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**Subject:** Where does the \$4m of excess funds in the Capital Project Reserve come from ?  
**Attachments:** 2019 GF Reserve resolution (002).pdf; Transmittal Letter - GF Balance.pdf; FY 2019 GF Budget vs Actual results - 2019 CAFR.pdf

**From:** Phil Koen <[pkoen@monteropartners.com](mailto:pkoen@monteropartners.com)>  
**Sent:** Sunday, January 26, 2020 8:16 PM  
**To:** Marcia Jensen <[MJensen@losgatosca.gov](mailto:MJensen@losgatosca.gov)>; BSpector <[BSpector@losgatosca.gov](mailto:BSpector@losgatosca.gov)>; Marico Sayoc <[MSayoc@losgatosca.gov](mailto:MSayoc@losgatosca.gov)>; Rob Rennie <[RRennie@losgatosca.gov](mailto:RRennie@losgatosca.gov)>  
**Cc:** Jak Vannada <[jvannada@gmail.com](mailto:jvannada@gmail.com)>; Laurel Prevetti <[LPrevetti@losgatosca.gov](mailto:LPrevetti@losgatosca.gov)>; Lee Fagot <[leefagot@gmail.com](mailto:leefagot@gmail.com)>  
**Subject:** Where does the \$4m of excess funds in the Capital Project Reserve come from ?

Dear Honorable Mayor and Council Members,

At this past Tuesday's Council meeting there was considerable discussion regarding the Town's Capital Project Reserve balance. The Staff in their memo to Council rightfully pointed out to Council that there was approximately \$4m in that reserve that had never been programmed and therefore was freely available to be reallocated to other needs. Mr. Rennie asked a very important question namely "where did the excess \$4m come from", Watching the discussion it struck me that Mr. Rennie's question had not been fully answered. Therefore I have taken the time to explain this in more detail. I believe my analysis is correct based on the facts as I know them.

To answer the question, you first need some background information. I have attached an email that was sent to the Council on December 15 which partially addresses Mr. Rennie's question. If you have a chance, you may wish to revisit that email. Now for the background information.

1. The FY 2019 budget originally forecasted the General Fund Balance as of June 30, 2019 to be \$20,873,994 (transmittal letter page A-9 and schedule C-6). Instead, the actual balance was \$37,970,527. **This was \$17,096,533 more than the original adopted budget. This material variance needs to be fully understood in order to answer Mr. Rennie's question.**

So the first question is, what created this \$17,096,533 positive variance in the General Fund Balance?

2. There were a number of items that occurred which **were not** included in the original adopted budget. They were a) reclassifying \$5,015,316 from the 115 Trust to the General Fund, which is now shown in the General Fund Reserve as a restricted reserve for pensions; b) the sale of the excess property totaling \$1,912,316 which flowed through the income statement; and c) the transfer of \$1,040,375 from the Vehicle Maintenance Internal Services Fund which is shown as an assigned reserve in the General Fund. All of these combined to increase the General Fund Balance by \$7,968,007.

3. In addition, there was an unplanned excess of revenues over expenditure of \$8,541,715 (attached is the adopted budget vs. actual schedule from the 2019 CAFR). The amount is computed by subtracting from the actual \$5,628,985 excess the adopted budget deficit of (\$2,912,730). The following items drove this variance a) \$3,490,000 had been planned to be expensed for the PARS contribution, but was not expensed; b) revenue exceeded the adopted budget by \$3,707,887 - the majority of which is interest; and c) total operating expenses (excluding the PARS contribution mentioned above) were less than the adopted budget by \$1,343,828. These items combined to create the favorable variance of \$8,541,715.

4. Lastly there were transfers into the General Fund totaling \$586,811 from other funds that had not been planned in the original adopted budget. These transfers also increased the General Fund Balance.

All of the above (a) \$7,968,007; (b) \$8,541,715; (c) \$586,811 combined to create a variance of \$17,096,533 in the General Fund Balance vs. the original adopted balance of \$20,873,994.

Now for the next question. How did the Capital Project Reserve get to \$13,262,303 vs. the adopted budget balance of \$5,096,518?

Per the general fund reserve policy each year the actual budget surplus gets distributed to various assigned reserves. The Capital Project Reserve receives all remaining funds after all other assigned reserves have been addressed per the policy. The Staff memo to the Council for last Tuesday's meeting shows a Surplus Flow of Funds diagram which does an excellent job of explaining this "waterfall" process.

