease the Ending Fund Balance by $713,166, due to the reconciliation of the fund to the final audited 2016-2017 Comprehensive Annual Financial Report, which is offset by the negative rebudget actions recommended for the Park Avenue Multimodal Improvements and Safety - Traffic Signal Modifications/Construction appropriations to reconcile prior rebudget actions with final expenditures for the 2016-2017 fiscal year. After accounting for all these actions, the revised Ending Fund Balance will remain approximately $1.9 million. Further details on the adjustments can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Revenues	49,822,000	24,476,056	49.1%
Expenditures	98,771,056	23,780,541	24.1%

FUND STATUS

Revenues – A total of 17 Construction and Conveyance (C&C) Tax Funds are budgeted throughout the Capital Budget. The majority of these funds (13) support the Parks and Community Facilities Development Capital Program, with the remaining four funds supporting the Public Safety Capital Program, Library Capital Program, Service Yards Capital Program, and Communications Capital Program. Revenues in the C&C Tax Funds are comprised of C&C Tax receipts, sale of surplus property, transfer revenue, grant funding, and other miscellaneous revenue. Through December 2017, revenue in the C&C Tax Funds totaled $24.5 million, which is 49.1% of the 2017-2018 Modified Budget of $49.8 million. Year-to-date revenues are tracking above budgeted levels primarily due to C&C Tax collections, which is the biggest source of revenue for these funds.

Through December, C&C Tax revenues totaled $19.0 million, or 52.8% of the budgeted estimate of $36.0 million. The 2017-2018 Adopted Capital Budget was developed with the assumption that C&C Tax receipts would total $38.0 million in 2016-2017 and dip slightly to $36.0 million in 2017-2018. These assumptions were based on historical collection trends and actual 2016-2017 receipts received through the majority of that year, allowing for some moderation in activity levels at the end of 2016-2017. In the last quarter of 2016-2017, however, tax receipts experienced extremely strong growth, which resulted in the 2016-2017 receipts totaling $43.3 million. Due to higher than anticipated actual collections in 2016-2017, the 2017-2018 C&C Tax estimate of $36.0 million, allows for a 16.9% decline in tax revenue from the prior year. Receipts through December 2017 of $19.0 million, are 9.4% higher than the $17.4 million that were received in the same time period in the prior year and Conveyance receipts received in January 2018 were up 24.0% when compared to January 2017 receipts. Overall, collections increased 11.7% through January 2018 when compared to the same period in 2016-2017. Based on current year performance, collections in 2017-2018 are conservatively expected to reach at least $42.0 million, A recommendation to increase the 2017-2018 C&C Tax estimate from $36.0 million to $42.0 million is included in this report. The $6.0 million increase to the C&C Tax revenue estimate would be distributed as follows: Parks C&C Tax allocation ($3.84 million); Library C&C Tax allocation ($853,000); Service Yards C&C Tax allocation ($527,000); Fire C&C Tax allocation ($504,000); Communications C&C Tax allocation ($204,000); and Park Yards C&C Tax allocation ($72,000). The additional revenue is recommended to be placed in the Ending Fund Balance of each respective fund for future allocation. The $42.0 million estimate for 2017-2018 will be used in the development of the 2018-2019 Proposed Capital Budget and 2019-2023 Capital Improvement Program.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

FUND STATUS

Over 99% of the total C&C Taxes are comprised of conveyance receipts, a tax based on the value of property transfers (sales). Similar to the current trend with C&C collection levels, the local real estate market is seeing growth in home prices compared to prior year levels. The median single-family home price in December 2017 totaled $1.1 million, which is an increase of 32.1% from the $863,000 median single-family home price in December 2016. The number of new listings for single-family and multi-family dwellings has also increased (27.7%), from 235 listings in December 2016 to 300 listings in December 2017. However, the December 2017 number of property transfers totaled 467, a decrease of 16.8% compared to the 561 sales that occurred in December 2016. In addition, it took less time to sell these homes, with the average days on the market for single-family and multi-family dwellings in December 2017 totaling 16 days, a 49.2% decrease from December 2016 totaling 34 days.

