



# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

## INTRODUCTION

### Purpose

This Mid-Year Report covers the first and second quarters for Fiscal Year (FY) 2019/20, reflecting the six-month period ending December 31, 2019. 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, and public reporting provides taxpayers with information that demonstrates the Town is committed to this goal.

### Overview

This Mid-Year Report presents an overview of the Town’s operating revenues and expenditures for the period ending December 31, 2019 as compared to previous years and explains any notable changes or trends in these numbers. The report also provides information on recommended budget adjustments for the current fiscal year.

### Timeframe and Limitations

The information in this report is the most accurate and up-to-date information available at the time of publication. However, this report is not an audited financial statement and the numbers provided herein are preliminary and subject to change as the year progresses. No data on revenues and expenditures are final until the Town has completed its annual comprehensive audit and finalized its Comprehensive Annual Financial Report (CAFR), which is released annually in early December for the prior fiscal year.

**With respect to revenues:** To develop a more accurate picture of the Town’s anticipated year-end

financial position, the Town regularly monitors and adjusts its year-end revenue projections based on revenue performance and other developments that may affect Town revenues. This report adjusts property and sales tax revenue projections and the revenues listed in on page 12.

**With respect to expenditures:** The expenditure information in this report is extracted directly from the Town’s financial management system, and adjustments are made to account for certain known payments, reimbursements, or transfers between Town Departments and funds that have not yet been processed in the system at the time of publication. A more detailed analysis of anticipated year-end estimates is part of the Proposed FY 2020/21 Operating Budget. This represents a snapshot of Town expenditures at a certain point in time and does not reflect final adjustments completed for the Town’s CAFR.

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# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

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## BUDGET CONTEXT

### Status of FY 2019/20 Adopted Budget

Overall, second quarter FY 2019/20 General Fund revenues are trending slightly higher than the second quarter of Fiscal Year 2018/19. Due to some projected revenue increases, staff is recommending a net General Fund revenue increase of \$1.1 million from the adopted budgeted estimates, offset by \$0.1 million in expenditure increases. This adjustment does not include the \$4.2 million transfer from the Pension/OPEB Reserve to CalPERS which is described in greater detail on page 12. The current estimates show an increase in economically sensitive revenues such as property tax, motor vehicle in lieu fee, and sales tax. Revenues such as licenses and permits, and fees for services are all trending favorably, another indication of the strength in the economy (see summary detail on page 17).

General Fund expenditure totals for the second quarter are trending in accordance with forecasts, with total operational expenditures at the end of the second quarter at about 46% of the Adopted Budget. With six months of data now available, it is expected that the next six months of expenditure trends will be within budget, although unexpected costs can still occur. Should any further budget adjustments be necessary to balance operating revenue and expenditures, staff will advise the Council accordingly.

Expenditure additions at this time include water utility costs, tree lighting services, and traffic signal updates (see page 12 for details).

The continued provision of existing service levels in this and future fiscal years will require economically sensitive revenues (Property, Sales, Transient Occupancy Tax (TOT)) to keep pace with anticipated increases in salaries and benefits and other expenditure increases. The FY 2019/20 Adopted Budget is the sixth budget in five years that did not require any service reductions to balance the budget. The FY 2020/21 budget is also expected to be “status quo,” and maintain the Town’s high service levels while recognizing the Town’s contractual obligations and unfunded mandates.

### Federal Economic Outlook

The Federal Reserve Bank of San Francisco (FRBSF) in a January 13, 2020 publication indicated that it expects 2019 to conclude with a real Gross Domestic Product (GDP) growth rate of 2.3%. The report noted that 2.3% is somewhat above its estimate of the economy’s long-run sustainable growth rate of slightly below 2%. Given the waning effects of federal fiscal policy, the report projects that GDP growth will slow towards trend (2%) by 2022. In addition, the report noted that following the conclusion of its December 11, 2019 meeting, the Federal Open Market Committee announced its decision to maintain the target range for the federal funds rate at 1½ to 1¾%. The Committee noted that while labor market conditions and household spending remained strong, business fixed investment and exports were weak.

### State Budget Update

The 2020-21 Governor’s Budget proposes spending of \$222.2 billion in total state funds, consisting of approximately \$153 billion from the General Fund, \$63.8 billion from special funds, and \$5.4 billion from bond funds. The Budget continues to build reserves and make strategic investments that promote opportunity, address affordability, and strengthen the State’s readiness and emergency capabilities.