In 2019, the unplanned excess of revenues over expenditures of \$8,541,715 plus the \$1,912,316 proceeds from the sale of the property (totaling \$10,454,031 available for allocation) was distributed to the various assigned reserves per the Town's policy. This resulted in \$8,165,785 being allocated to the Capital Project Reserve which increased the balance to \$13,262,303 from the adopted budget balance of \$5,096,518. The remaining \$2,288,246 (\$10,454,031 - \$8,165,785) was allocated to other general fund assigned reserves such as the budget stabilization reserve, catastrophic reserve and pension/OPEB reserve.

Now for the last question - where does the \$4m come from?

The a Staff analyzed the capital project needs for the next 5 years and determined that only \$9,252,118 of the \$13,262,303 was required (see page 231 of the Council meeting deck). This means that \$4,010,185 was not needed. Interesting to note that the 2019 adopted budget projected a Capital Project Reserve requirement of \$5,096,518. This begs the question as to why more money (i.e. \$9,252,118) is now needed when \$5,096,518 had been the planned balance. This might be a worthwhile discussion for the Council to have with Staff.

I trust this is helpful and answers the question regarding the source of the \$4m. I want to add my endorsement of the Staff's conclusion that \$4m is freely available with the caveat that I believe there is actually more funds available for reallocation. The reason for this is that the Staff did not include (they have a reason for this) in their 5 year forecast of the Capital Project Reserve any funds from the General Fund Surplus that would be allocated to the Capital Project Reserve arising from projected surpluses over the 5 year period. This amount could be material.

Phil Koen

**From:** Phil Koen

**Sent:** Sunday, December 15, 2019 10:09 AM

**To:** 'Marcia Jensen' <[MJensen@losgatosca.gov](mailto:MJensen@losgatosca.gov)>; BSpector <[BSpector@losgatosca.gov](mailto:BSpector@losgatosca.gov)>; 'msayoc@losgatosca.gov' <[msayoc@losgatosca.gov](mailto:msayoc@losgatosca.gov)>; 'Rob Rennie' <[RRennie@losgatosca.gov](mailto:RRennie@losgatosca.gov)>; Steven Leonardis <[SLeonardis@losgatosca.gov](mailto:SLeonardis@losgatosca.gov)>

**Cc:** 'Laurel Prevetti' <[LPrevetti@losgatosca.gov](mailto:LPrevetti@losgatosca.gov)>; 'jvannada@gmail.com' <[jvannada@gmail.com](mailto:jvannada@gmail.com)>; 'Terry Duryea' <[tduryea@aol.com](mailto:tduryea@aol.com)>; Ron Dickel <[rondickel@gmail.com](mailto:rondickel@gmail.com)>; Rick Tinsley <[rnt97@yahoo.com](mailto:rnt97@yahoo.com)>

**Subject:** 2019 General Fund Reserves

Dear Honorable Mayor and Council Members,

Before you vote on the proposed resolution which assigns the General Fund Balance as of June 30, 2019 to restricted, committed or assigned reserves, the Council should discuss why the Staff has not recommended any fund balance to be set aside as "unassigned". Under the resolution being considered, all of the General Fund balance will be formally committed. The General Fund Balance can be legally assigned by this Council based on your judgment of the current needs of the Town. The Council is not legally required to follow Town policy in this process.

Secondly, the Council should request the Staff to explain why the actual General Fund Balance as of June 30, 2019 is \$17.1m or 82% greater than what was forecasted at the time the 2019 budget was adopted. I have attached the analysis from the Staff's 2019 Budget transmittal letter which details the forecasted balance as of June 30, 2019. The difference is material and the Council should understand why this has occurred.

Additionally, why wouldn't some of this windfall increase be set aside as "unassigned" thus giving the Council more future flexibility? The proposed fund balance assignment will have \$13.3m allocated to a reserve for Capital Projects. Does this make sense given that the 2019 plan forecasted a balance of \$5.1m which was approved by this Council? Why increase this by \$8.2m if there isn't a specific project need identified? By designating as "unassigned" some amount of fund balance, the Council retains total flexibility to assign these funds in the future as the need arises. The resident members of the Finance Committee raised this issue during the most recent Finance Committee with regard to the assignment of the "closed" Internal Services Funds as "assigned reserves" as opposed to "unassigned".

It should also be pointed out that according to the proposed resolution the Town has a total of \$9.2m (\$5.0m and \$4.2m) available to make an additional discretionary payment to CALPERS to reduce what Moody's has called an "inflated pension liability" which is "unfavorably well above the US median". Given the high level of pension debt and the interest charged by CALPERS on this debt, it is only prudent to reduce this liability as quickly as possible by paying these funds into the CALPERS pension plans.

Thank you.

