

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

This section provides financial information on the 2024-2025 year-end performance for selected special and capital funds that represent major City operations. Specifically, it includes discussions regarding the funds' revenue, expenditure, and ending fund balance performances. The funds are discussed in alphabetical order.

The Revenue and Expenditure Performance chart displays the 2024-2025 Modified Budget and Actual revenues and expenditures, with the dollar and percent variance for each. The revenue figures exclude the Beginning Fund Balance and Reserves while the expenditure figures include encumbrances but exclude the Ending Fund Balance and other reserves. The Ending Fund Balance Performance chart displays the 2024-2025 Modified Budget, which includes fund balance and reserves. The 2024-2025 Estimated Ending Fund Balance and Actual Ending Fund Balance also includes reserves, except the reserve for encumbrances. The dollar variance compares the Estimated Ending Fund Balance used to develop the 2025-2026 Adopted Budget with the Actual Ending Fund Balance. The Recommended Annual Report Rebudget Adjustments show the amount of additional rebudgets recommended in this report and calculates the revised variance should recommended rebudgets be approved.

Revenue Performance: This discussion identifies the amount of revenue received in 2024-2025 and major revenue sources; provides context regarding the year-end revenue performance variance to the modified budget; and compares revenues to the prior year performance.

Expenditure Performance: This discussion identifies the amount of expenditures for 2024-2025 and major expenditure categories; provides context regarding the year-end expenditure performance variance to the modified budget; discusses significant capital improvement project variances relative to the size of the capital fund; calculates the revised expenditure variance due to rebudgets approved as part of the 2025-2026 Adopted Budget or as recommended in this report; and compares expenditures to the prior year performance.

Ending Fund Balance Performance: This discussion provides the actual Ending Fund Balance and the estimated Ending Fund Balance used in the development of the 2025-2026 Adopted Budget; discusses variances between these two amounts; and identifies any impact on the 2025-2026 budget related to recommended actions included in this report.

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Revenue and Expenditure Performance (\$ in Thousands)				
	2024-2025 Budget	2024-2025 Actuals	Variance	% Variance
Revenues	\$161,959	\$96,869	(\$65,089)	(40.2%)
Expenditures	\$262,415	\$92,694	(\$169,721)	(64.7%)

The Airport Capital Funds include the Airport Capital Improvement Fund, the Airport Revenue Bond Improvement Fund, the Airport Renewal and Replacement Fund, and the Airport Passenger Facility Charge Fund.

Revenues totaled \$96.9 million and were generated primarily from transfers from the Airport Surplus Revenue Fund (\$47.8 million), Passenger Facility Charges (PFCs) (\$21.4 million), grant income (\$21.1 million) and interest earnings (\$4.9 million). This revenue level was \$65.1 million (40.2%) below the Modified Budget and \$24.5 million (20.2%) lower than the prior year level of \$121.3 million.

The negative variance to the budget of \$65.1 million (40.2%) was due primarily to lower than budgeted commercial paper proceeds of \$33.9 million, grant revenue of \$32.0 million, and Passenger Facility Charge revenue of \$3.1 million, offset by higher than budgeted interest collected of \$3.9 million. This performance resulted from intentional drawing of commercial paper in-line with the project schedule and anticipated expenditure in order to limit financing costs. Additionally, there are Airport projects awaiting Federal Aviation Administration approval of grant applications and awards. Overall, revenues in 2024-2025 of \$96.9 million were lower than 2023-2024 revenues of \$121.3 million due to lower than expected grant revenue and commercial paper proceeds. Revenue rebudgets totaling \$12.4 million are recommended in this report to align the anticipated revenue budget with planned expenditures.

Expenditures totaled \$92.7 million and consisted primarily of expenditures for projects such as the Taxiway V construction under the Airfield Configuration Updates project (\$25.5 million), transfers to other Airport funds for debt service payments (\$23.8 million), Terminal Accessibility Upgrades (\$3.5 million), and various capital renewal and replacement projects (\$16.5 million). Expenditures also included projects such as Facilities Division Relocation (\$2.1 million) and Parking Accessibility Upgrades (\$2.1 million). This expenditure level was \$169.7 million (64.7%) below the Modified Budget and \$22.2 million (19.4%) below the prior year level of \$114.9 million.

After adjusting for rebudgets of \$60.7 million included in the 2025-2026 Adopted Budget and \$3.0 million recommended to be rebudgeted in this report, expenditure savings of \$106.0 million were largely attributed to grant projects that were not awarded and project deferrals including the Belly Freight Facility (\$64.8 million) and the Perimeter Fence Line Upgrades (\$1.7 million).

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Project savings also resulted from the completion of several projects including Terminal Accessibility Upgrades (\$11.2 million), Facilities Division Relocation (\$7.7 million), and Program Management (\$1.6 million). The Airport continues to ensure passenger safety is a top priority and development of additional passenger, airline, and concession activity is important to planning for the Airport’s future growth.

Ending Fund Balance Performance (\$ in Thousands)						
2024-2025 Modified Budget	2024-2025 Estimated Ending Fund Balance	2024-2025 Actual Ending Fund Balance	Variance	Recommended Annual Report Rebudget Adjustments	Revised Variance	Revised Variance % (incl. Rebudget Adjustment)
\$299,258	\$83,100	\$142,257	\$59,157	(\$9,431)	\$68,588	22.9%

The **Ending Fund Balance** of \$142.3 million was \$59.2 million above the estimate used in the development of the 2025-2027 Adopted Capital Budget. After accounting for rebudget adjustments totaling -\$9.4 million that are recommended as part of the Annual Report, the revised fund balance variance is \$68.6 million. This fund balance variance resulted from the deferral of several projects and extension of timelines for others due to staffing capacity at the Airport and prioritization of critical existing airport capital projects.

As described in *Section IV – Recommended Budget Adjustments and CleanUp/Rebudget Actions*, a limited number of adjustments are recommended in this report, including the establishment of the Future Capital Rehabilitation Reserve in the amount of \$70.0 million for capital rehabilitation improvements at the Airport in the Airport Renewal and Replacement Fund. Given the uncertainty surrounding both passenger-level growth and the City’s ability to continue receiving FAA grant awards, the Airport is planning to defer large capital projects such as the Belly Freight Facility and the Terminal A and B Ramp Rehabilitation projects to ensure funding availability for the improvement and rehabilitation of critical capital assets. After accounting for adjustments, the Ending Fund Balance will increase by \$6.1 million in the Airport Capital Improvement Fund and decrease by \$3.3 million in Airport Renewal and Replacement Fund, \$3.1 million in the Airport Passenger Facility Charge Fund, and \$1.7 million in the Airport Revenue Bond Improvement Fund.

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AIRPORT OPERATING FUND - AIRPORT CUSTOMER FACILITY AND TRANSPORTATION FEE FUND

Revenue and Expenditure Performance (\$ in Thousands)				
	2024-25 Budget	2024-2025 Actuals	Variance	% Variance
Revenues	\$18,452	\$18,537	\$85	0.5%
Expenditures	\$16,812	\$16,639	(\$174)	(1.0%)

Revenues totaled \$18.5 million and were generated from rental car Customer Facility Charge (CFC) fees (\$17.8 million) and interest earnings (\$771,000). This revenue level was \$85,000 (0.5%) above the Modified Budget of \$18.5 million and \$566,000 (3.1%) above the prior year level of \$18.0 million.

The positive variance to the budget of \$85,000 (0.5%) was mainly due to higher than estimated interest income slightly offset by lower-than-expected CFC revenue. While 2024-2025 passenger levels were below expectations, the increase of \$566,000 (3.1%) over the prior year can be attributed to the steady utilization of rental cars resulting in higher CFC revenue and interest earnings.

Expenditures totaled \$16.6 million and were primarily attributed to transfers for debt service payments (\$12.0 million), transfers to the Airport Renewal and Replacement Fund for CFC funded capital projects (\$2.2 million), and shuttle bus transportation costs (\$2.1 million). Expenditures fell slightly below the budget with a variance of \$174,000 (1.0%) due to lower than estimated shuttle bus costs and unused contingency funds. This expenditure level was \$4.3 million (35.1%) above the prior year level of \$12.3 million primarily due to an increase in CFC funded debt service payments, and the transfer to the Airport Renewal and Replacement Fund.

Ending Fund Balance Performance (\$ in Thousands)						
2024-2025 Modified Budget	2024-2025 Estimated Ending Fund Balance	2024-2025 Actual Ending Fund Balance	Variance	Recommended Annual Report Rebudget Adjustments	Revised Variance	Revised Variance % (incl. Rebudget Adjustment)
\$40,686	\$22,955	\$24,136	\$1,181	\$0	\$1,181	4.9%

The 2024-2025 **Ending Fund Balance** of \$24.1 million was \$1.2 million above the estimate used in the development of the 2025-2026 Adopted Budget. This positive variance from the estimate resulted from higher than estimated CFC revenue combined with savings in transportation costs.