The State Budget promotes enhancing California’s ability to prevent and respond to emergencies, and continues critical work to bring government services into the digital age, including enhancing California’s ability to prevent and respond to cyber threats.

After decades of underproduction, Californians continue to face a staggering housing crisis. The Budget includes \$1.75 billion to increase housing supply, including funding to local governments for planning and infrastructure, an investment in the state’s housing loan program, and an expansion of state housing tax credits. The Administration also launched an effort to reuse excess State properties for innovative housing projects and worked to leverage additional capital from the private sector to build more housing.



# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

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## GENERAL FUND – KEY REVENUE ANALYSIS

The following discussion provides a status of significant General Fund revenue sources as of the second quarter, ending December 31, 2019.

All revenue sources are closely monitored and staff may recommend certain revenue adjustments based on revenue actuals or State budget action(s).



# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

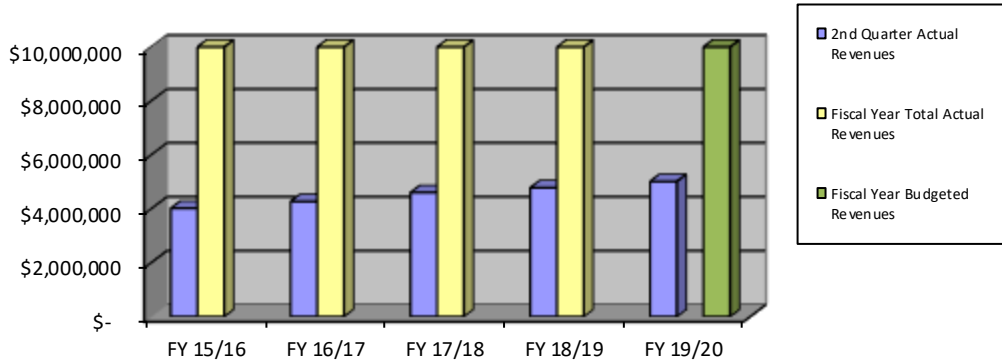
## Property Tax

Property tax is the largest revenue source for the Town’s General Fund, accounting for 31.3% of budgeted General Fund revenues in FY 2019/20. Property tax is levied by the Santa Clara County Assessor’s Office at 1% of a property’s assessed value, of which the Town receives approximately 9.3 cents per dollar paid on property located within the municipal limits of Los Gatos. In compliance with Proposition 13, the assessed value of real property is based on the 1975/76 assessment roll value, adjusted by a 2% inflation factor thereafter. However, when property changes hands or new construction occurs, property is then reassessed at its current market value. Real property values critically impact property tax revenues received by the Town. With the passage of Proposition 13, voters limited the tax rate that can be imposed on property. With the limitation on rates, higher property tax revenues are primarily generated by a higher aggregate property value.

**Analysis** – Property tax distributions are largely received in the third and fourth quarters. Property tax budget projections are based on valuations projected by the Santa Clara County Assessor’s Office, given the value and quantity of home sales. Second quarter receipts are trending similar than those received during the second quarter of the previous fiscal year and are at 35% of budgeted totals. Based on current County projections, staff recommends a \$302,266 increase in General Property Tax.

## PROPERTY TAX

**Quarterly and Annual Revenues  
5-Year History**



	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>
2nd Quarter Actual Revenues	\$ 4,017,963	\$ 4,274,774	\$ 4,604,788	\$ 4,785,479	\$ 5,017,946
Fiscal Year Total Actual Revenues	\$ 10,779,448	\$ 11,518,257	\$ 12,510,822	\$ 13,636,099	
Fiscal Year Budgeted Revenues					\$ 14,174,700
2nd Quarter Percent of Total	37%	37%	37%	35%	35%
<b>Recommended Budget Revision</b>					<b>\$ 302,266</b>



# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

## Sales Tax

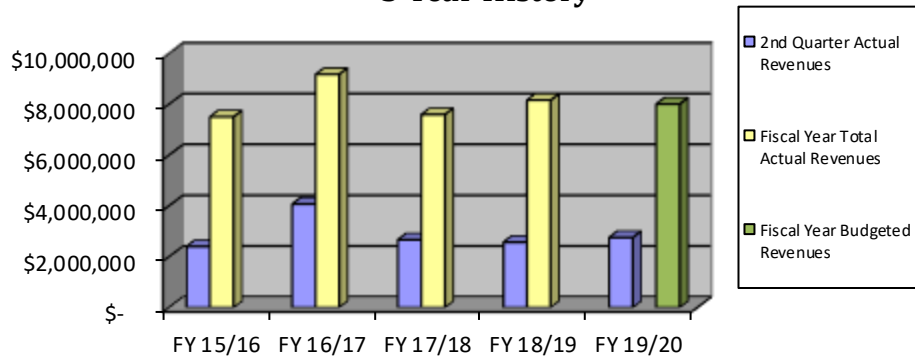
Sales tax is the second largest revenue source for the Town’s General Fund, accounting for 17.7% of budgeted General Fund revenues for FY 2019/20. The Town currently receives 1.125 cent for every 9.125 cents of sales tax paid per dollar on retail sales and taxable services transacted within Los Gatos including the Town of Los Gatos residents approved ballot Measure G enacting a one-eighth cent (0.125%) sales tax for 20 years.

**Analysis** – FY 2016/17 marked the end of the State sales tax distributing mechanism commonly known as the “triple-flip” and included a \$900,000 final triple-flip true-up payment from previous fiscal years as illustrated in the table below. Sales tax estimates are based on actual sales tax data and annual sales tax estimates for five years provided by the Town’s consultant, MuniServices including the additional district tax. In addition, the MuniServices estimates include additional proceeds from internet sales due to the 2018 Wayfair Court decision.

For FY 2019/20 second quarter receipts are trending higher than in the same period last fiscal year. Staff recommends a \$721,083 budget increase to reflect the MuniServices current estimates.

## SALES TAX

**Quarterly and Annual Revenues  
5-Year History**



	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>
2nd Quarter Actual Revenues	\$ 2,397,533	\$ 4,069,524	\$ 2,662,601	\$ 2,568,415	\$ 2,755,208
Fiscal Year Total Actual Revenue	\$ 7,501,175	\$ 9,171,373	\$ 7,592,206	\$ 8,158,152	
Fiscal Year Budgeted Revenues					\$ 8,001,917
2nd Quarter Percent of Total	32%	44%	35%	31%	34%
<b>Recommended Budget Revision</b>					<b>\$ 721,083</b>



# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

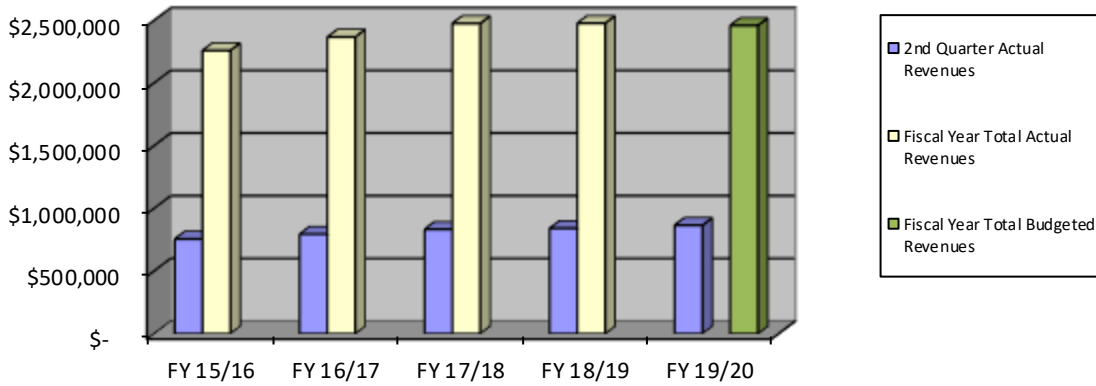
## Franchise Fees

Franchise fees are collected by the Town for the privilege of operating a utility service within Los Gatos, and as a fee in lieu of a business license tax. Franchise fees are currently received from Comcast for cable television, PG&E for gas and electric services, West Valley Collection and Recycling for solid waste collection services, and AT&T and Comcast for video services. Franchise fees represent 5.4% of budgeted General Fund revenues in FY 2019/20.

**Analysis** – Historically, franchise payments are not remitted equally throughout the fiscal year; therefore, second quarter receipts are not necessarily predictive of future receipts. Total franchise fee revenues are trending slightly higher than those of the second quarter in FY 2018/19. Staff recommends no budget adjustment to this revenue source.