Expenditures – Overall, expenditures in the various C&C Tax Funds are tracking within expected levels and are anticipated to end the year within budgeted levels. Through December, expenditures totaled $23.8 million, 24.1% of the 2017-2018 Modified Budget ($98.8 million). An additional $15.4 million has been encumbered through December, bringing the total amount committed to $39.2 million, or 39.7% of the 2017-2018 Modified Budget. To the extent funding is not expended this fiscal year for a particular project that may occur over multiple years, it is likely that a rebudget of those funds will be recommended for City Council consideration later this year. This report recommends expenditure adjustments to the following projects:

- Family Camp Improvements Reserve ($80,000 – Citywide C&C Tax Fund);
- Happy Hollow Park and Zoo Equipment ($27,000 – Citywide C&C Tax Fund);
- Happy Hollow Park and Zoo Improvements ($50,000 – Citywide C&C Tax Fund);
- San Tomas Neighborhood Center Improvements ($150,000 – Council District 1 C&C Tax Fund);
- Los Paseos Park Lighting ($25,000 – Council District 2 C&C Tax Fund);
- Doerr Park Shade Structure ($7,000 – Council District 9 C&C Tax Fund);
- Alternate Public Safety Answering Point Equipment ($162,000 – Fire C&C Tax Fund);
- Fuel Tank Replacement ($40,000 – Fire C&C Tax Fund); and
- Silicon Valley Regional Communications System – Radios ($250,000 – Communications C&C Tax Fund).

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

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION AND CONVEYANCE TAX FUNDS

FUND STATUS

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Unrestricted Ending Fund Balances	22,071,906	N/A	N/A

Ending Fund Balance – This report includes recommendations to decrease the various C&C Tax Funds Ending Fund Balances by $742,000 as a net result of the actions previously discussed and detailed in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Revenues	96,156,385	39,762,975	41.4%
Expenditures	163,997,449	22,564,201	13.8%

FUND STATUS

Revenues – The Construction Excise Tax, the primary funding source for both the Construction Excise Tax Fund and Traffic Capital Program, is tracking above anticipated levels. Through the first half of 2017-2018, Construction Excise Tax receipts totaled $18.4 million, which is 76.5% of the 2017-2018 Adopted Budget estimate of $24.0 million, reflecting higher than anticipated residential and commercial development permit activity. This collection level is slightly below prior year collections ($153,000 or 0.8%) through December of $18.5 million. The 2017-2018 Adopted Budget estimate was developed with the assumption that the extremely high Construction Excise Tax collections experienced in 2016-2017 would not continue and revenues would moderate in 2017-2018; therefore, the 2017-2018 budgeted estimate allows for a drop of 20.5% from the prior year receipts of $30.2 million. However, should the current level of permitting activity and corresponding collections continue, it is anticipated that tax receipts could reach approximately $30.0 million, exceeding the budgeted estimate by $6 million.

Other major revenue sources in the Construction Excise Tax Fund, including grants from Federal and local agencies, are generally tracking consistent with year-to-date project activity. However, disbursement of the projected $23.8 million of funding from the VTA 2016 Measure B referendum is on hold pending resolution of an ongoing lawsuit challenging the measure which is anticipated within calendar year 2018. As described in the 2018 Pavement Maintenance Program Information Memorandum issued on January 23, 2018, the planned series of sealing and resurfacing projects on the City's Local and Neighborhood Street Network for 2018 is on hold pending resolution of the current appeal to the Court of Appeals, with no expenditures incurred to date for proposed projects. However, the Department of Transportation is continuing to prepare for project implementation should funding become available during fiscal year 2017-2018. Other variances are largely due to timing differences for grant-supported projects, many of which are funded on a reimbursement basis. Staff will continue to closely monitor these revenue sources as the fiscal year progresses, with budget adjustments brought forward by year-end if Construction Excise Tax receipts continue to outperform estimates, or if legal action necessitates an adjustment to estimated revenue.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