As described in *Section IV – Recommended Budget Adjustments and Cleanup/Rebudget Actions*, a little number of adjustments are recommended in this report. After accounting for this, the Ending Fund Balance will increase by \$1.2 million in this fund.

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Revenue and Expenditure Performance (\$ in Thousands)				
	2024-2025 Budget	2024-2025 Actuals	Variance	% Variance
Revenues	\$243,550	\$256,404	\$12,854	5.3%
Expenditures	\$161,984	\$149,088	(\$12,896)	-8.0%

Revenues in the Airport Revenue Fund totaled \$256.4 million and were generated from Airline Terminal Rental (\$82.7 million), Parking and Roadway (\$60.1 million), Landing Fees (\$36.6 million), Miscellaneous Revenue (\$29.6 million), Terminal Building Concessions (\$27.7 million), Federal Grant revenue (\$10.0 million), Airfield (\$4.4 million), Petroleum Products (\$107,000), and Transfers from the Airport Fiscal Agent Fund (\$4.7 million) and General Fund for Jet Fuel Sales Tax (\$500,000). The total revenue level was \$12.9 million (5.3%) above the Modified Budget of \$243.6 million and 9.6% higher than the prior year level of \$233.9 million.

The positive revenue variance of \$12.9 million was due to higher than anticipated revenues in the following categories: Terminal Building Concessions (\$6.3 million), Terminal Rentals (\$3.0 million), Airfield (\$2.6 million), Miscellaneous (\$1.3 million), Landing Fees (\$913,000), and Petroleum Products (\$79,000). The increased revenues were partially offset by a negative variance in Parking and Roadway revenues (\$1.3 million).

The 2024-2025 revenue level (\$256.4 million) was \$22.5 million (9.6%) higher than the 2023-2024 level of \$233.9 million, primarily due to an increase in the Airport's Landing Fees and Terminal Rental Rates combined with improved performance in the Miscellaneous, Terminal Building Concessions and Airfield revenue categories.

Expenditures in the Airport Maintenance and Operation Fund totaled \$149.1 million and were primarily for Airport Department non-personal/equipment (\$56.7 million) and personal services (\$46.9 million) spending, transfers to the General Fund for Police and Fire services (\$20.9 million), payments totaling \$16.2 million from the Airline Reserve Funds Distribution to distribute the airlines' portion of the net remaining revenue resulting from the 2024-2025 financial performance, and Overhead (\$6.7 million). This expenditure level was \$12.9 million (8.0%) below the Modified Budget of \$162.0 million and \$15.0 million (11.2%) above the prior year level of \$134.1 million.

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The favorable variance to the budget of \$12.9 million was primarily due to non-personal/equipment expenditure savings (\$9.5 million) in custodial costs, customs and border protection, shuttle bus and parking operations services, and a lower than expected Airline Reserve Fund Distribution (\$3.8 million). The \$15.0 million (11.2%) increase over the prior year was primarily due to increased Airline Reserve Funds Distribution (\$7.4 million), Airport personal services costs (\$5.8 million), Overhead (\$1.5 million) and non-personal services costs (\$1.0 million).

Ending Fund Balance Performance (\$ in Thousands)						
<i>2024-2025 Modified Budget</i>	<i>2024-2025 Estimated Ending Fund Balance</i>	<i>2024-2025 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Annual Report Rebudget Adjustments</i>	<i>Revised Variance</i>	<i>Revised Variance % (incl. Rebudget Adjustment)</i>
\$564,960	\$177,018	\$175,741	(\$1,278)	\$0	(\$1,278)	(0.2%)

The 2024-2025 combined **Ending Fund Balance** of \$175.7 million was \$1.3 million below the budgeted estimate used to develop the 2025-2026 Adopted Operating Budget. The variance from the estimate was primarily due to a lower than estimated debt service coverage requirement, which is a component of the fund balance per the Airport's Master Trust Agreement. This decrease was partially offset by higher than expected revenues.

As described in *Section IV – Recommended Budget Adjustments and CleanUp/Rebudget Actions*, a limited number of adjustments are recommended in this report. After accounting for adjustments, the Ending Fund Balance will decrease by \$2.9 million in the Airport Maintenance and Operation Fund and increase by \$2.6 million in the Airport Revenue.

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BUILDING AND STRUCTURE CONSTRUCTION TAX FUND

Revenue and Expenditure Performance (\$ in Thousands)				
	2024-2025 Budget	2024-2025 Actuals	Variance	% Variance
Revenues	\$86,958	\$34,460	(\$52,498)	(60.4%)
Expenditures	\$148,371	\$55,619	(\$92,753)	(62.5%)

Revenues totaled \$34.5 million and were generated primarily from Building and Structure Construction Tax receipts (\$20.5 million), grant funding (\$9.8 million), interest earnings (\$3.3 million), and other revenue (\$875,000). The revenue level was \$10.3 million (23.1%) below the prior year level of \$44.8 million. The 2024-2025 revenues were lower than the budgeted estimate of \$87.0 million by approximately \$52.5 million, resulting primarily from lower than budgeted grant revenues (\$58.3 million), partially offset by higher Building and Structure Construction Tax (\$3.5 million), interest earnings (\$1.4 million), and other revenue (\$875,000).

At \$20.5 million, Building and Structure Construction Tax receipts in 2024-2025 were above the budgeted estimate of \$17.0 million, and 4.3% higher than the 2023-2024 collections of \$19.6 million. During the development of the 2026-2030 Capital Improvement Program, the Building and Structure Construction Tax revenue estimate was increased to \$20.0 million, but this increase was not reflected in the 2024-2025 Modified Budget, due to the volatile nature of tax receipt collections. The higher collection level for Building and Structure Construction Tax revenues is attributable to an increase in valuation of permits for building projects in the commercial land-use categories over the prior year that was driven primarily by permits that were issued for data center projects. The total valuation of projects submitted in 2024-2025 was \$1.7 billion, 9.6% above the \$1.6 billion valuation of projects that were received in 2023-2024. Residential valuation of \$363.7 million in 2024-2025 was lower (33.6%) than the 2023-2024 level of \$547.8 million. A total of 1,092 new residential units received permits in 2024-2025, which was below 2023-2024 levels of 2,675 units. Commercial valuation of \$990.7 million ended 2024-2025 at 89.1% above the prior year level of \$523.9 million. Industrial activity of \$383.7 million was lower (25.4%) than the 2023-2024 level of \$514.5 million. The 2025-2026 Adopted Budget estimate of \$18.0 million for the tax receipts allows for a decrease of 12.1% from the actual 2024-2025 collection level.

Additionally, one of the data center projects in 2024-2025 was incorrectly taxed at the industrial rate rather than the commercial rate. Upon collection of the correct 1.5% commercial rate, as opposed to the 1% industrial rate, it is estimated that an additional \$683,000 in Building and Structure Tax revenues would be received.

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Examples of major projects for the year include permits for a seven-story, 345-unit multi-family building located on North Capitol Avenue near Penitencia Creek Road; the 60% structural shell and remaining 20% of a 302,000 square foot data center located on Trade Zone Boulevard between Lundy Avenue and Ringwood Avenue; and a 257,000 square foot industrial building and a 216,000 square foot warehouse building (both located on Piercy Road north of Tenant Avenue and west of Hellyer Avenue).

Grant-related revenues of \$55.4 million were not received in 2024-2025 due to delays for projects such as ATP – Willow-Keys Complete Street Improvements, VTA Measure B 2016 - Bicycle and Pedestrian Grant Program, and ATP - Better Bikeways San Fernando. This was anticipated and the revenues were rebudgeted as part of the 2025-2026 budget process. An additional rebudget of grant funding in the amount of \$3.5 million is recommended as part of this report.

An action recommended in this report decreases Revenue from the Federal Government by \$7.0 million due to recent developments affecting federal grant funding. In August 2025, the Transportation Department received notification that the United States Department of Transportation – Federal Railroad Administration (DOT FRA) withdrew its selection of the City's Southern San José Grade Separations (Monterey Road) Project for DOT FRA funding through a Consolidated Rail Infrastructure and Safety Improvements (CRISI) grant. The total grant award was \$7.5 million, with \$7.0 million estimated to be received this fiscal year and \$500,000 next fiscal year. This action is offset by the elimination of the Monterey Grade Separation project and a reduction to the Ending Fund Balance. This project had not started so there is no impact to the fund.