## Franchise Fees

**Quarterly and Annual Revenues  
5-Year History**



	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>
2nd Quarter Actual Revenues	\$ 755,451	\$ 794,077	\$ 832,583	\$ 840,555	\$ 864,849
Fiscal Year Total Actual Revenues	\$ 2,258,892	\$ 2,366,908	\$ 2,474,814	\$ 2,475,916	
Fiscal Year Total Budgeted Revenues					\$ 2,458,520
2nd Quarter Revenue Percent of Total	33%	34%	34%	34%	35%

### Recommended Budget Revision



# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

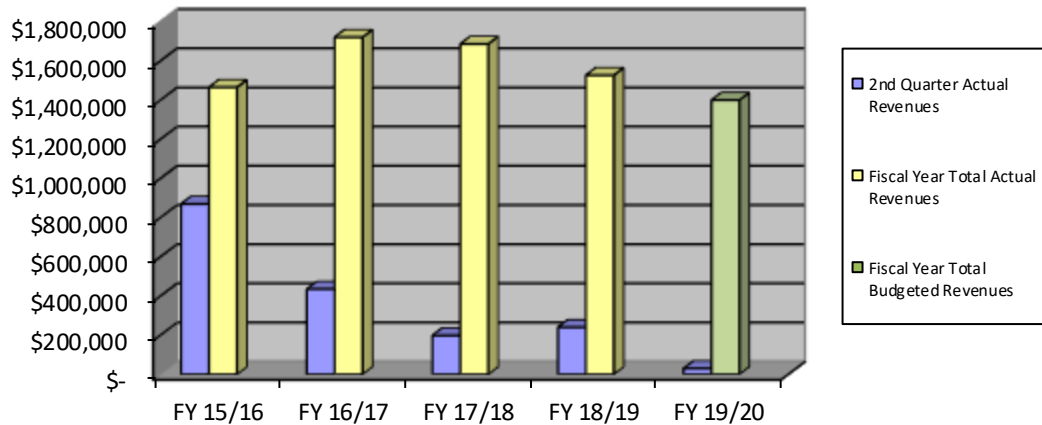
## Business License Tax

The Town requires all businesses located within Los Gatos and/or those that operate within Los Gatos to obtain a business license. The amount of business license tax paid by each business is based on its business activity. Fees for activities such as wholesale sales and manufacturing are charged on a sliding scale based on gross receipts, as is retail, with retail being capped at \$975. These gross receipt activities account for approximately 25% of annual business licenses, while the remaining 75% are flat fee businesses. Annual renewal payments are due on January 2 of each year. Payments for new flat-fee-based businesses are pro-rated by quarter.

**Analysis** – Business license tax revenue for the current fiscal year was budgeted in line with prior years based on staff analysis. Second quarter revenues are trending lower compared to prior year second quarter revenue, due to a Finance staff vacancy which delayed the business license renewal process. Staff anticipates collecting the majority of the business license revenue during the third quarter. Staff recommends no budget adjustment to this revenue source.

## Business License Tax

### Quarterly and Annual Revenues 5-Year History



	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>
2nd Quarter Actual Revenues	\$ 870,249*	\$ 435,696	\$ 199,045	\$ 240,293	\$ 30,600
Fiscal Year Total Actual Revenues	\$ 1,465,547	\$ 1,720,980	\$ 1,686,251	\$ 1,526,894	
Fiscal Year Total Budgeted Revenues					\$ 1,400,000
2nd Quarter Revenue Percent of Total	53%	53%	59%	16%	2%

### **Recommended Budget Revision**

\* Includes 2014 actual gross receipt adjustment for Netflix at the first time



# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

## Transient Occupancy Tax

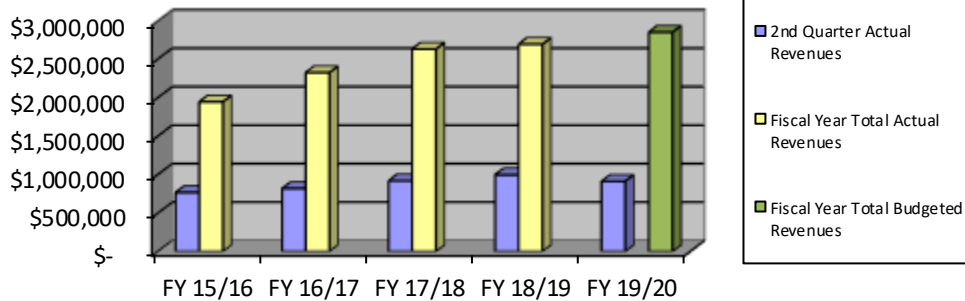
The Town levies a 12% transient occupancy tax (TOT) on all hotel and motel rooms within the municipal limits of Los Gatos. This tax helps to fund Town services provided to visitors to Los Gatos. At the November 8, 2016 election, the Town of Los Gatos residents approved a ballot measure increase in the TOT from 10% to 12%. The 12% rate has been in effect since January 1, 2017.