Phil Koen

**WHEREAS**, there exists an assigned Capital/Special Project Reserve in the amount of \$13,262,303;  
and

**NOW, THEREFORE, THE TOWN COUNCIL OF THE TOWN OF LOS GATOS DOES**  
**HEREBY RESOLVE** that the following fund balances as of June 30, 2019 as restricted, assigned, or  
formally committed as follows:

	General Fund	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Fund Balance</b>				
Restricted for:				
Capital Outlay	\$ -	\$ 133,169	\$ 6,562,064	\$ 6,695,233
Pension	5,015,316	-	-	5,015,316
Repairs and Maintenance			208,139	208,139
Committed to:				
Budget Stabilization	5,419,222	-	-	5,419,222
Catastrophic	5,419,222	-	-	5,419,222
CalPERS/OPEB	4,232,500	-	-	4,232,500
Almond Grove Street Project		2,579,997		2,579,997
Assigned to:				
Open Space	562,000	-	-	562,000
Parking	-	1,460,210	-	1,460,210
Sustainability	140,553	-	-	140,553
Capital/Special Projects	13,262,303	4,344,618	-	17,606,921
Carryover Encumbrances	413,729	-	-	413,729
Comcast PEG	-	50,000	-	50,000
Vehicle Maintenance & Stores	1,040,375	-	-	1,040,375
Compensated Absences	1,232,654	-	-	1,232,654
To Workers' Comp	1,232,653	-	-	1,232,653
Special Revenue Funds	-		326,102	326,102
<b>Total Fund Balances</b>	<b>\$ 37,970,527</b>	<b>\$ 8,567,994</b>	<b>\$ 7,096,305</b>	<b>\$ 53,634,826</b>

**PASSED AND ADOPTED** at a regular meeting of the Town Council held on the 17<sup>th</sup> day  
of December 2019 by the following vote:

**COUNCIL MEMBERS:**

AYES:

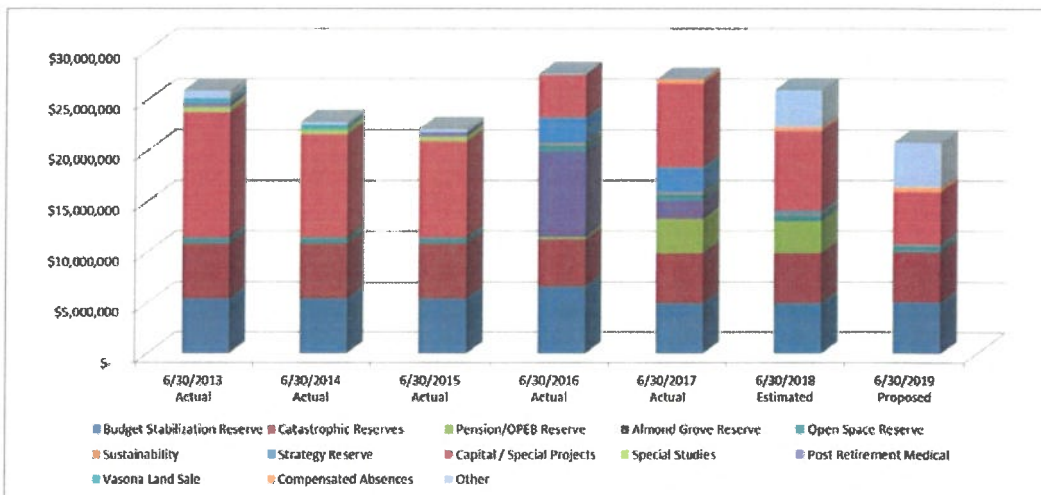
NAYS:

ABSENT:

the Town's RDA. These funds include Certificates of Participation issued to finance several capital improvement projects throughout the Town and repayment of obligations incurred by the Town's RDA prior to its dissolution. The FY 2018/19 budgeted expenditures in this trust fund total \$3.8 million.

### GENERAL FUND RESERVES

The total General Fund Reserves are forecasted at a balance of approximately \$20.8 million as of June 30, 2019. As indicated in the next chart, the General Fund reserves are decreasing due to programmed payments to the Town's California Public Employees Retirement System (CalPERS) side-fund payoff in June 2014 of \$4.5 million dollars, transfers to the CIP program in FY 2016/17 (\$7.0 million), FY 2017/18 (\$2.4 million), and FY 2018/19 (\$2.4 million), and the \$4.3 million scheduled payment to the IRS 115 Pension Trust Fund.