Expenditures including encumbrances totaled \$55.6 million and were \$92.8 million (62.5%) below the Modified Budget. A portion of the expenditure savings (\$70.2 million), excluding reserves, was anticipated and rebudgeted as part of the 2025-2026 budget process. An additional \$16.3 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects to continue in 2025-2026. Upon factoring for rebudgets, expenditures in the Building and Structure Construction Tax Fund are relatively aligned with the budgeted levels for 2024-2025. The expenditure level was \$1.7 million (2.9%) below the prior year level of \$57.3 million.

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Ending Fund Balance Performance (\$ in Thousands)						
2024-2025 Modified Budget	2024-2025 Estimated Ending Fund Balance	2024-2025 Actual Ending Fund Balance	Variance	Recommended Annual Report Rebudgets	Revised Variance	Revised Variance % (incl. Rebudgets)
\$187,405	\$57,563	\$80,127	\$22,564	\$12,813	\$9,751	5.2%

The **Ending Fund Balance** of \$80.1 million was \$22.6 million above the estimate used in the development of the 2025-2026 Adopted Budget. After accounting for net rebudget adjustments of \$12.8 million recommended in this report, the positive variance changes to \$9.8 million. Significant revenue rebudgets include: ATP – Better Bikeways (\$1.4 million), THUD – Jackson Avenue Safety Improvements Project (\$850,000), and OBAG2 - Tully Road (\$763,000). Further, significant expenditure rebudgets include: Better Bikeways San Fernando (\$2.5 million), Quiet Zone (\$2.1 million), Bascom Avenue Queue Cutter Traffic Signal (\$1.6 million), W San Carlos Corridor Safety Improvements (OBAG) (\$1.5 million), and Tully Road Corridor Safety Improvements (\$1.2 million).

As described in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions*, a limited number of revisions are recommended in this report, including the elimination of \$7.0 million in federal grant revenue and \$4.2 million in expenditures for the Monterey Grade Separation project, and an increase to Safety – Traffic Signal Modifications/Construction project (\$484,500). After accounting for all recommended adjustments, a net increase of \$6.0 million is recommended to be allocated to the 2025-2026 Ending Fund Balance.

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Revenue and Expenditure Performance (\$ in Thousands)				
	2024-2025 Budget	2024-2025 Actuals	Variance	% Variance
Revenues	\$68,928	\$57,636	(\$11,292)	(16.4%)
Expenditures	\$146,082	\$91,705	(\$54,377)	(37.2%)

The Construction and Conveyance (C&C) Tax Funds consist of the Communications C&C Tax Fund, Service Yards C&C Tax Fund, Fire C&C Tax Fund, Library C&C Tax Fund, Parks Central C&C Tax Fund, Parks City-Wide C&C Tax Fund, 10 Council Districts C&C Tax Funds, and Park Yards C&C Tax Fund.

Revenues generated in the Construction and Conveyance (C&C) Tax Funds in 2024-2025 totaled \$57.6 million and were comprised of C&C tax receipts (\$39.0 million), transfers between funds (\$8.7 million), interest earnings (\$3.6 million), State and federal grants (\$3.5 million), and miscellaneous revenue (\$2.8 million), which is primarily related to settlement funds that were received from Santa Clara County (\$2.6 million). The 2024-2025 collection level of \$57.6 million is \$11.3 million below the budgeted estimate of \$68.9 million, which is primarily due to lower than budgeted State and federal grants (\$7.1 million), miscellaneous revenue (\$2.7 million), and C&C tax proceeds (\$1.0 million).

C&C Tax collections of \$39.0 million were received in 2024-2025, which is \$1.0 million below the 2024-2025 Modified Budget level of \$40.0 million and \$4.0 million below the estimate of \$43.0 million that was used in the development of the 2025-2026 Adopted Capital Budget. The 2024-2025 collection level increased slightly (2.0%) from the 2023-2024 collections. In 2025-2026, C&C Tax collections are budgeted at \$47.0 million, which now requires growth of over 20% (\$8.0 million) from the actual 2024-2025 collection level. Given the volatility experienced with the local real estate market, which is the driver of this revenue source, C&C Tax collections will be closely monitored the next few months. Adjustments will be made as part of the 2025-2026 Mid-Year Budget Review if necessary. The 2024-2025 Annual Report includes recommendations to adjust the Beginning Fund Balances/Ending Fund Balances in each of the Construction and Conveyance Tax Funds as a result of the lower collections of Construction and Conveyance Tax revenue in 2024-2025.

Expenditures in the various C&C Tax Funds totaled \$91.7 million in 2024-2025 and were derived primarily from various capital projects expenses, as well as the transfers from the Parks Central C&C Tax Fund to the Parks City-Wide and Council Districts 1-10 C&C Tax Funds. This expenditure level is \$54.4 million (37.2%) below the budgeted level of \$146.1 million, which is primarily the result of unexpended capital project funding. A majority of unexpended project funding was anticipated and rebudgeted as part of the 2025-2026 Adopted Budget or are recommended to be rebudgeted as part of this report. The 2024-2025 expenditure level of \$91.7 million was \$7.5 million (8.9%) above the prior year's level of \$84.2 million.

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Ending Fund Balance Performance (\$ in Thousands)						
<i>2024-2025 Modified Budget</i>	<i>2024-2025 Estimated Ending Fund Balance</i>	<i>2024-2025 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Annual Report Rebudgets</i>	<i>Revised Variance</i>	<i>Revised Variance % (incl. Rebudgets)</i>

The **Ending Fund Balance** of \$79.6 million was \$10.5 million above the \$69.1 million estimate used to develop the 2025-2026 Adopted Capital Budget. After accounting for net revenue and expenditure rebudgets of \$3.5 million that are recommended in this report, the variance decreases to \$7.0 million.

As described in *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions*, this report includes recommendations to allocate from a number of C&C Tax Fund Ending Fund Balances to fund various capital projects, including the Family Camp Chimney Removal (\$110,000, Parks City-Wide C&C Tax Fund), Police Athletic League Stadium Electrical Improvements (\$60,000, Council District 5 C&C Tax Fund), Happy Hollow Park and Zoo Fencing Improvements Payment (\$40,000, Parks City-Wide C&C Tax Fund), Guadalupe River Park Yard Relocation (\$15,000, Park Yards C&C Tax Fund), and Building Forward Library Infrastructure Grant – Local Match (shifting costs of \$849,670 from the Library C&C Tax Fund to the Branch Libraries Bond Projects Fund). For a complete list of all budget adjustments included in the 17 C&C Tax Funds, please refer to *Section IV – Recommended Budget Adjustments and Clean-up/Rebudget Actions*.

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CONSTRUCTION EXCISE TAX FUND

Revenue and Expenditure Performance (\$ in Thousands)				
	2024-2025 Budget	2024-2025 Actuals	Variance	% Variance
Revenues	\$148,609	\$122,231	(\$26,378)	(17.8%)
Expenditures	\$181,357	\$122,222	(\$55,135)	(32.6%)

Revenues totaled \$122.2 million and were primarily generated from grant funding (\$101.1 million), Construction Excise Tax receipts (\$14.2 million), interest earnings (\$3.5 million), traffic impact and other fees (\$1.6 million), miscellaneous revenues (\$1.2 million), and developer contributions (\$675,000). The majority of grant funding consists of allocations for pavement maintenance from the State of California and the Valley Transportation Authority (VTA) (\$73.0 million). The revenue level was \$26.4 million (17.8%) below the budgeted estimate but \$34.1 million (38.8%) above the prior year level of \$88.1 million.

The 2024-2025 variance to budget of \$26.4 million was primarily due to lower receipts from grant funds (\$28.8 million) and Construction Excise Tax receipts (\$1.8 million), offset by higher than estimated traffic impact fees (\$1.6 million), interest earnings (\$1.3 million), miscellaneous revenue (\$1.1 million), and developer contributions (\$135,000). Grant-related revenues of \$10.2 million which were not expected to be received in 2024-2025 due to project delays were rebudgeted as part of the development of the 2025-2026 Adopted Budget.

Significant revenue rebudgets totaling \$21.5 million are recommended in the Annual Report include Pavement Maintenance – VTA Measure B 2016 (\$14.8 million), TDA – Bicycle and Pedestrian Facilities (\$1.5 million), VTA Measure B - Walk 'n Roll (\$1.1 million), and Airport Connector (\$1.0 million). The revenue increased by \$34.1 million compared to the prior year, which mainly resulted from higher collections from grants (\$36.5 million), miscellaneous revenue (\$869,000), traffic impact fees (\$402,000), developer contributions (\$281,000), and interest earnings (\$248,000), which were offset by lower collections from Construction Excise Tax receipts (\$4.1 million).