**Analysis** – CBRE Hotels Americas Research in its December 2019 Hotel Horizon report anticipates a continued industry slowdown through 2021. According to the research, year-over-year demand is expected to decelerate, and for occupancy levels to decrease in 2020 and 2021. For 2020, CBRE is forecasting an overall 0.7 percent decrease in occupancy for the nation’s 60 major markets. The San Jose-Santa Cruz, market is forecast to lead the nation in supply growth with an increase of 9.2 percent. The average number of rooms per project in the development pipeline in San Jose-Santa Cruz is 122 rooms.

Based on the current trend staff is not recommending any change in the current fiscal year.

## Transient Occupancy Tax

**Quarterly and Annual Revenues  
5-Year History**



	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>
2nd Quarter Actual Revenues	\$ 766,651	\$ 817,061	\$ 917,019	\$ 994,581	\$ 910,806
Fiscal Year Total Actual Revenues	\$ 1,943,166	\$ 2,322,910	\$ 2,628,927	\$ 2,692,043	
Fiscal Year Total Budgeted Revenues					\$ 2,848,730
2nd Quarter Revenue Percent of Total	39%	35%	35%	37%	32%
<b>Recommended Budget Revision</b>					<b>\$ -</b>





# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

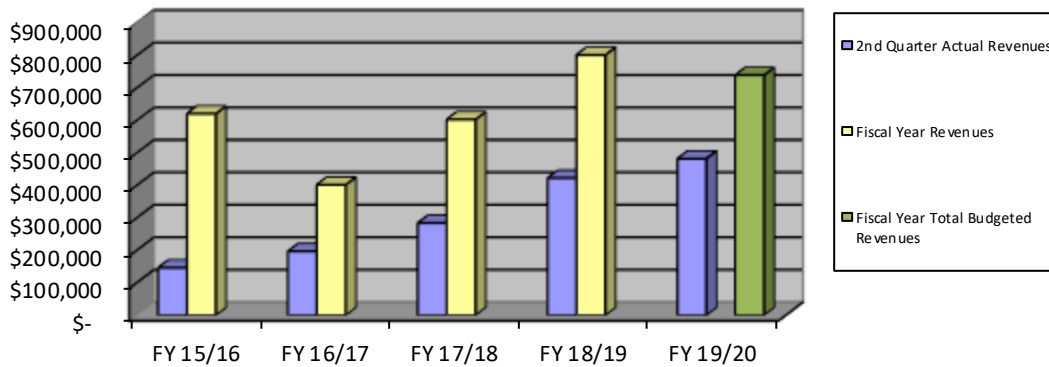
## Interest Income

The Town earns interest income by investing monies not immediately required for daily operations in a number of fixed income and money market instruments. These investments are made within the parameters stated in the Town Council’s Investment Policy. The Town’s investment goal is to achieve a competitive rate of return while protecting the safety of its funds. Interest income revenue is primarily dependent on two factors: the cash balance in the Town’s investment portfolio and the yield on those funds.

**Analysis** – Second quarter receipts are trending above those in the same period in the prior fiscal year. During the quarter ending December 31, 2019, the Federal Reserve Open Market Committee (FOMC) lowered interest rates 25 basis points, targeting a federal funds rate of 1.5% to 1.75%. For the calendar year, the FOMC lowered rates 25 basis points three consecutive times. At the conclusion of the final FOMC meeting for 2019, Federal Reserve Chairman Powell stated, “Our economic outlook remains a favorable one despite global developments and ongoing risks.” In addition Chairman Powell stated, “As long as incoming information about the economy remains broadly consistent with this outlook, the current stance of monetary policy likely will remain appropriate.” Therefore, indicating that no further rate reductions would be necessary for the foreseeable future. This recent Federal action is consistent with staff’s strategy to extend maturity lengths on new purchases of securities to take advantage of higher yielding securities in the 2 to 3-year maturity range. Staff recommends no change to this revenue source at this time.