General Fund Reserve	6/30/2013 Actual	6/30/2014 Actual	6/30/2015 Actual	6/30/2016 Actual	6/30/2017 Actual	6/30/2018 Estimated	6/30/2019 Proposed
<b>Committed to:</b>							
Budget Stabilization Reserve	\$ 5,450,000	\$ 5,450,000	\$ 5,450,000	\$ 6,621,808	\$ 4,969,847	\$ 4,969,847	\$ 5,037,243
Catastrophic Reserves	5,450,000	5,450,000	5,450,000	4,637,406	4,969,847	4,969,847	5,037,243
Pension/OPEB Reserve	-	-	-	300,000	3,388,913	3,188,913	-
Almond Grove Reserve	-	-	-	8,459,973	1,801,318	-	-
<b>Assigned to:</b>							
Open Space Reserve	562,000	562,000	562,000	562,000	562,000	562,000	562,000
Sustainability				140,553	140,553	140,553	140,553
Strategy Reserve				2,600,000	2,600,000	263,882	129,090
Capital / Special Projects	12,427,161	10,218,579	9,511,527	4,222,405	8,273,124	7,881,738	5,096,515
Special Studies	490,000	490,000	490,000	-	34,852	34,852	34,852
Post Retirement Medical	400,000	-	400,000	-	-	-	-
Vasona Land Sale	410,599	411,245	-	-	-	-	-
Compensated Absences					350,329	350,329	350,329
Other	787,294	297,294	339,837	99,284		3,670,447	4,486,166
<b>Total General Fund Reserve</b>	<b>\$ 25,977,054</b>	<b>\$ 22,879,118</b>	<b>\$ 22,203,364</b>	<b>\$ 27,643,429</b>	<b>\$ 27,090,783</b>	<b>\$ 26,032,408</b>	<b>\$ 20,873,994</b>

#### Catastrophic and Budget Stabilization Reserves

As per the Town's Reserve Policy, the Catastrophic and Budget Stabilization Reserves are to be maintained at combined minimum funding level of 25% of General Fund ongoing operating

**TOWN OF LOS GATOS  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (GAAP)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Property Taxes	\$ 15,989,131	\$ 16,718,348	\$ 17,321,344	\$ 602,996
Sales Taxes	7,744,208	7,629,879	8,158,152	528,273
Other Taxes	2,279,500	2,629,500	2,698,352	68,852
Franchise Fees	2,386,910	2,386,910	2,475,916	89,006
Licenses & Permits	4,961,199	4,961,199	4,586,788	(374,411)
Intergovernmental	685,759	845,718	950,380	104,662
Charges for Services	4,491,868	4,596,416	4,643,715	47,299
Fines and Forfeitures	631,400	631,400	510,266	(121,134)
Interest	267,806	267,806	1,682,347	1,414,541
Use of Property	31,959	31,959	32,960	1,001
Other	445,308	466,308	562,714	96,406
<b>Total Revenues</b>	<b>39,915,048</b>	<b>41,165,443</b>	<b>43,622,934</b>	<b>2,457,491</b>
<b>EXPENDITURES</b>				
Current:				
General Government:				
Town Council	223,036	230,280	205,903	24,377
Town Attorney	556,183	597,768	562,542	35,226
Administrative Services	4,290,959	4,641,901	3,931,807	710,094
Non-Departmental	7,015,300	7,043,251	3,304,002	3,739,249
<b>Total General Government</b>	<b>12,085,478</b>	<b>12,513,200</b>	<b>8,004,254</b>	<b>4,508,946</b>
Public Safety	14,976,514	15,713,469	14,945,407	768,062
Community Development	5,583,158	5,786,501	4,577,495	1,209,006
Parks & Public Works	7,626,361	8,619,883	7,934,869	685,014
Library Services	2,556,267	2,684,979	2,493,617	191,362
Capital Outlay	-	-	38,307	(38,307)
<b>Total Expenditures</b>	<b>42,827,778</b>	<b>45,318,032</b>	<b>37,993,949</b>	<b>7,324,083</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<b>(2,912,730)</b>	<b>(4,152,589)</b>	<b>5,628,985</b>	<b>9,781,574</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	1,000	1,906,000	1,912,316	6,316
Transfers In	538,536	538,536	1,578,911	1,040,375
Transfers Out	(2,785,220)	(2,785,220)	(2,785,220)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(2,246,684)</b>	<b>(2,246,684)</b>	<b>706,007</b>	<b>1,046,691</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>\$ (5,159,414)</b>	<b>\$ (6,399,273)</b>	<b>6,334,992</b>	<b>\$ 10,828,265</b>
<b>BEGINNING FUND BALANCE</b>			<b>31,635,535</b>	
<b>ENDING FUND BALANCE</b>			<b>\$ 37,970,527</b>	

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**Subject:** An Open Letter to the Town Council from the Los Gatos Community Alliance  
**Attachments:** An Open Letter to the Town Council.pdf