At \$14.2 million, Construction Excise Tax receipts in 2024-2025 were 11.1% below the budgeted estimate of \$16.0 million and below 2023-2024 collections of \$18.4 million. The total valuation of residential and commercial projects submitted in 2024-2025 was \$1.4 billion or 26.4% higher than the \$1.1 billion valuation of residential and commercial projects submitted in 2023-2024 (the Construction Excise Tax does not apply to industrial projects). The increase was driven primarily by permits issued for data center projects. Typically, tax collections align with trends in permit valuations, which would have suggested a year-over-year increase in tax revenue; however, a data center project was classified as commercial but incorrectly assessed at the industrial rate (resulting in lower revenue of approximately \$4.1 million). Discussions with the taxpayer are ongoing to resolve this error.

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Residential valuation of \$363.7 million in 2024-2025 was lower (33.6%) than the 2023-2024 level of \$547.8 million. Notably, the residential permit valuation in 2023-2024 was significantly higher than the previous three years, and the 2024-2025 residential permit valuation is more consistent with levels seen in 2021-2022 and 2022-2023. A total of 1,092 new residential units received permits in 2024-2025, which was significantly lower than the 2023-2024 actuals of 2,675 units. Commercial valuation ended the year at \$990.7 million, which was 89.1% above the prior year's level of \$523.9 million. Examples of major projects for the year include permits for a seven-story, 345 unit multi-family building located on North Capital Avenue near Penitencia Creek Road; and a 60% structural shell and the remaining 20% of a 302,000 square foot data center on Trade Zone Boulevard between Lundy Avenue and Ringwood Avenue.

Expenditures including encumbrances totaled \$122.2 million and were \$55.1 million (32.6%) below the 2024-2025 Modified Budget. The expenditure level was \$7.5 million (5.8%) below the prior year level of \$129.7 million. A portion of the expenditure savings (\$34.6 million) was anticipated and rebudgeted as part of the 2025-2026 Adopted budget process. An additional \$7.8 million is recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2025-2026. Significant expenditure rebudgets recommended in this report include Pavement Maintenance – VTA Measure B VRF (\$3.0 million), Pavement Maintenance SB1 Road Repair and Accountability Act 2017 (\$2.3 million), Bicycle and Pedestrian Facilities (\$668,000), and St. James Station at Basset Bike/Ped Improvements (\$628,000).

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Ending Fund Balance Performance (\$ in Thousands)						
2024-2025 Modified Budget	2024-2025 Estimated Ending Fund Balance	2024-2025 Actual Ending Fund Balance	Variance	Recommended Annual Report Rebudgets	Revised Variance	Revised Variance % (incl. Rebudgets)
\$230,741	\$76,248	\$86,743	\$10,495	(\$13,665)	\$24,160	10.5%

The **Ending Fund Balance** of \$86.7 million was \$10.5 million above the estimate used in the development of the 2025-2026 Adopted Budget. However, after accounting for net revenue and expenditure rebudgets (-\$13.7 million) recommended in the Annual Report and discussed above, this variance increases to \$24.2 million above the estimate.

As described in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions*, this report recommends a limited number of adjustments for new grants and projects as well as revisions to existing projects. Examples include: an increase to Pavement Maintenance – VTA Measure B VRF (\$1.0 million), an increase to Pavement Maintenance – SB1 Road Repair & Accountability Act 2017 (\$826,000), and the elimination of Bikeshare to La Plaza (\$500,000). Notably, these recommendations are accompanied by corresponding actions to increase the estimate for Revenue from Local Agencies (\$1.8 million) and decrease the estimate for Revenue from the Federal Government (-\$500,000)

Recommendations are also included for establishing seven new funds and the associated clean-up actions. The new funds are: VRF Measure B Pavement Maintenance Fund, I-280/Winchester Traffic Impact Fee Fund, Route 101/Oakland/Mabury Traffic Impact Fee Fund, North San José Traffic Impact Fee Fund, Evergreen Traffic Impact Fee Fund, State Gas Tax Pavement Maintenance Fund, and VTA Measure B Pavement Maintenance Fund. Historically, these funds have been managed as restricted memo funds within the Construction Excise Tax Fund. Creating individual funds will improve the transparency and allow for more accurate accounting of the source and uses of each fund. After accounting for all the recommended adjustments, the 2025-2026 Ending Fund Balance across all the funds is recommended to increase by \$4.4 million. The changes to the Ending Fund Balance in each individual fund are: a decrease of \$6.4 million in the Construction Excise Tax Fund, an increase of \$1.2 million in the VRF Measure B Pavement Maintenance Fund, an increase of \$501,000 in the Route 101/Oakland/Mabury Traffic Impact Fee Fund, an increase of \$1.0 million in the North San José Traffic Impact Fee Fund, an increase of \$175,000 in the Evergreen Traffic Impact Fee Fund, and an increase of \$7.9 million in the State Gas Tax Pavement Maintenance Fund.

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III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

DEVELOPMENT FEE PROGRAM FUNDS

Revenue and Expenditure Performance (\$ in Thousands)				
	2024-2025 Budget	2024-2025 Actuals	Variance	% Variance
Revenues				
<i>Building:</i>	\$37,204	\$36,255	(\$949)	(2.6%)
<i>Fire:</i>	\$9,605	\$8,198	(\$1,407)	(14.6%)
<i>Planning:</i>	\$7,751	\$8,058	\$307	4.0%
<i>Public Works:</i>	\$17,846	\$21,258	\$3,412	19.1%
Expenditures				
<i>Building:</i>	\$44,600	\$41,715	(\$2,885)	(6.5%)
<i>Fire:</i>	\$10,538	\$9,724	(\$814)	(7.7%)
<i>Planning:</i>	\$9,566	\$8,273	(\$1,293)	(13.5%)
<i>Public Works:</i>	\$21,194	\$20,992	(\$202)	(1.0%)

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

Revenues generated from the Development Fee Program Funds totaled \$73.8 million in 2024-2025, higher than the total budget of \$72.4 million. Revenues exceeded budgeted levels in the Planning and Public Works Development Fee Programs, while the Building and the Fire Development Fee Programs ended the year below budgeted levels due to lower-than-anticipated activity and the impact of reclassifying earned revenue to deferred revenue to represent estimated works-in-progress projects. Total revenues were approximately 0.6% higher than the prior year, driven primarily by higher revenues in the Public Works Development Fee Program (20.4%).

It is important to note that the implementation of new accounting procedures included in Recommendation #5 of the Office of the City Auditor’s Report “20-05 Development Partners’ Work-In-Progress Reserves: Better Monitoring Can Ensure Reserves Align With Resource Needs” reduced the amount of revenue recognized in 2024-2025 by approximately \$11.0 million across all funds (\$5.7 million in Building, \$2.1 million in Fire, \$0.9 million in Planning, and \$2.3 million in Public Works). Under this new methodology, developed by external auditors in consultation with the Finance Department, revenue advanced for development partner work on current development projects will be more closely tracked against costs incurred to date and the outstanding scope of work still to be completed. Revenue attributable to this outstanding work will now be deferred pending completion.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

DEVELOPMENT FEE PROGRAM FUNDS

Expenditures totaled \$80.7 million and were primarily for the Personal Services and Non-Personal/Equipment expenditures in all four Development Fee Program Funds. This expenditure level was \$5.2 million (6.0%) below the modified budget of \$85.9 million, primarily due to vacancy and non-personal/equipment savings experienced in all four Development Fee Program Funds.

Ending Fund Balance Performance (\$ in Thousands)							
<i>Development Fee Program</i>	<i>2024-2025 Modified Budget</i>	<i>2024-2025 Estimated Ending Fund Balance</i>	<i>2024-2025 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Annual Report Rebudgets</i>	<i>Revised Variance</i>	<i>Revised Variance % (incl. Rebudgets)</i>
<i>Building:</i>	\$72,729	\$30,348	\$30,094	(\$254)	\$83	(\$337)	(0.5%)
<i>Fire:</i>	\$11,738	\$540	\$961	\$421	\$7	\$414	3.5%
<i>Planning:</i>	\$11,858	\$2,096	\$3,893	\$1,797	\$7	\$1,790	15.1%
<i>Public Works:</i>	\$23,884	\$2,519	\$6,308	\$3,789	\$15	\$3,774	15.8%

The total **Ending Fund Balance** for all four Development Fee Program Funds of \$41.3 million was \$5.8 million above the estimate used in the development of the 2025-2026 Adopted Budget. After accounting for the recommended rebudgets included in this report, the 2024-2025 Ending Fund Balance variance for the Development Fee Program Funds falls slightly to \$5.6 million. This balance, the difference between revenues and expenditures, will be spent down as projects proceed through the development process and will cover the costs of the fee program if it falls below full cost recovery, which will mitigate large fee increases.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Revenue and Expenditure Performance (\$ in Thousands)				
	2024-2025 Budget	2024-2025 Actuals	Variance	% Variance
Revenues	\$213,010	\$214,690	\$1,680	0.8%
Expenditures	\$221,743	\$216,134	(\$5,609)	(2.5%)

Revenues totaled \$214.7 million and were generated primarily from Recycle Plus collection charges (\$204.4 million), AB939 Fees (\$5.9 million), interest earnings (\$1.7 million), unclaimed Construction and Demolition Diversion Deposit revenue (\$899,000), and lien-related revenues (\$562,000). This revenue level was \$1.7 million (0.8%) above the Modified Budget of \$213.0 million and \$6.6 million (3.2%) above the prior year level of \$208.1 million.