## Interest Income

**Quarterly and Annual Revenues  
5-Year History**



	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>
2nd Quarter Actual Revenues	\$ 146,500	\$ 197,065	\$ 284,009	\$ 422,729	\$ 482,400
Fiscal Year Revenues	\$ 620,895	\$ 401,961	\$ 603,017	\$ 801,729	
Fiscal Year Total Budgeted Revenues					\$ 739,774
2nd Quarter Revenue Percent of Total	24%	49%	47%	53%	65%

### **Recommended Budget Revision**



# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

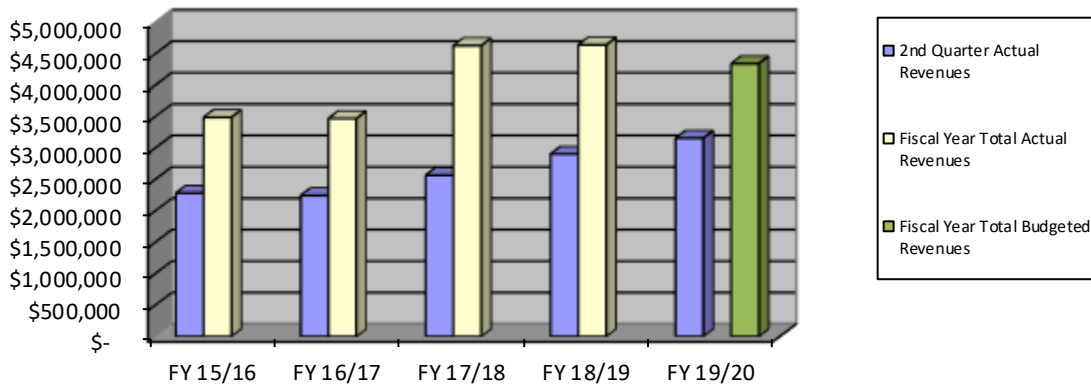
## Charges for Services

Town Service revenues consist primarily of planning, building, inspections, and engineering fees assessed on local building and development activity. Development fees and charges are assessed based on cost recovery formulas, which reflect approximate costs of providing these regulatory services.

**Analysis** – Second quarter Town Service revenues, specifically Charges for Services, are trending higher than in the second quarter compared to the previous fiscal year, with 73% of budgeted revenues already received. Typically, development fees are collected in advance for projects and recognized as revenue in the fiscal year the work is performed. Staff anticipates that the increased use of building and engineering inspection contract services during North 40 building activity will offset the increase in charges for services. Staff recommends no budget adjustment to this revenue source.

## Charges for Services

**Quarterly and Annual Revenues  
5-Year History**



	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>
2nd Quarter Actual Revenues	\$ 2,284,873	\$ 2,244,464	\$ 2,567,814	\$ 2,905,238	\$ 3,158,722
Fiscal Year Total Actual Revenues	\$ 3,489,253	\$ 3,471,553	\$ 4,630,893	\$ 4,643,715	
Fiscal Year Total Budgeted Revenues					\$ 4,344,336
2nd Quarter Revenue Percent of Total	65%	65%	55%	63%	73%

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### Recommended Budget Revision

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# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

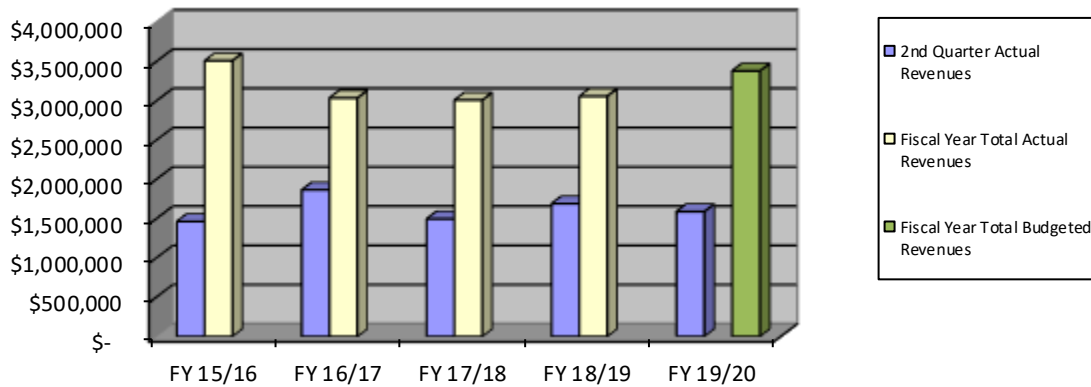
## Licenses and Permits

Licenses and Permits consist mainly of planning and building permit fees which are collected by the Town to offset administrative costs associated with evaluating development proposals to ensure compliance with codes and policies. Licenses and Permits revenue was budgeted slightly higher than FY 2018/19 in anticipation of additional North 40 permitting process development activity.