**From:** [jvannada@gmail.com](mailto:jvannada@gmail.com) <[jvannada@gmail.com](mailto:jvannada@gmail.com)>  
**Sent:** Tuesday, February 11, 2020 5:53 AM  
**To:** Laurel Prevetti <[LPrevetti@losgatosca.gov](mailto:LPrevetti@losgatosca.gov)>; Stephen Conway <[sconway@losgatosca.gov](mailto:sconway@losgatosca.gov)>; Arn Andrews <[aandrews@losgatosca.gov](mailto:aandrews@losgatosca.gov)>  
**Subject:** Re: An Open Letter to the Town Council from the Los Gatos Community Alliance

There were three attachments that were not attached to the original post. Herewith you will find the letter and the attachments in one pdf file.

On Mon, Feb 10, 2020 at 9:10 PM <[jvannada@gmail.com](mailto:jvannada@gmail.com)> wrote:

With the mid-year report just around the corner, we thought it would be worthwhile to review last years report beforehand to better understand what may be forthcoming in the 2020 mid-year report. Please read the attached

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*Jak VanNada - Phil Koen*  
*Los Gatos Community Alliance*  
*Facts Matter; Transparency Matters; Honesty Matters*  
[www.lgca.town](http://www.lgca.town)

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February 10, 2020

## An Open Letter to the Town Council from the Los Gatos Community Alliance

Dear Honorable Mayor and Council Members:

### Executive Summary

- FY 2019 budget analysis did not enable the Town Council to discuss the opportunity to reallocate a surplus of general fund net operating revenues.
- The midyear budget analysis projected \$429,594 of “net operating revenues” for FY 2019. The actual excess of revenues over expenditures was \$5.6m.
- Nearly \$3m of the \$5.6m surplus was due to staffing vacancies that were or should have been known at the time of the midyear budget review, just 4 months away from the end of FY 2019.
- By not being aware the Council was unable to shift this surplus to other pressing service needs.
- Applying the proper definition of “operating revenues” the **final budget** called for a \$4,152,589 **deficit** (i.e. operating expenditures **exceeded** operating revenues). This tells a very different story than the mid-year budget update which showed a \$429,594 **surplus**. The midyear budget review inappropriately included fund transfers as “operating revenue”.

### Detail Comments:

Within the next few weeks Staff will be forwarding a mid-year budget performance report for FY 2020 for your review and consideration.

From the Town Manager’s FY 2019 report:

“The purposes of this public reporting are twofold. First the report enables the Town to monitor its revenues and expenditures consistently so that it can proactively respond to unanticipated changes or emerging trends. Second, and equally important, the report increases the transparency of the Town’s finances.”

“The Town is ultimately accountable to its residents to use the revenue it brings in efficiently and effectively to provide the highest quality services.....”

Let’s take a quick look at last year’s report to fully understand what was presented to you.

We have attached the General Fund Summary schedule which was prepared by Staff and the Budget vs Actual schedule that is published in the FY 2019 CAFR. There are 2 items that we want to draw to your attention on the mid-year budget schedule.



1. Item #1 – Net Operating Revenues

- a. Under the FY 2019 Estimate column the Staff forecasted that “net operating revenues” would be a **positive \$429,594**. The Staff concludes that the “financial results are stable and improving”. The problem with this is how the Staff is defining “net operating revenues”. This number includes other funding sources, such as fund transfers, as “revenue”. Transferring money from one fund to another fund is not operating revenue. There is simply no disagreement on this point at all. By doing this, a false picture is presented to residents and the Council as to whether the Town’s operating revenues (i.e. taxes, fees and grants) are sufficient to pay for the Town’s operating expenditures (i.e. salary, benefits, operating expenses). The mid-year budget report claims that there is a surplus of “net operating revenues”.
- b. Now compare the mid-year budget summary report to the budget vs. actual report in the FY 2019 CAFR, which are final audited numbers. Under the “final budget” column from the CAFR you can see that in actuality, when applying the proper definition of “net operating revenues”, **the final budget called for a \$4,152,589 deficit of revenues over expenditures**. This tells us that Town’s general fund’s current year budget for revenue sources of taxes, fees, fines, grants and interest were insufficient to pay for the Town’s general fund current year budget for operating expenditures. This tells a very different story than the midyear budget update.
- c. Given how the Staff has chosen to define “net operating revenues”, the “surplus” number can be manipulated to whatever the Staff wants by simply increasing the amount of funds transferred into the General Fund. The \$429,594 reported is misleading and not transparent. The mid-year budget report should adopt the same format that is used in the CAFR by segregating “operating revenues” from “other financing sources (uses)”. This would guarantee the “consistency” between the mid-year report and the CAFR that is supposedly a goal, as well as providing true transparency as to whether the Town has sufficient operating revenue to pay for operating expenses.