The variance to the budget was primarily driven by higher than expected revenue from Recycle Plus collection charges (\$2.0 million) and interest revenues (\$937,000), offset by lower than anticipated lien-related revenues (\$951,000). The overall increase compared to the prior year was mainly attributable to higher Recycle Plus collection charges (\$8.3 million), largely reflecting adjustments to customer rates, as well as increases in AB939 Fees (\$912,000), and interest earnings (\$509,000). These increases were primarily offset by the one-time CalRecycle grant revenues (\$2.5 million) received in the prior year and reduced lien-related revenues (\$809,000).

Expenditures totaled \$216.1 million and were primarily for Single-Family Dwelling (SFD) Recycle Plus contracts (\$96.0 million) to pay for hauling services for single-family dwellings across the City, yard trimmings/street sweeping contract (\$35.7 million), MFD Recycle Plus contracts (\$30.6 million), SFD back-end processing (\$22.2 million) which pays for post-collection processing of solid waste to recover organics and recyclables, Environmental Services Department (ESD) personal services costs (\$10.4 million), ESD non-personal/equipment costs (\$6.3 million), the International Disposal Corporation of California, Inc. (IDC) disposal agreement (\$5.4 million), reimbursement of citywide overhead expenses (\$3.0 million), and costs for the County Revenue Collection Fee (\$1.6 million). This expenditure level was \$5.6 million (2.5%) below the Modified Budget of \$221.7 million and \$19.0 million (9.6%) above the prior year level of \$197.1 million.

The variance to the budget was mainly due to savings in CalRecycle grants expenditures (\$1.7 million), MFD Recycle Plus (\$1.1 million), ESD non-personal/equipment expenses (\$633,000), and costs for the County Revenue Collection Fee (\$475,000). The higher expenditure level compared to the prior year was due primarily to higher costs for SFD Recycle Plus (\$9.0 million), largely reflecting charges originally planned for 2023-2024 but posted in 2024-2025, as well as higher expenses for the yard trimmings/street sweeping contract (\$2.4 million), MFD Recycle Plus contracts (\$2.0 million), ESD non-personal/equipment expenses (\$1.4 million) and SFD back-end processing (\$1.2 million).

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

INTEGRATED WASTE MANAGEMENT FUND

Ending Fund Balance Performance (\$ in Thousands)						
<i>2024-2025 Modified Budget</i>	<i>2024-2025 Estimated Ending Fund Balance</i>	<i>2024-2025 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Annual Report Rebudgets</i>	<i>Revised Variance</i>	<i>Revised Variance as % of Modified Budget</i>
\$253,476	\$43,219	\$46,664	\$3,445	(\$246)	\$3,691	1.5%

The **Ending Fund Balance** of \$46.7 million was \$3.4 million above the estimate used in the development of the 2025-2026 Adopted Budget, primarily due to the higher than estimated revenues for AB939 Fees and lower than estimated expenditures in a variety of departmental personal services and non-personal/equipment appropriations. After accounting for rebudget adjustments recommended in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2025-2026 Ending Fund Balance in the Integrated Waste Management Fund is recommended to be increased by \$3.7 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

REAL PROPERTY TRANSFER TAX FUND

Revenue and Expenditure Performance (\$ in Thousands)				
	2024-2025 Budget	2024-2025 Actuals	Variance	% Variance
Revenues	\$211,839	\$211,050	(\$789)	-0.4%
Expenditures	\$150,384	\$64,008	(\$86,376)	-57.4%

Revenues in the Real Property Transfer Tax Fund totaled \$211.1 million and were primarily generated from transfers from the General Fund (\$160.6 million), Real Property Transfer Tax collections (\$47.7 million), and interest earnings (\$2.8 million). The total revenue level was \$789,000 (0.4%) below the Modified Budget of \$211.8 million.

Beginning in 2024-2025, Real Property Transfer Tax revenue and its associated expenditures for new affordable housing, homeless prevention, and homelessness support programs were moved from the General Fund to the newly created Real Property Transfer Tax Fund. As a result, funding of \$160.6 million that remained unexpended in the General Fund were transferred to the Real Property Transfer Fund in 2024-2025.

In 2024-2025, Real Property Transfer Tax collections totaled \$47.7 million, which is \$2.3 million (4.6%) below 2024-2025 budgeted estimate of \$50.0 million. Additionally, the 2024-2025 collection level reflected a \$3.1 million (6.1%) decrease from the prior year collection level of \$50.7 million.

Expenditures including encumbrances in the Real Property Transfer Tax Fund totaled \$64.0 million and were primarily for creation of new affordable housing for extremely low-income households (\$21.2 million), homeless support programs including interim housing construction and operations (\$20.5 million), creation of new affordable housing for low-income households (\$7.5 million), homeless prevention and rental assistance (\$6.7 million), program administration (\$3.8 million), creation of new affordable housing for moderate-income households (\$3.1 million), and the transfer of interest earnings to the General Fund (\$1.3 million). The Real Property Transfer Tax Fund's total expenditure level was \$86.4 million (57.4%) below the Modified Budget of \$150.4 million. The variance from budget is primarily due to remaining budget for creation of new affordable housing which is earmarked for specific affordable housing projects (\$54.6 million) that the City has committed funding to but have not yet started construction. Until that time arises, the budget is carried over into the following fiscal year. Another \$25.7 million will be carried over into 2025-2026 to complete interim housing related projects that can require more than a fiscal year to complete or to encumber for operations related to interim housing projects.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

REAL PROPERTY TRANSFER TAX FUND

Ending Fund Balance Performance (\$ in Thousands)						
<i>2024-2025 Modified Budget</i>	<i>2024-2025 Estimated Ending Fund Balance</i>	<i>2024-2025 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Annual Report Rebudget Adjustments</i>	<i>Revised Variance</i>	<i>Revised Variance % (incl. Rebudget Adjustment)</i>
\$211,839	\$140,978	\$171,618	\$30,640	\$4,406	\$26,234	12.4%

The **Ending Fund Balance** of \$171.6 million was \$30.6 million above the budgeted estimate used to develop the 2025-2026 Adopted Budget. The variance from the estimate was primarily due to lower than estimated expenses for interim housing construction and operations, homeless administrative and response staff, and homeless outreach, sanitation, and other support services. After accounting for \$4.4 million of rebudget adjustments as recommended in *Section IV – Recommended Budget Adjustments and Clean-Up/Rebudget Actions*, the revised fund balance variance is \$26.2 million for 2024-2025.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL FUNDS

Revenue and Expenditure Performance (\$ in Thousands)				
	2024-2025 Budget	2024-2025 Actuals	Variance	% Variance
Revenues	\$39,577	\$41,633	\$2,056	5.2%
Expenditures	\$125,688	\$66,162	(\$59,526)	(47.4%)

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

Revenues totaled \$41.6 million and were generated from a transfer from the Sewer Service and Use Charge Fund (\$35.0 million), interest revenue (\$4.6 million), joint participation payment reimbursements from Cupertino and the West Valley Sanitation District (\$1.4 million), and connection fees (\$476,000). This revenue level was \$2.1 million (5.2%) above the Modified Budget due to higher than budgeted interest revenue (\$2.6 million) offset by lower joint participation payments (\$715,000) as project delays in joint participation jurisdictions postpone when reimbursements are collected. Revenues were \$2.4 million (6.2%) above the prior year's level of \$39.2 million primarily due to higher joint participation payments (\$1.6 million) and interest revenue (\$694,000).