FUND STATUS

Also included in this report are a limited number of revenue adjustments, including recommendations to: increase Revenue from Federal Government by $813,000 to recognize grant funding from the One Bay Area Grant 2 (OBAG2) program for the Downtown San José Mobility, Streetscape and Public Life Plan project; increase Revenue from Local Agencies by $525,000 based on higher than anticipated Pavement

Maintenance – Measure B receipts from vehicle registration fees; increase estimated Inter-Agency Encroachment Permit revenue by $250,000 to account for higher than anticipated encroachment permit fee revenue associated with interagency projects for which work is being performed in the City's right of way; increase estimated revenue from Developer Contributions by $234,000 to recognize higher than anticipated developer contributions for several projects; and recognize year-to-date revenue from traffic impact fees.

Traffic Impact Fees are collected from developers and are set aside in a reserve until they can be expended. Accordingly, this report recommends recognizing actual receipts of $5.7 million for the North San José area through December 2017 and increasing the North San José Traffic Impact Fees Reserve by an equivalent amount. The corresponding expenditure adjustment for this actions and further detail regarding these recommendations can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

Expenditures – Overall expenditures of $22.6 million total 13.8% of the Modified Budget. In addition, $17.0 million has been encumbered to date, bringing total commitments ($39.6 million) through December to 24.1% of the Modified Budget, excluding reserved funds. Year-end expenditures are anticipated to reach approximately $146.7 million, or 89.5% of the Modified Budget, and any remaining project balances at year-end are anticipated to be reallocated to 2018-2019 as part of the 2018-2019 Adopted Capital Budget for project completion. Some of the larger projects for which funding is expected to be rebudgeted to 2018-2019 include: Bikeways Program (OBAG), LED Traffic Signal Lamp Replacement, Montague Expressway - County/Santa Clara Settlement, Montague Expressway Improvements Phase 2, and Mount Pleasant Schools Area Bike/Ped Safety Improvements. Project timelines have been affected by right of way acquisition, project re-scoping and coordination with partner agencies, ongoing litigation, and staffing for the completion of electrical work.

This report also includes a limited number of expenditure adjustments. Notable adjustments are described below.

- Increase the North San José Improvement – 880/Charcot appropriation by $3.7 million, from $254,000 to $3,954,000, in accordance with a pending amendment to the Agreement to advance the final design phase and to provide staff support for the project. A corresponding action to decrease the North San José Traffic Impact Fees Reserve is also recommended.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

CONSTRUCTION EXCISE TAX FUND

FUND STATUS

- Establish an appropriation for the Downtown San José Mobility, Streetscape and Public Life Plan project totaling $842,000, including $813,000 in grant funding from the One Bay Area Grant 2 (OBAG2) program and $29,000 reallocated from the Transportation Grants Reserve for local match requirements, to support a community-based transportation planning effort that synthesizes past and ongoing planning efforts and delivers a comprehensive, prioritized, and implementable plan that promotes multimodal connections, manages parking and driving, and increases walking, bicycling and transit ridership.

- Establish an appropriation for the San José Regional Transportation Hub project of $500,000, via liquidation of the corresponding reserve in the General Purpose Parking Fund and transfer of funds to the Construction Excise Tax Fund, to provide the City's share of funding responsibility for a Cooperation Agreement with partner agencies – VTA, Caltrain, High Speed Rail – to engage consultants for the development of the San Jose Diridon Integrated Station Concept Plan.

- Increase the Safe Pathways to Diridon Station appropriation by $350,000, from $752,000 to $1,102,000 due to cost escalation since the inception of the project in 2013, to be offset by cost savings from the completed Jackson Avenue Complete Streets (OBAG) project ($229,000) and a reduction to ending fund balance ($121,000). Contract award and construction for the Safe Pathways to Diridon Station project are anticipated in April/May of 2018.