**Analysis** – Second quarter License and Permit revenue is trending 47% of budgeted revenue slightly lower than second quarter results from the previous fiscal year. Staff recommends no budget adjustment to this revenue source.

## Licenses & Permits

**Quarterly and Annual Revenues  
5-Year History**



	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>
2nd Quarter Actual Revenues	\$ 1,465,547	\$ 1,867,300	\$ 1,498,864	\$ 1,692,252	\$ 1,592,059
Fiscal Year Total Actual Revenues	\$ 3,512,019	\$ 3,038,511	\$ 3,011,309	\$ 3,059,894	
Fiscal Year Total Budgeted Revenues					\$ 3,382,534
2nd Quarter Revenue Percent of Total	42%	61%	50%	55%	47%

### Recommended Budget Revision



# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

## GENERAL FUND – SALARIES AND BENEFITS ANALYSIS

As with most municipalities, services are provided directly by employees to the Town’s residents, businesses, and visitors. As a service delivery enterprise, the cost of salaries and benefits are a significant portion of the budget. At mid-year, actual salaries are trending at 45% of budgeted salaries, while benefits are trending at 60% of the Adopted Budget. Benefits are trending higher than 50% because the Town submits its entire annual normal pension payment upfront in July 2019 as a cost savings measure. While actual vacancies vary during the course of the fiscal year, there were 12 vacant positions as of 12/31/2019.

General Fund Salaries & Benefits							FY 2019/20
	FY 2018/19	FY 2018/19	Q2% of	Q2% of	FY 2019/20	FY 2019/20	Adjusted
	Actuals	2Q	FY 2018/19	FY 2019/20	2Q	Adopted	through
			Actuals	Adopted			12/31/2019
Salaries	\$ 17,942,181	\$ 8,366,169	47%	45%	\$ 8,955,010	\$ 19,990,048	\$ 20,012,717
Benefits	\$ 8,861,043	\$ 5,920,037	67%	60%	\$ 6,601,154	\$ 10,920,311	\$ 10,920,311
Total Salary & Benefit	\$ 26,803,224	\$ 14,286,206	53%	50%	\$ 15,556,164	\$ 30,910,359	\$ 30,933,028
<i>FY 2018/19 Upfront Annual Payment to CalPERS in July 2018 \$3,088,308</i> <i>FY 2019/20 Upfront Annual Payment to CalPERS in July 2019 \$3,689,063</i>							



# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

## FY 2019/20 Recommended Mid-Year Budget Adjustments

Budget adjustments are recommended for the following revenues and expenditures at the second quarter:

### FY2019/20 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUND

Fund	Program	Account	General Fund Revenues	
111	1201	411XX	Property Tax	\$ 302,266
111	1201	41141	Motor Vehicle In Lieu Fee	80,114
111	1201	41211	Sales & Use Tax	721,083
111	1201	41311	Miscellaneous Revenue	1,555
111	4303	43338	REACT Task Force Reimbursement	40,000
111		36222	Use of Pension/OPEB Reserve	4,232,500
<b>TOTAL GENERAL FUND REVENUES</b>				<b>\$ 5,377,518</b>

Fund	Program	Account	General Fund Expenditures	
111	1201	62119	Payment to CalPERS	\$ 4,232,500
111	5301	62613	Increased Water Utility Cost for Parks	50,000
111	5401	63364	Outdated Traffic Signal Replacement	16,156
111	5401	63364	Additional Ornamental and Bridge Lighting Services	6,521
111	5407	5111X	Temporary FTE Hours from Facility Maintenance Fund	16,165
111	7101	62317	Office Equipment	1,555
<b>TOTAL GENERAL FUND EXPENDITURES</b>				<b>\$ 4,322,897</b>



# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

## FY 2019/20 MID-YEAR BUDGET ADJUSTMENT REQUESTS - OTHER FUNDS

Fund	Program	Account	<i>Other Fund Revenues</i>	-
<b>481</b>			<b><i>Gas Tax</i></b>	
481	481-811-9901	82405	Increased Gas Tax Projections for Street Repair	48,894
				<b>\$ 48,894</b>
<b>711</b>			<b><i>Library Trust</i></b>	
711	7301	45452	Anticipated Donation Not Received	(5,000)
				<b>\$ (5,000)</b>
<b>731</b>			<b><i>PARS 115 Trust</i></b>	
		36222	Use of PARS 115 Trust Balance	5,057,367
				<b>\$ 5,057,367</b>
<b><i>TOTAL OTHER FUNDS REVENUES</i></b>				<b>\$ 5,101,261</b>