Expenditures totaled \$66.2 million due to the progress on a variety of capital projects, the largest of which were: Urgent Rehabilitation and Repair Projects (\$12.6 million), Condition Assessment Sewer Repairs (\$11.6 million), Infrastructure – Sanitary Sewer Condition Assessment (\$8.8 million), Immediate Replacement and Diversion Projects (\$7.8 million), Cast Iron Pipe – Remove and Replace (\$5.9 million), Blossom Hill Road and Leigh Avenue Sanitary Sewer Improvement (\$4.6 million), McLaughlin Ave-Idlewood Dr. Sanitary Sewer Improvement (\$2.9 million), and Capital Program and Public Works Department Support Service Costs (\$2.8 million). This expenditure level was \$59.5 million (47.4%) below the Modified Budget and \$29.8 million (82.1%) above the prior year's level of \$36.3 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SANITARY SEWER CAPITAL FUNDS

Expenditures were below the budget by \$59.5 million (47.4%) as a result of savings across a number of projects, including: Chesbro Avenue Sanitary Sewer Improvement (\$8.9 million), Southwest Expressway Sanitary Sewer Improvement (\$8.7 million), Sanitary Sewer Interceptor Management Program (\$8.5 million), North 1st Street Sanitary Sewer Improvements (\$5.6 million), Fourth Major Interceptor Phase VIIA (\$5.3 million), Rehabilitation of Sanitary Sewer Pump Stations (\$3.8 million), Almaden Supplement Sewer Rehabilitation (North) (\$3.6 million), South White Road Sanitary Sewer Improvement (\$3.0 million), McLaughlin Ave-24th Street Sanitary Sewer Improvement (\$2.1 million), Fontaine Road Sanitary Sewer Improvement (\$1.7 million), Condition Assessment Sewer Repairs (\$1.7 million), and Master Planning Updates (\$1.0 million). A portion of the expenditure savings (\$1.7 million) was anticipated and rebudgeted in the 2025-2026 Adopted Budget, and an additional \$4.1 million is recommended to be rebudgeted in this report because of continuing construction work.

The higher expenditure level compared to the prior year is largely attributed to higher costs for Condition Assessment Sewer Repairs (\$7.1 million), Urgent Rehabilitation and Repair Projects (\$5.6 million), Blossom Hill Road and Leigh Avenue Sanitary Sewer Improvement (\$4.5 million), Immediate Replacement and Diversion Projects (\$3.6 million), Cast Iron Pipe - Remove and Replace (\$3.4 million), Coleman Road Sanitary Sewer Improvement - Phase III (\$1.5 million), and North 1st Street Sanitary Sewer Improvements (\$1.4 million).

Ending Fund Balance Performance (\$ in Thousands)						
2024-2025 Modified Budget	2024-2025 Estimated Ending Fund Balance	2024-2025 Actual Ending Fund Balance	Variance	Recommended Annual Report Rebudgets	Revised Variance	Revised Variance as % of Modified Budget
\$153,534	\$81,315	\$89,503	\$8,188	\$4,056	\$4,132	2.7%

The **Ending Fund Balance** of \$89.5 million was \$8.2 million above the estimate used in the development of the 2025-2026 Adopted Budget. The actual Ending Fund Balance was above the estimate largely due to lower than anticipated expenditures across several projects, including Condition Assessment Sewer Repairs (\$1.7 million), Sanitary Sewer Interceptor Management Program (\$937,000), Infrastructure – Sanitary Sewer Condition Assessment (\$917,000), and Coleman Road Sanitary Sewer Improvement - Phase III (\$894,000), as well as higher than estimated interest revenue (\$1.5 million). This fund balance is anticipated to be spent down as projects move through the development and construction process. After accounting for all recommended adjustments in the Annual Report as included in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2025-2026 Ending Fund Balance is recommended to be increased by \$4.0 million for the Sewer Service and Use Charge Capital Improvement Fund and \$154,000 for the Sanitary Sewer Connection Fee Fund.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE CLEAN ENERGY OPERATING FUND

Revenue and Expenditure Performance (\$ in Thousands)				
	2024-2025 Budget	2024-2025 Actuals	Variance	% Variance
Revenues	\$546,536	\$478,602	(\$67,934)	(12.4%)
Expenditures	\$568,946	\$467,013	(\$101,933)	(17.9%)

Revenues totaled \$478.6 million and were generated from the sale of electricity (\$445.9 million), payments from energy suppliers who did not meet their agreed-upon delivery commitments (\$20.6 million), interest earnings (\$9.0 million), and grant revenue (\$3.0 million). This revenue was \$67.9 million or 12.4% below the Modified Budget of \$546.5 million and below the prior year actuals by \$21.5 million or 4.3%.

The largest component of the 2024-2025 variance to budget of \$67.9 million was lower Energy Sales of \$91.7 million; however, after accounting for the deferral of \$56.0 million of Energy Sales revenue to the Rate Stabilization Reserve (discussed below), the variance for Energy Sales decreases to \$35.7 million. The lower than budgeted revenues were offset by unanticipated payments from energy suppliers (\$20.6 million) and higher interest revenue (\$4.0 million). Power supply costs make up over 90% of what San José Clean Energy (SJCE) must recover in revenue. Lower energy sales in 2024-2025 were due to increased reliance on long-term power purchase agreements, the issuance of bond proceeds to pre-pay for certain long-term power agreements, and market conditions.

In February 2025, City Council approved SJCE's power mix and rate package for 2025 energy sales at 7.2% to 9.5% below PG&E rates for its standard GreenSource product inclusive of PG&E's added fees, including the Power Charge Indifference Adjustment (PCIA) and Franchise Fee Surcharge, depending on customer class and usage. SJCE's energy content for GreenSource increased from 60% to 62% renewable energy and up to 95% carbon-free power.

The high volatility of market prices, changes in the regulatory environment, and PG&E's PCIA fees remain risk factors for SJCE to continue to manage. To help mitigate these risks and protect SJCE customers from market variability, the City Council in August 2024 authorized revisions to SJCE's Financial Reserves Policy (City Council Policy 1-24) and approved a Rate Stabilization Reserve that defers ratepayer revenue to be recognized in a future year. In June 2025, the City Council approved an amendment to the Rate Stabilization Reserve that increased the maximum contribution to the reserve to 25% of the total operating and non-operating revenue reported in a year. When first established, deferred revenue of \$50.0 million was placed into the reserve; with the close of this fiscal year, the reserve was increased by \$56.0 million, bringing the Rate Stabilization Reserve balance to \$106.0 million. It should be noted that the \$106.0 million in the Rate Stabilization Reserve is not technically booked as revenue in accordance with Governmental Accounting Standards Board Statement (GASB No. 62).

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE CLEAN ENERGY OPERATING FUND

It is, however, initially booked as Energy Sales before a contribution is made to the Reserve, displayed in the Source and Use Statement, and reflected in audited financial statements to ensure maximum transparency.

Expenditures including encumbrances totaled \$467.0 million and consisted primarily of Cost of Energy expenditures (\$430.0 million), Energy Department non-personal/equipment (\$15.4 million) and personal services (\$12.4 million) expenditures, City overhead reimbursement (\$2.4 million), letter of credit fees (\$1.6 million), and PG&E security fees (\$1.4 million). This expenditure level was \$101.9 million (17.9%) below the Modified Budget of \$568.9 million and reflected savings primarily in Cost of Energy (\$93.1 million) and Energy Department non-personal/equipment expenditures (\$4.6 million). Energy costs were lower due to long-term power purchase agreements coming online, the pre-pay of some long-term power agreements, and market conditions. Overall, this expenditure level was 2.4% below the prior year's level of \$478.4 million, primarily attributable to a lower encumbrances (\$35.2 million) and the payoff of outstanding commercial paper debt (\$20.0 million), offset by higher Cost of Energy (\$38.6 million) and Energy Department non-personal/equipment expenditures (\$4.6 million).

Ending Fund Balance Performance (\$ in Thousands)						
<i>2024-2025 Modified Budget</i>	<i>2024-2025 Estimated Ending Fund Balance</i>	<i>2024-2025 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Annual Report Rebudgets</i>	<i>Revised Variance</i>	<i>Revised Variance % (incl. Rebudgets)</i>
\$800,902	\$261,512	\$270,386	\$8,873	\$0	\$8,873	1.1%

The **Ending Fund Balance** of \$270.4 million was \$8.9 million above the estimate used in the development of the 2025-2026 Adopted Budget. The variance can primarily be attributed to lower than estimated expenditures for encumbrances (**\$35.2 million**) and Cost of Energy (**\$19.7 million**); higher revenue from unanticipated payments from energy suppliers (\$6.9 million), energy sales (\$2.0 million), and interest earnings (\$740,000); and expenditures offset by an increase to the Rate Stabilization Reserve (\$56.0 million). After accounting for adjustments recommended in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2025-2026 Ending Fund Balance in the San José Clean Energy Fund is recommended to be increased by \$8.9 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE CLEAN ENERGY OPERATING FUND

The City Council-approved Financial Reserves Policy for the SJCE Operating Fund authorizes an Operations Reserve of at least 180 days of operating costs and a Rate Stabilization Reserve that allows a maximum contribution of 25% of the total operating and non-operating revenue reported in a fiscal year toward maintaining financial resiliency and to ensure customer rates are competitive and affordable. The budgeted estimate for the Operations Reserve in 2025-2026 achieves the goal of attaining 180 days of coverage at \$234.0 million, and the Rate Stabilization Reserve has a current balance of \$106.0 million.