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

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Unrestricted Ending Fund Balance	988,341	N/A	N/A

<u>*Fund Balance*</u> – A recommendation to decrease Ending Fund Balance by $257,478 is included in this report as a net result of the actions described above. This includes technical adjustments recommended to increase the Ending Fund Balance by a net $577,285 as a result of a reconciliation of the fund to the final audited 2016-2017 Comprehensive Annual Financial Report, and the reallocation of $763,263 to the Pavement Maintenance – Measure B appropriation to align reconciling adjustments recommended as part of the 2016-2017 Annual Report with final expenditures for the 2016-2017 fiscal year. After accounting for all these actions, the revised Ending Fund Balance will be $730,863. Further details on the adjustments can be found in Section III of this report, Recommended Budget Adjustments and Clean-up Actions.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Revenues	131,669,433	110,538,372	84.0%
Expenditures	138,983,708	47,463,633	34.2%

FUND STATUS

Revenues – Revenues in the Integrated Waste Management Fund include payments received from residential solid waste generators under the Recycle Plus Integrated Waste Management Program (Recycle Plus Collection Charges) ($123.0 million); AB 939 fees ($3.6 million); Recycle Plus Negotiated Savings ($2.7 million); payments received from the Construction and Demolition Diversion Deposit (CDDD) Program ($790,000) that are identified as ineligible deposits for refund; Las Plumas Tenant Utility Reimbursements ($521,000); Lien-Related Charges ($383,000); SB 332 Beverage Container Recycling payments ($250,000); interest earnings ($241,000); miscellaneous revenue ($24,000); NMTC Leverage Loan Interest ($98,000); and Franchise Applications ($535).

Through December, revenues totaled $110.5 million, or 84.0% of budget, and were generated primarily from the following: Recycle Plus Collection Charges ($106.4 million); AB 939 fees ($1.2 million); Recycle Plus Negotiated Savings ($1.3 million); Lien-Related charges ($483,000); and a Santa Clara County Household Hazardous Waste facility payment ($335,000). Overall, revenues are expected to end the year above the budget by approximately $2.5 million. Contributing to the year-end estimate are higher than anticipated Recycle Plus single-family and multi-family collection charges ($1.4 million) based on actual activity, lien-related fees ($600,000) based on actual activity, and an unplanned payment by Santa Clara County ($335,000) to account for unspent funds on County household hazardous waste programs that are reallocated back to the cities that provided the original funding.

Expenditures – Through December, $47.5 million, or 34.2% of the budget, was expended, and an additional $83.2 million, or 59.8%, was encumbered. The year-to-date expenditures and encumbrances of $130.6 million are attributed primarily to the Recycle Plus contracts for Single-Family Dwelling ($56.2 million), Yard Trimmings/Street Sweeping ($23.9 million), and Multi-Family Dwelling ($21.3 million). Additional expenditures include Single Family Dwelling Processing ($14.3 million), Environmental Services Department (ESD) Personal Services ($3.6 million), IDC Disposal Agreement ($3.5 million), ESD Non-Personal/Equipment ($2.4 million), and General Fund Overhead ($2.1 million) appropriations.

Status of Selected Special and Capital Funds

INTEGRATED WASTE MANAGEMENT FUND

FUND STATUS

Overall, savings of approximately $2.0 million are projected by the end of the year in various appropriations, with the largest estimated savings in the Recycle Plus single family contract ($1.0 million) primarily due to lower than estimated costs for hauler payments and the free large item collection program which has not reached the maximum allowance, ESD Personal Services ($383,000) due primarily to vacancies in the department, Yard Trimmings/Street Sweeping ($295,000), and ESD Non-Personal/Equipment ($264,000) primarily for contractual services. Additionally, the Information Technology Personal Services appropriation is tracking to exceed the budget by year-end due primarily to higher enterprise series position costs approved June 2017 that were not incorporated in the 2017-2018 Adopted Budget; a recommendation is therefore included in this report to increase this appropriation by $35,000.