2. Item #2 – Total Expenditures

- a. Again referring to the mid-year budget update, the Staff is projecting in the last column total operating expenditures to be \$44,368,185 (i.e. \$37,324,934 plus \$7,043,251). The Staff states that these projections were based on “trends observed through the second quarter and the proposed mid-year adjustments”. They are intended to provide the Council with the Staff’s “best estimate” so the Council will be able to “proactively respond to unanticipated changes or emerging trends”. Let’s compare the mid-year budget forecast to the FY 2019 budget vs. actual schedule in the CAFR. What we learn is total actual operating expenses were \$37,993,949. **This is \$6,374,236 less than the Staff projection which was prepared in February, 2019 with only 4 months left in the FY.**
- b. There are explanations provided on page 11 (which we have attached) of the CAFR which identify \$3,563,538 of departmental “savings”. These “significant factors” are all attributable to events that the Staff was, or should have been, aware of at the time the mid-year budget report was prepared. The “significant factors” were 1) \$2.7m in staff

vacancies and 2) an error in budgeting \$883,000 in consultant fees associated with the General Plan Update.

Why should the Council be concerned about this large discrepancy between what they were told in February 2019 and actually happened?

By not understanding that there was a substantial surplus, the Council was unable to shift this surplus to other pressing service needs. If this Council had known, perhaps you would have proactively shifted funds to a) pay for police overtime to conduct traffic calming measures to reduce cut-through traffic; or b) allocated additional funds to Music in the Park to create a “destination” event for the Town; or c) allocated “emergency one time funds” for brush removal before the fire season; or d) increase the investment in road repair. Unfortunately we will never know because the Council was not properly informed that there was a \$5,628,985 surplus of revenues over expenditures.

Our hope is that now that you are fully informed as to what happened last year, this Council will learn from this and actively engage with the Staff in a robust and full throated discussion of the mid-year budget update. Even better, we would strongly recommend that you ask the Finance Committee to review the report and give an independent assessment of its completeness.

After reading our comments and reviewing the Town Manager’s statement above, are you confident that the midyear budget review:

1. “enables the Town to monitor its revenues and expenditures consistently so that it can proactively respond to unanticipated changes or emerging trends”
2. “and equally important, the report increases the transparency of the Town’s finances”

Sincerely,

Jak VanNada and Phil Koen

Los Gatos Community Alliance



# BUDGET PERFORMANCE REPORT - MID-YEAR FY 2018/19

## FINANCIAL SUMMARIES, ESTIMATES, AND RECOMMENDATIONS

### General Fund

The following table is the *Schedule of General Fund Operating Revenues Versus. Operating Expenditures* for the second quarter of FY 2018/19 which includes comparison information from the prior year. The last column contains projections of final balances for the current fiscal year based upon the early trends observed through the second quarter and the proposed mid-year adjustments.