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III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

Revenue and Expenditure Performance (\$ in Thousands)				
	2024-2025 Budget	2024-2025 Actuals	Variance	% Variance
Revenues	\$153,390	\$77,536	(\$75,854)	(49.5%)
Expenditures	\$291,620	\$237,198	(\$54,422)	(18.7%)

Revenues totaled \$77.5 million and were generated primarily from a transfer from the Sewer Service and Use Charge (SSUC) Fund (\$55.9 million), revenue from Santa Clara and tributary agencies for projects and debt service payments (\$14.9 million), and interest income (\$6.4 million). This revenue level was \$75.9 million (49.5%) below the Modified Budget and \$46.8 million (37.6%) below the prior year's level of \$124.3 million.

The variance to the budget was due primarily to postponing the issuance of a portion of the authorized Wastewater Revenue Notes (\$70.0 million) to align with the timing of project spending. A recommendation to rebudget this funding is included in this report. The decrease from the prior year was due primarily to a lower level of Wastewater Revenue Notes issued compared to 2023-2024 (\$40.0 million), as well as lower revenue from Santa Clara and tributary agencies (\$13.1 million), partially offset by an increased transfer from the Sewer Service and Use Charge Fund (\$6.3 million).

Expenditures totaled \$237.2 million and were primarily attributed to the following projects and allocations: Facility Wide Water Systems Improvements (\$74.4 million), Digested Sludge and Dewatering Facilities (\$55.0 million), Yard Piping Improvements (\$37.7 million), RWF Bond Debt Service 2022A (\$17.3 million), Plantwide Security Systems Upgrade (\$12.4 million), Filter Rehabilitation (\$10.7 million), and Program Management - Water Pollution Control (\$9.6 million). This expenditure level was \$54.4 million (18.7%) below the Modified Budget and \$59.0 million (19.9%) lower than the prior year's level of \$296.2 million.

The variance between the Modified Budget and actual expenditures is \$54.4 million, with a majority of the variance attributed to savings in the Aeration Tanks and Blower Rehabilitation (\$12.0 million), Support Building Improvements (\$7.0 million), Primary Rehabilitation (\$6.8 million), Preliminary Engineering (\$4.0 million), Yard Piping Improvements (\$3.6 million), Plantwide Security Systems Upgrade (\$3.4 million), Digested Sludge and Dewatering Facilities (\$3.2 million), Plant Infrastructure Improvements (\$2.8 million), Owner Controlled Insurance Program (\$2.1 million), and Urgent and Unscheduled Treatment Plant Rehabilitation (\$1.5 million). Most of these savings were anticipated and \$44.3 million was rebudgeted as part of the 2025-2026 Adopted Budget process, with an additional \$2.8 million in capital project expenditures recommended to be rebudgeted as part of this report to ensure sufficient funding for projects in 2025-2026.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSÉ-SANTA CLARA TREATMENT PLANT CAPITAL FUND

Expenditures were lower by \$59.0 million compared to the prior year, with the most significant decreases year-over-year being Digested Sludge Dewatering Facility (\$46.1 million), Filter Rehabilitation (\$10.4 million), Nitrification Clarifier Rehabilitation (\$4.9 million), and Storm Drain System Improvements (\$3.1 million), and offset primarily by increases in Yard Piping Improvements (\$14.1 million).

Ending Fund Balance Performance (\$ in Thousands)						
<i>2024-2025 Modified Budget</i>	<i>2024-2025 Estimated Ending Fund Balance</i>	<i>2024-2025 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Annual Report Rebudgets</i>	<i>Revised Variance</i>	<i>Revised Variance as % of Modified Budget</i>
\$331,815	\$81,106	\$23,727	(\$57,379)	(\$67,173)	\$9,794	3.0%

The **Ending Fund Balance** of \$23.7 million is \$57.4 million below the estimate used in the development of the 2025-2026 Adopted Budget. The lower Ending Fund Balance is primarily due to \$114.6 million in unanticipated encumbrances for various construction projects that have been committed but not spent, combined with the corresponding deferral of issuing \$70.0 million in Wastewater Revenue Notes to 2025-2026 when the actual expenditures for the capital projects are expected to occur. The Wastewater Revenue Notes fund project costs at the Regional Wastewater Facility, but these notes are issued only after expenses are incurred, resulting in a timing gap between when contracts encumber and when the revenue is needed to cover invoiced expenditures. Recommendations are included in this report to rebudget the financing proceeds from Wastewater Revenue Notes in the amount of \$70.0 million and \$2.8 million of savings for various projects to retain sufficient budgetary Ending Fund Balance and to ensure adequate capacity to support the expenditures that are anticipated for 2025-2026. The Wastewater Revenue Notes will only be drawn as necessary to ensure appropriate funds are available for the projects.

After accounting for adjustments recommended in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, the 2025-2026 Ending Fund Balance in the San José-Santa Clara Treatment Plant Capital Fund is recommended to be increased by \$9.8 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Revenue and Expenditure Performance (\$ in Thousands)				
	2024-2025 Budget	2024-2025 Actuals	Variance	% Variance
Revenues	\$339,894	\$346,590	\$6,696	2.0%
Expenditures	\$375,965	\$356,644	(\$19,321)	(5.1%)

The San José-Santa Clara Treatment Plant operating funds consist of the Sewer Service and Use Charge Fund (SSUC Fund), the San José-Santa Clara Treatment Plant Operating Fund (Plant Operating Fund), the Sewage Treatment Plant Connection Fee Fund (Connection Fee Fund), and the San José-Santa Clara Treatment Plant Income Fund (Plant Income Fund).

Revenues totaled \$346.6 million and were generated primarily from sewer service and use charges for residential (\$173.0 million), commercial (\$29.0 million), and industrial (\$5.2 million) users; a transfer from the SSUC Fund to the Plant Operating Fund (\$81.0 million); contributions from tributary agencies (\$27.2 million) and the City of Santa Clara (\$19.9 million); interest and rental revenues (\$6.4 million); and connection fees (\$2.3 million). This revenue level was \$6.7 million (2.0%) above the Modified Budget and \$24.5 million (7.6%) above the prior year's level of \$322.1 million.

The variance to the budget of \$6.7 million (2.0%) was mainly due to higher SSUC residential charges (\$6.2 million) and higher interest and rental revenues (\$1.5 million), offset primarily by lower SSUC industrial (\$1.1 million) and commercial (\$938,000) charges. Revenues came in \$24.5 million (7.6%) higher than the prior year primarily due to higher SSUC charges (\$16.9 million), reflecting increased customer rates, and higher contributions from the tributary agencies (\$4.2 million) and the City of Santa Clara (\$1.9 million), based on higher than budgeted expenses, and higher interest and rental revenues (\$1.6 million).

Expenditures totaled \$356.6 million and consisted primarily of transfers to the Treatment Plant Operating Fund (\$81.0 million), the Treatment Plant Capital Fund (\$55.9 million), and the Sewer Service and Use Charge Capital Fund (\$35.0 million); Environmental Services Department (ESD) personal services (\$70.3 million) and non-personal/equipment (\$54.1 million) costs; overhead reimbursements (\$21.4 million); and Transportation Department personal services (\$18.7 million) and non-personal/equipment (\$10.8 million) costs. This expenditure level was \$19.3 million (5.1%) below the Modified Budget, and \$24.3 million (7.3%) above the prior year's level of \$332.4 million.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

SAN JOSE-SANTA CLARA TREATMENT PLANT OPERATING FUNDS

Expenditures ended the year \$19.3 million (5.1%) below the budget primarily due to savings in: Transportation Department non-personal/equipment costs (\$6.5 million) from unexpended vehicle replacement funds in the Sewer Service and Use Charge Fund, ESD non-personal/equipment costs in the Plant Operating Fund (\$5.8 million), and the Legacy Lagoons Remediation project (\$2.4 million). Of these savings amounts, \$8.6 million was rebudgeted as part of the 2025-2026 Adopted Budget process, with an additional \$168,000 recommended to be rebudgeted as part of this report to ensure sufficient funding for operations and activities in 2025-2026. Expenditures ended the year \$24.3 million (7.3%) above the previous year’s expenditures due primarily to increased ESD non-personal/equipment because of higher chemical and hauling costs for dewatered biosolids (\$9.2 million) and personal services expenditures as vacancies were filled (\$5.9 million) in the San José-Santa Clara Treatment Plant Operating Fund, and an increased transfer from the SSUC Fund to the San José-Santa Clara Treatment Plant Capital Fund (\$6.3 million).