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Unrestricted Ending Fund Balance	10,135,623	N/A	N/A

Ending Fund Balance – This report includes an adjustment to the Ending Fund Balance to offset an increase to the Information Technology Personal Services appropriation ($35,000) as described above. After accounting for this action, the revised Ending Fund Balance remains approximately $10.1 million.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Revenues	180,938,000	50,967,785	28.2%
Expenditures	378,933,229	38,575,915	10.2%

FUND STATUS

Revenues – Budgeted revenue for the San Jose-Santa Clara Treatment Plant Capital Fund consists of financing proceeds ($90.0 million), contributions from the City of Santa Clara and other Tributary Agencies ($58.1 million), transfers from the City of San José Sewer Service and Use Charge (SSUC) Fund ($26.1 million) and the Sewage Treatment Plant Connection Fee Fund ($3.1 million), interest earnings ($3.1 million), Calpine Metcalf Energy Center Facilities Repayments ($389,000), and a U.S. Bureau of Reclamation (USBR) Grant ($250,000). Through December, $51.0 million, or 28.2%, has been received, primarily due to the timing of payments and that minimal financing proceeds of $175,000 received to date. As financing proceeds are only accessed to offset incurred costs, the low amount received to date is reflective of the pace of capital project expenditures that are anticipated to accelerate in the second half of the fiscal year.

Based on the reconciliation of prior year project expenditures, it is anticipated that contributions from the tributary agencies may end the year $7.4 million lower than the budgeted estimate, though prior year fund balance is available to offset this shortfall. Each year, adjustments to contributions from the tributary agencies are made to true up for actual Treatment Plant expenditures and encumbrances from the prior year. The other revenue sources for this fund are anticipated to end the year at the budgeted estimate. To finance the Water Pollution Control Plant projects in the current and upcoming fiscal years, the City of San José entered into an agreement with the Wells Fargo Bank for Tax Exempt Notes not to exceed $300.0 million as bridge financing before issuing longer-term bonds. The 2017-2018 Adopted Budget assumed $90.0 million would be issued in 2017-2018 based on the anticipated project schedules; because project schedules are not anticipated to change at this time, the need for external financing in 2017-2018 remains approximately $90.0 million.

Expenditures – Expenditures in this fund represent the costs of improvements and rehabilitation of the San José-Santa Clara Water Pollution Control Plant. Through December, $38.6 million, or 10.2%, of the budget was expended and an additional $143.8 million, or 38.0%, was encumbered, bringing overall commitments through December to 48.1%.

Staff anticipates continuing to make significant progress on large efforts in 2017-2018, such as the Digester and Thickener Facilities Upgrade ($120.0 million), Energy Generation Improvements ($100.0 million), New Headworks ($8.2 million), and Headworks Improvements ($4.5 million). A large portion

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT CAPITAL FUND

of the budget is currently anticipated to be expended or encumbered on projects and related expenses by the end of the year. No significant rebudgets to 2018-2019 are anticipated at this time.

FUND STATUS

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Unrestricted Ending Fund Balance	13,363,200	N/A	N/A

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

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUND

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Revenues	89,396,528	23,471,360	26.3%
Expenditures	109,726,313	49,209,933	44.8%

FUND STATUS

Revenues – Revenue for the San José-Santa Clara Treatment Plant Operating Fund consists primarily of transfers from the Sewer Service and Use Charge Fund, contributions from the City of Santa Clara and participating tributary agencies, recycled water sales, and interest earnings. Through December, revenues totaled $23.5 million, or 26.3% of the budgeted estimate, due primarily to the timing of payments. The largest source of revenue in this fund, the transfer from the Sewer Service and Use Charge Fund ($49.0 million), has not yet been received. This transfer occurs in two installments on or around February 1 and June 2. Contributions from Santa Clara and other agencies, however, are estimated to come in higher than budgeted levels by $1.5 million. These contributions are made in four installments based on the amounts provided in the 2017-2018 Proposed Budget. However, after the Comprehensive Annual Financial Report is released and prior year actuals are determined, the amounts owed by the agencies are adjusted accordingly. As a result of the final reconciliation for 2016-2017, this year's agency reimbursement revenue is projected to exceed the budget. Revenues from recycled water are estimated to be approximately $450,000 higher than budgeted levels of $11.0 million, primarily because recycled water sales have recovered more than anticipated after the conservation efforts that took place over the last couple years. Overall, revenues are tracking to come in higher than the budgeted estimate by approximately $2.2 million.