General Fund Fund 111 SUMMARY OF REVENUES AND EXPENDITURES							
	FY 2017/18 Actuals	FY 2017/18 Q2	Q2 % of FY 2017/18 Actuals	Q2 % of FY 2018/19 Adopted	FY 2018/19 Q2	FY 2018/19 Adopted	FY 2018/19 Estimates
<b>Revenues</b>							
Property Tax	\$ 12,510,822	\$ 4,604,788	36.8%	38.3%	\$ 4,785,479	\$ 12,507,071	\$ 13,033,101
Sales & Use Tax	7,592,206	2,662,601	35.1%	33.2%	2,568,415	7,744,208	7,629,879
VLF Backfill Property Tax	3,447,584	-	0.0%	0.0%	-	3,482,060	3,685,247
Franchise Fees	2,474,814	832,583	33.6%	35.2%	840,555	2,386,910	2,386,910
Transient Occupancy Tax	2,628,927	917,019	34.9%	43.8%	994,581	2,272,500	2,622,500
Business License Tax	1,686,251	199,045	11.8%	14.6%	240,293	1,650,000	1,650,000
Licenses & Permits	3,011,309	1,498,964	49.8%	51.3%	1,700,352	3,311,429	3,311,429
Intergovernmental	1,010,166	367,503	36.4%	45.3%	310,803	685,759	691,700
Town Services	4,625,136	2,063,371	44.6%	51.7%	2,304,693	4,461,638	4,461,638
Fines & Forfeitures	676,212	273,170	40.4%	32.9%	207,631	631,400	638,948
Interest	603,016	284,009	47.1%	111.6%	422,729	378,724	378,724
GASB 31 to Market	(358,254)	(267,176)	74.6%	-466.8%	517,744	(110,918)	(110,918)
Use of Property	32,206	-	0.0%	-	-	-	-
Miscellaneous Other	589,021	751,652	127.6%	184.4%	950,152	515,267	536,267
Debt Service - Entry Eliminated for CAFR	1,914,739	-	0.0%	0.0%	-	1,909,073	1,909,073
Proceeds for Sales of Assets	378,219	-	0.0%	-	-	-	-
Fund Transfer In	538,536	102,000	18.9%	18.9%	102,000	538,536	538,536
<b>Total Revenues &amp; Transfers In</b>	<b>\$ 43,360,910</b>	<b>\$ 14,289,529</b>	<b>33%</b>	<b>38%</b>	<b>\$ 15,945,427</b>	<b>\$ 42,363,657</b>	<b>\$ 43,363,034</b>
<b>Use of Other Funding Sources:</b>							
Use of Reserves - Capital/Special Projects	\$ 3,243,595	\$ -	0.0%	0.0%	\$ -	\$ 2,785,220	\$ 2,998,931
Use of Reserve - Pension/OPEB	-	-	-	-	1,800,000	3,188,913	3,188,913
<b>Total Other Funding Sources</b>	<b>\$ 3,243,595</b>	<b>\$ -</b>	<b>0%</b>	<b>30%</b>	<b>\$ 1,800,000</b>	<b>\$ 5,974,133</b>	<b>\$ 6,187,844</b>
<b>Total Revenues and Use of Reserves</b>	<b>\$ 46,604,505</b>	<b>\$ 14,289,529</b>	<b>31%</b>	<b>37%</b>	<b>\$ 17,745,427</b>	<b>\$ 48,337,790</b>	<b>\$ 49,550,878</b>
<b>Expenditures</b>							
Mayor and Council	\$ 192,183	\$ 94,520	49.2%	44.6%	\$ 99,480	\$ 223,036	\$ 231,198
Attorney	354,205	158,095	44.6%	55.1%	310,194	562,723	584,490
Administrative Services	3,193,995	1,567,002	49.1%	48.3%	2,071,887	4,290,959	4,470,209
Community Development	4,192,165	2,012,335	48.0%	37.7%	2,106,707	5,590,899	5,819,124
Police	14,423,554	7,197,220	49.9%	52.3%	7,833,043	14,976,514	15,575,573
Parks & Public Works	7,099,527	3,422,553	48.2%	50.2%	3,859,545	7,684,056	7,991,484
Library	2,529,017	1,289,625	51.0%	50.1%	1,280,304	2,556,267	2,652,856
<b>Total Department Expenditures</b>	<b>\$ 31,984,646</b>	<b>\$ 15,741,350</b>	<b>49%</b>	<b>49%</b>	<b>\$ 17,561,160</b>	<b>\$ 35,884,454</b>	<b>\$ 37,324,934</b>
<b>General Government</b>	<b>\$ 5,029,699</b>	<b>\$ 805,624</b>	<b>16.0%</b>	<b>37.2%</b>	<b>\$ 2,622,053</b>	<b>\$ 7,043,251</b>	<b>\$ 7,043,251</b>
Debt Service - Entry Eliminated for CAFR	1,914,739	-	0.0%	0.0%	-	1,909,073	1,909,073
Transfers Out	3,243,595	-	0.0%	0.0%	-	2,785,220	2,844,024
<b>Total Non-Departmental Expenditures</b>	<b>\$ 10,188,033</b>	<b>\$ 805,624</b>	<b>8%</b>	<b>22%</b>	<b>\$ 2,622,053</b>	<b>\$ 11,737,544</b>	<b>\$ 11,796,348</b>
<b>Total Operating Expenditures</b>	<b>\$ 42,172,679</b>	<b>\$ 16,546,974</b>	<b>39%</b>	<b>42%</b>	<b>\$ 20,183,213</b>	<b>\$ 47,621,998</b>	<b>\$ 49,121,282</b>
<b>Net Operating Revenues</b>	<b>\$ 4,431,826</b>	<b>\$ (2,257,445)</b>			<b>\$ (2,437,786)</b>	<b>* \$ 715,790</b>	<b>\$ 429,594</b>

\* FY 2018/19 Q2 Net Operating Revenues are negative because some revenues budgeted for the entire fiscal year are received in the third or fourth quarters.