Ending Fund Balance Performance (\$ in Thousands)						
<i>2024-2025 Modified Budget</i>	<i>2024-2025 Estimated Ending Fund Balance</i>	<i>2024-2025 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Annual Report Rebudgets</i>	<i>Revised Variance</i>	<i>Revised Variance as % of Modified Budget</i>
\$509,983	\$153,935	\$161,576	\$7,641	\$168	\$7,473	1.5%

The **Ending Fund Balance** of \$161.6 million was \$7.6 million above the estimate used in the development of the 2025-2026 Adopted Budget primarily due to lower than estimated expenditures (\$12.3 million), partially offset by higher encumbrances (\$6.0 million), resulting in overall net savings in ESD non-personal/equipment costs in the San José-Santa Clara Treatment Plant Operating Fund (\$5.5 million).

After accounting for rebudget adjustments, the 2024-2025 Ending Fund Balance variance falls to \$7.5 million. The recommended various actions in *Section IV – Recommended Budget Adjustments and Clean-Up Actions* result in the following changes to the 2025-2026 Ending Fund Balance: an increase of \$2.0 million in the Sewer Service and Use Charge Fund, an increase of \$5.5 million in the San José-Santa Clara Treatment Plant Operating Fund, an increase of \$143,000 in the San José-Santa Clara Treatment Plant Income Fund, and a decrease of \$247,000 in the Sewage Treatment Plant Connection Fee Fund.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL FUNDS

Revenue and Expenditure Performance (\$ in Thousands)				
	2024-2025 Budget	2024-2025 Actuals	Variance	% Variance
Revenues	\$34,042	\$31,117	(\$2,925)	(8.6%)
Expenditures	\$50,164	\$30,970	(\$19,194)	(38.3%)

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

Revenues totaled \$31.1 million and were generated primarily from Commercial Paper financing proceeds supporting the Water Resources Operations & Administration Facility construction project (\$20.7 million), a transfer from the Water Utility Fund (\$8.8 million), interest income (\$880,000), and fees paid by developers (\$736,000). The fees consist of Major Facilities Fees (\$293,000), Advanced System Design Fees (\$276,000), Service Connection Fees (\$104,000), and Meter Installation Fees (\$63,000). Revenues ended the year slightly below the budget primarily due to lower than anticipated financing proceeds (\$3.8 million) as the last issuance of commercial paper was pushed into 2025-2026. Revenues were \$21.0 million (209.0%) above the prior year's level of \$10.1 million due to the Commercial Paper financing proceeds (\$20.7 million) and increased developer fee revenues (\$501,000), offset by lower interest revenues (\$155,000).

Expenditures totaled \$31.0 million for several capital projects, the largest of which were the Water Resources Administration and Operations Facility (\$23.8 million), Annual Water Main Replacement (\$2.1 million), North San José Reliability Well Construction (\$1.2 million), Infrastructure Improvements (\$1.1 million), System Maintenance and Repairs (\$736,000), and Capital Program and Public Works Department Support Service Costs (\$437,000). This expenditure level was \$19.2 million (38.3%) below the Modified Budget and \$4.2 million (12.0%) below the prior year's level of \$35.2 million.

Expenditures were below the budget by \$19.2 million as a result of savings and unexpended funds across a number of projects, including Advanced Metering Infrastructure Implementation (\$6.5 million), Annual Water Main Replacement (\$3.6 million), North San José Well Development and Construction (\$3.6 million), North San José Reliability Well Construction (\$1.8 million), the Water Resources Administration and Operations Facility (\$780,000), and System Maintenance/Repairs (\$778,000). A portion of the expenditure savings (\$7.4 million) was anticipated and rebudgeted in the 2025-2026 Adopted Budget, and an additional \$11.4 million is recommended to be rebudgeted in this report because of continuing construction work. Expenditures were below the prior year's level primarily due to lower expenses for the Water Resources Administration & Operations Facility project (\$5.3 million), and North San José Well Development and Construction (\$878,000), offset by higher expenditures in Annual Water Main Replacement (\$1.7 million).

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY CAPITAL FUNDS

Ending Fund Balance Performance (\$ in Thousands)						
<i>2024-2025 Modified Budget</i>	<i>2024-2025 Estimated Ending Fund Balance</i>	<i>2024-2025 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Annual Report Rebudgets</i>	<i>Revised Variance</i>	<i>Revised Variance as % of Modified Budget</i>
\$58,000	\$16,255	\$24,370	\$8,115	\$7,635	\$480	0.8%

The **Ending Fund Balance** of \$24.4 million was \$8.1 million above the estimate used in the development of the 2025-2026 Adopted Budget. This variance was primarily driven by lower than estimated costs associated with Advanced Metering Infrastructure (\$6.5 million), Water Resources Administration & Operations Facility (\$3.4 million), and Annual Water Main Replacement (\$2.8 million), offset by lower than estimated Commercial Paper revenue proceeds (\$3.8 million).

After accounting for rebudget adjustments, the 2024-2025 Ending Fund Balance variance falls to \$7.6 million. The recommended various actions in *Section IV – Recommended Budget Adjustments and Clean-Up Actions* result in an increase of \$164,000 in the Ending Fund Balance in the Water Utility Capital Fund and an increase of \$316,000 in the Ending Fund Balance in the Major Facilities Fund.

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

Revenue and Expenditure Performance (\$ in Thousands)				
	2024-2025 Budget	2024-2025 Actuals	Variance	% Variance
Revenues	\$77,346	\$77,278	(\$68)	(0.1%)
Expenditure	\$79,521	\$80,776	\$1,255	1.6%

Revenues totaled \$77.3 million and were primarily generated from potable (\$66.9 million) and recycled water (\$10.1 million) sales and interest revenues (\$325,000). This revenue level was \$68,000 (0.1%) below the Modified Budget and \$3.7 million (5.0%) above the prior year's level of \$73.6 million.

Revenues ended the year slightly below the budget primarily due to lower than anticipated potable water sales revenues (\$689,000) and late fee revenues (\$361,000), offset mainly by higher than anticipated recycled water sales (\$955,000). The increase compared to the prior year was mainly driven by higher potable water sales (\$5.0 million) and recycled water sales (\$1.8 million), reflecting increased rates passed through to customers in response to rising wholesale water costs. These increases were partly offset by lower late fee revenues (\$1.8 million) and the conclusion of the Water Arrearage Program in 2023-2024, which provided debt relief for pandemic-balances (\$1.6 million).

Expenditures totaled \$80.8 million and were primarily for Environmental Services Department (ESD) non-personal/equipment costs of \$55.3 million (\$37.6 million was attributed to the purchase of wholesale potable water and \$8.6 million to wholesale recycled water), ESD personal services costs (\$9.8 million), a transfer to the Water Utility Capital Fund (\$8.8 million), and the reimbursement of overhead costs (\$3.4 million). This expenditure level was \$1.3 million (1.6%) above the Modified Budget mainly due to higher than budgeted expenditures in ESD non-personal/equipment (\$1.7 million), which is expected to be addressed through the ratification process. These additional costs were partially offset by savings from the Customer Information System Transition allocation (\$150,000) and Information Technology Department non-personal/equipment expenses (\$133,000). The ESD non-personal/equipment spending exceeded the Modified Budget because of unexpectedly high year-end accruals for the purchase of potable wholesale water. Overall, expenditures were \$10.9 million (15.6%) above the prior year's level of \$69.9 million primarily due to higher ESD non-personal/equipment expenditures (\$7.2 million), the transfer to the General Fund for unrestricted late fee revenues (\$1.5 million), higher reimbursement of overhead costs (\$1.5 million), and increased ESD personal services expenses (\$611,000).

III. PERFORMANCE OF SELECTED SPECIAL AND CAPITAL FUNDS

WATER UTILITY OPERATING FUND

Ending Fund Balance Performance (\$ in Thousands)						
<i>2024-2025 Modified Budget</i>	<i>2024-2025 Estimated Ending Fund Balance</i>	<i>2024-2025 Actual Ending Fund Balance</i>	<i>Variance</i>	<i>Recommended Annual Report Rebudgets</i>	<i>Revised Variance</i>	<i>Revised Variance as % of Modified Budget</i>
\$98,890	\$21,888	\$18,688	(\$3,200)	\$0	(\$3,200)	(3.2%)

The **Ending Fund Balance** of \$18.7 million was \$3.2 million below the estimate used in the development of the 2025-2026 Adopted Budget. The Ending Fund Balance was lower than the estimate primarily due to lower than estimated revenue from late fees (\$702,000), and water sales (\$291,000), and higher than estimated ESD non-personal/equipment costs (\$725,000). As described in *Section IV – Recommended Budget Adjustments and Clean-Up Actions*, after accounting for all recommended adjustments, the 2025-2026 Ending Fund Balance in the Water Utility Fund is recommended to be decreased by \$3.1 million.