Expenditures – Expenditures in this fund represent the costs required for the operation and maintenance of the San José-Santa Clara Water Pollution Control Plant, including the South Bay Water Recycling System and associated regulatory activities. Through December, $49.2 million, or 44.8% of the budget, has been expended, and an additional $13.0 million, or 11.9%, has been encumbered, bringing the total commitments to 56.7%. Spending is lower than expected in several appropriations, with the largest savings expected in the Environmental Services Department (ESD) Personal Services and ESD Non-Personal/Equipment appropriations. It is estimated that the ESD Personal Services appropriation ($57.0 million) may have approximately $2.6 million in savings by year-end, due to vacancies, and the ESD Non-Personal/Equipment appropriation ($39.7 million) may have $2.3 million in savings by year-end, due primarily to less than anticipated maintenance costs as some larger projects have experienced delays. Additionally, the Information Technology Personal Services appropriation is tracking to exceed the budget by year-end due primarily to higher enterprise series position costs approved June 2017 that were not incorporated in the 2017-2018 Adopted Budget; a recommendation is therefore included in this report to increase this appropriation by $10,000.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUND

FUND STATUS

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Unrestricted Ending Fund Balance	2,675,742	N/A	N/A

<u>*Ending Fund Balance*</u> – This report includes an adjustment to the Ending Fund Balance to offset an increase to the Information Technology Personal Services appropriation ($10,000) as described above. After accounting for this action, the revised Ending Fund Balance remains approximately $2.7 million.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SELF-INSURED MEDICAL FUND

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Revenues	13,586,000	7,171,956	52.8%
Expenditures	13,105,661	6,164,614	47.0%

FUND STATUS

The Self-Insured Medical Fund was established in January 2017 to account for the City-funded Preferred Provider Organization (PPO) plan. On June 21, 2016, the City Council authorized the City Manager to enter into an agreement with Blue Shield of California to provide a City-funded PPO medical insurance plan for employees, pre-65 retirees, and dependents. In 2016, the City issued an off-cycle RFP to identify a health care provider with rates competitive with Kaiser to create a more sustainable non-Kaiser option. Sutter Health Plus offered an HMO plan that could compete with Kaiser but did not offer a PPO plan. Blue Shield would provide a City-funded PPO plan but would not offer a fully insured PPO plan. To retain a PPO and offer active employees and retirees options, the Administration recommended the City-funded PPO plan.

Revenues – Revenues in the Self-Insured Medical Fund primarily include Reimbursements from Retirement Funds ($10.2 million), Participant Contributions ($1.8 million), and Reimbursements from City Funds ($1.6 million). Through December 2017, revenues in the Self-Insured Medical Fund totaled $7.2 million, or 52.8% of the budget, and were primarily generated from Reimbursements from Retirement Funds ($5.6 million), Participant Contributions ($792,000), and Reimbursements from City Funds ($760,000).

As of January 1, 2018, the Fund and associated medical insurance have been in operation for a year. Based on the year-to-date actuals and the most current enrollment data, it is anticipated that the total revenues generated from the Self-Insured Medical Fund will end the fiscal year at $12.2 million, which is $1.4 million (10.0%) below the modified budget. Revenues were tracking within estimated levels through December 2017; however, with the plan enrollment changes effective January 2018, revenue in the second half of the fiscal year is expected to fall below budget. During the most recent open enrollment period for the 2018 calendar year, enrollees in the plan declined 14.4%, including a 10.7% drop for active employees and a 15.4% drop for retirees. This loss far exceeded the estimated decline of 2% expected because of rate increases implemented effective January 2018. Because retirees account for 77.5% of the participants in this plan, the largest negative revenue variance is expected in the reimbursements from Retirement Funds, which are expected to end the year at $9.2 million. This collection level is $1.1 million (10.5%), below the budgeted estimate.

Status of Selected Special and Capital Funds

SELF-INSURED MEDICAL FUND

FUND STATUS

Expenditures – Expenditures totaled $6.2 million through December 2017, or 47.0% of the budget, and consisted primarily of Payment of Claims ($5.5 million), Stop Loss Premium ($428,000), Provider Administration Fee ($152,000), and Human Resources Personal Services ($24,000) and Non-Personal/Equipment ($8,000) appropriations.