② 44,368,185

**TOWN OF LOS GATOS  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (GAAP)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Property Taxes	\$ 15,989,131	\$ 16,718,348	\$ 17,321,344	\$ 602,996
Sales Taxes	7,744,208	7,629,879	8,158,152	528,273
Other Taxes	2,279,500	2,629,500	2,698,352	68,852
Franchise Fees	2,386,910	2,386,910	2,475,916	89,006
Licenses & Permits	4,961,199	4,961,199	4,586,788	(374,411)
Intergovernmental	685,759	845,718	950,380	104,662
Charges for Services	4,491,868	4,596,416	4,643,715	47,299
Fines and Forfeitures	631,400	631,400	510,266	(121,134)
Interest	267,806	267,806	1,682,347	1,414,541
Use of Property	31,959	31,959	32,960	1,001
Other	445,308	466,308	562,714	96,406
<b>Total Revenues</b>	<b>39,915,048</b>	<b>41,165,443</b>	<b>43,622,934</b>	<b>2,457,491</b>
<b>EXPENDITURES</b>				
Current:				
General Government:				
Town Council	223,036	230,280	205,903	24,377
Town Attorney	556,183	597,768	562,542	35,226
Administrative Services	4,290,959	4,641,901	3,931,807	710,094
Non-Departmental	7,015,300	7,043,251	3,304,002	3,739,249
<b>Total General Government</b>	<b>12,085,478</b>	<b>12,513,200</b>	<b>8,004,254</b>	<b>4,508,946</b>
Public Safety	14,976,514	15,713,469	14,945,407	768,062
Community Development	5,583,158	5,786,501	4,577,495	1,209,006
Parks & Public Works	7,626,361	8,619,883	7,934,869	685,014
Library Services	2,556,267	2,684,979	2,493,617	191,362
Capital Outlay	-	-	38,307	(38,307)
<b>Total Expenditures</b>	<b>42,827,778</b>	<b>45,318,032</b>	<b>37,993,949</b>	<b>7,324,083</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<b>(2,912,730)</b>	<b>(4,152,589)</b>	<b>5,628,985</b>	<b>9,781,574</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	1,000	1,906,000	1,912,316	6,316
Transfers In	538,536	538,536	1,578,911	1,040,375
Transfers Out	(2,785,220)	(2,785,220)	(2,785,220)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(2,246,684)</b>	<b>(2,246,684)</b>	<b>706,007</b>	<b>1,046,691</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>\$ (5,159,414)</b>	<b>\$ (6,399,273)</b>	<b>6,334,992</b>	<b>\$ 10,828,265</b>
<b>BEGINNING FUND BALANCE</b>			<b>31,635,535</b>	
<b>ENDING FUND BALANCE</b>			<b>\$ 37,970,527</b>	

The notes to the financial statements are an integral part of this statement.

Significant factors affecting actual expenditures include:

- Non-departmental expenditures reflect a \$3.7 million favorable variance due to the early implementation of GASB 84 wherein budgeted transfers out expenditures to the pension trust were eliminated from year end actual expense as the trust is now accounted for as a restricted asset in the General Fund. Actual transfers of \$3,578,913 were made to the Town's IRS Section 115 trust during the fiscal year and this trust has been merged into the General Fund for reporting purposes hence fund transfer expenditure actuals report \$3.5 million less than actual transfer expenditures.
- Community Development expenditures reflected a \$1.2 million favorable variance explained largely by staff vacancies with salary and benefit savings of approximately \$347K, and the General Plan Update expenditures being approximately \$883K lower than budgeted because the budget reflected the entire contract amount which has not been fully executed through the end of the fiscal year.
- Public safety expenditures had a favorable variance of approximately \$768K reflecting limited term vacancies in Police Officer, Executive Assistant, Dispatcher, and Parking Control Officer positions.
- Administrative Services reflected a favorable balance of approximately \$710K in large measure due to savings in salary and benefits due to vacancies in Information Technology and Town Manager's Office positions.
- Parks and Public Works reflects a favorable variance of approximately \$685K reflecting the underfilling of three positions and three Parks and Maintenance Worker position vacancies.
- Library services reflected a favorable variance of \$191K due mainly to salary and benefit savings from staff vacancies in the Librarian position and other temporary vacancies.

**CAPITAL ASSETS**

As of June 30, 2019, the Town's investment in capital assets for its governmental activity is recorded at \$107,542,588 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress, and machinery and equipment. During FY 2018/19, the Town's approximate \$8 million investment in capital assets for the current year represented approximately 4.3% of total assets for governmental activities. Major capital asset events during the current fiscal year include the following:

- \$5.0 million net increase to Construction in Progress, the majority of that amount (\$3.0 million) expended on the Almond Grove Street Rehabilitation Project.

$\Sigma = 3,563$