Based on year-to-date data and the number of total expense periods, it is anticipated that the total expenditures from the Self-Insured Medical Fund will end the fiscal year at approximately $13.9 million, which is $836,000 (6.4%) above the modified budget. The expenditure variance is due primarily to higher projected claims payments ($12.7 million versus the budget of $11.8 million) based on the actual claims payments ($5.5 million) for the first six months of 2017-2018 (this represents approximately 5 months of claims due to the timing of payments). The City has purchased stop-loss insurance to cap costs. The City's purchased stop-loss insurance covers large claims above $300,000 per individual per year, and above 125% of all aggregate claims (estimated at $17.5 million for 2018).

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Unrestricted Ending Fund Balances	64,460	N/A	N/A

Ending Fund Balance – With both lower projected revenues and higher expenditures affecting the fund negatively, the Ending Fund Balance for 2017-2018 is currently projected to end the year at a negative $1.65 million. This figure is based on an actuarial analysis with data only recently made available; the fund balance estimate will be updated as additional claims information becomes available.

The Administration is evaluating several potential actions to address the revenue and expenditure imbalance, all of which would require stakeholder engagement to assess cost, timeliness, impact to employees and retirees, and any associated risk. Ideas under consideration and being evaluated include:

- an off-cycle open enrollment to implement a rate increase,
- issuing an RFP for new plan options,
- renegotiating with the current provider to add a non-Medicare, fully insured PPO with an HMO,
- investigating a fully insured PPO option with Sutter Health Plus,
- investigating public sector multi-employer risk pools e.g. CalPERS, Joint Powers Authority (JPA), Trust,
- developing additional health in lieu options for retirees, and
- modifying our current City contribution strategy.

Status of Selected Special and Capital Funds

SELF-INSURED MEDICAL FUND

In addition, to address the potential financial impact in fiscal year 2017-2018, a $1.65 million Self-Insured Medical Fund Reserve is recommended in the General Fund. A year-end budget adjustment will be brought forward to reallocate funding from the reserve, as necessary, based on the performance of the fund in the second half of the year. If no corrective actions are taken, it is anticipated that this fund would continue to have a negative fund balance in 2018-2019 up to an estimated additional $2.5 million - $3.0 million through December 2018.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

SEWER SERVICE AND USE CHARGE CAPITAL IMPROVEMENT FUND

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Revenues	33,931,000	10,883,277	32.1%
Expenditures	106,919,977	13,341,347	12.5%

FUND STATUS

Revenues – Budgeted revenue for this fund in the Sanitary Sewer Capital Program consists of transfers from the Sewer Service and Use Charge Fund ($32.0 million), reimbursements from the West Valley Sanitation District (WVSD) for joint projects ($1.4 million), and interest earnings ($531,000). It is anticipated that the reimbursements from WVSD will end the fiscal year at approximately $725,000; this negative variance to the budget is due to a delay in awarding the 60" Brick Interceptor, Phase VIA and VIB project. While an award of this project is anticipated in 2017-2018, significant construction on the project is anticipated to be completed in 2018-2019, therefore causing a delay in the reimbursement from WVSD until that time.

Expenditures – Overall, expenditures in this fund represent the costs of improvements and rehabilitation of the Sanitary Sewer System. Through December, $13.3 million or 12.5% of the budget was expended and an additional $26.4 million, or 24.7%, was encumbered, bringing the total amount committed to 37.1%. Public Works anticipates expending or encumbering approximately another $67.0 million, or 62.7%, on projects in the remainder of 2017-2018, focusing on large capacity enhancement efforts such as the 60" Brick Interceptor, Phase VIA and VIB ($30.1 million), Cast Iron Pipe – Remove and Replace ($7.0 million), Rincon Avenue – Virginia Avenue Sanitary Sewer Improvements ($3.1 million), and a number of neighborhood sewer improvement projects that will reduce sanitary sewer overflows and/or repair severely deteriorated sewers.

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Unrestricted Ending Fund Balances	9,596,844	N/A	N/A

Ending Fund Balance – This report includes adjustments to the Ending Fund Balance to offset an increase to the Rincon Avenue – Virginia Avenue Sanitary Sewer Improvements project ($1.3 million) due to an increased scope of work, and a rebudget of the Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements project ($400,000). After accounting for these actions, the revised Ending Fund Balance is $7.9 million.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY FUND

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Revenues	47,471,117	22,987,581	48.4%
Expenditures	48,677,868	23,692,925	48.7%

FUND STATUS

Revenues – Revenue for the Water Utility Fund consists of Potable Water Sales, Recycled Water Sales, miscellaneous revenues, and interest income. Through December, revenues totaled $23.0 million, or 48.4% of the budgeted estimate. The largest (and most volatile) of these revenues is from the sale of potable water within the Municipal Water System service area. Year-to-date, potable water sales and services totaled $19.2 million, or 47.2% of the budgeted estimate of $40.7 million. Revenues are projected to slightly exceed the budgeted estimate by approximately $118,000 at year-end, due primarily to higher than expected sales during a warmer first quarter, and higher than expected flows realized year-to-date. Recycled water sales are tracking to end the year approximately $1.2 million below budgeted levels of $6.4 million, assuming no change in flow for the remainder of the fiscal year. It should be noted that these figures may change as the season progresses, and the extent of the storm activity and its effect on water usage as a whole is known.

Late Fees are also recorded in this fund and transferred to the General Fund as an unrestricted source of funds. Late fee revenue totaled $414,000 through December; however, this figure is expected to be reduced once offsetting credits for negotiated payment plans are applied. This revenue stream is projected to end the year at approximately $450,000, exceeding the budgeted amount by $200,000.

Expenditures – Expenditures in this fund represent costs of the operation, improvement, and maintenance of the Municipal Water System, including transfers to the Water Utility Capital Fund, as necessary for ongoing capital improvements. Through December, $23.7 million, or 48.7% of the budget, was expended, and an additional $1.9 million, or 3.8%, was encumbered. Approximately 88.3% of the Non-Personal/Equipment appropriation in 2017-2018 is allocated toward purchasing wholesale potable ($24.5 million) and recycled water ($4.6 million). Based on year-to-date water purchases and current average flows, wholesale water expenditures are anticipated to end the fiscal year $1.1 million lower than this budgeted estimate. However, weather and economic conditions can have a significant positive or negative impact on consumption; consequently, this figure may change before year-end. Spending is lower than anticipated in several other appropriations, including Customer Information System Transition.

STATUS OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY FUND

FUND STATUS

However, the Environmental Services Department (ESD) Personal Services appropriation is projected to end the year higher than budget by approximately $350,000, as a result of changes in the allocation of staff time across ESD funds per the Environmental Services Cost Allocation Plan in 2017-2018, which was not captured in the 2017-2018 Adopted Budget, as well as higher retirement costs for personnel in this fund, due primarily to a greater than anticipated number of Tier 1 employees in this fund. Savings have been identified in utilities and data processing in the ESD Non-Personal/Equipment appropriation sufficient to cover the Personal Services overage. Consequently, a recommendation is included in this report to reallocate $350,000 from ESD Non-Personal/Equipment to ESD Personal Services. Additionally, the Information Technology Personal Services appropriation is tracking to exceed the budget by year-end due primarily to higher enterprise series position costs approved June 2017 that were not incorporated in the 2017-2018 Adopted Budget; a recommendation is therefore included in this report to increase this appropriation by $45,000. Overall, expenses are expected to end the year slightly under budget.

	2017-2018 Current Modified	2017-2018 YTD Actual	2017-2018 % of Budget
Unrestricted Ending Fund Balance	613,771	N/A	N/A

<u>*Ending Fund Balance*</u> – This report includes an adjustment to the Ending Fund Balance to offset an increase to the Information Technology Personal Services appropriation ($45,000) as described above. After accounting for this action, the revised Ending Fund Balance is $569,000.

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