Fund	Program	Account	<i>Other Fund Expenditures</i>	
<b>232</b>			<b><i>Kennedy Meadows LLD</i></b>	
232	5502	63363	Additional Tree Services	7,092
				<b>\$ 7,092</b>
<b>235</b>			<b><i>Vasona Heights LLD</i></b>	
235	5505	63363	Additional Tree Services	4,148
				<b>\$ 4,148</b>
<b>481</b>			<b><i>Gas Tax</i></b>	
481	481-811-9901	82405	Increased Gas Tax Projections for Street Repair	48,894
				<b>\$ 48,894</b>
<b>612</b>			<b><i>Workers Compensation</i></b>	
	2202	63323	Lock Out Tag Out Procedures Development	59,750
	2202	65521	Inceased Third Party Administration Fee	40,100
				<b>\$ 99,850</b>
<b>633</b>			<b><i>Facilities Maintenance</i></b>	
633	5404	63218	Temporary Hours to Facilities Maintenance staffing	(16,165)
	5404	82025	Civic Center Emergency Boiler Replacement	27,056
	5404	82025	Adult Recreation Center Water Heater Replacement	27,000
				<b>\$ 37,891</b>
<b>711</b>			<b><i>Library Trust Fund</i></b>	
711	7301	62424	Anticipated Donation Not Received	(5,000)
				<b>\$ (5,000)</b>
<b>731</b>	1231	62119	<b><i>Pension Trust Fund</i></b>	
			Payment to CalPERS from the PARS Trust	5,057,367
				<b>\$ 5,360,769</b>
<b><i>TOTAL OTHER FUNDS EXPENDITURES</i></b>				<b>\$ 5,553,644</b>

# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

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## SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

### General Fund Revenues and Expenditures

- Use of Pension/OPEB Reserve: Staff recommends use of the available Pension /OPEB Reserve in the amount of \$4,232,500 be transferred to the CalPERS California Employees' Pension Prefunding Trust (CEPPT) to make additional discretionary payments (ADPs) per direction from the Town Pension/OPEB Oversight Committee.
- Sales and Use Tax: Staff recommends a \$721,083 budget increase to reflect the combined effect current trends and the one-eight cent sales tax based on MuniServices projections.
- General Property Tax and Motor Vehicle in Lieu Fee: Staff recommends an increase in projected revenues of approximately \$251,552 in General Property Tax and \$80,114 Motor Vehicle in Lieu fee which are in line with the estimates and forecasts provided to the Town from Santa Clara County.
- Regional Enforcement Allied Computer Team (REACT): Staff recommends a \$40,000 revenue adjustment to recognize the potential REACT grant proceeds. Regional Enforcement Allied Computer Team (REACT) is a high technology/cybercrime and identity theft task force. Quarterly reimbursement is directly related to the Los Gatos-Monte Sereno Detective assigned to the Task Force. This revenue can fluctuate depending on the Detective's assigned hours.
- Water Utility: Staff recommends a \$50,000 expenditure budget increase due to increased water utility costs for Town Parks.
- Temporary Facilities FTE Hours: Staff recommends \$16,165 expenditure budget increase to move temporary FTE hours inadvertently budgeted in the Facilities Maintenance Internal Service Fund.
- Traffic Signal: Staff recommends \$16,156 expenditure budget adjustment for actual costs for replacing outdated traffic signal controllers and a portion of the maintenance for Caltrans-owned traffic signals. Lastly, this covers an unbudgeted solar radar purchase to replace the sign at the Pollard and Wedgewood Road intersection.
- Tree Lighting Maintenance Services: Staff recommends a \$6,521 budget increase due to increased cost for ornamental tree and bridge lighting services.
- Emergency Stair Evacuation Chair: Staff recommends a \$1,555 expenditure and revenue budget adjustment to reflect the reimbursement revenue from the Town's excess Workers' Compensation Provider for emergency stair evacuation chair purchased by the Library Department.



## BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

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### Other Fund Revenues and Expenditures

- Additional Tree Maintenance Services in Light and Landscaping Districts (LLDs): Staff recommends a \$7,092 increase for tree services needed in the Kennedy Meadows LLD and \$4,148 increase for tree services needed in the Vasona Heights LLD. There are sufficient fund available to cover the additional services.
- Gas Tax: Staff recommends a \$48,894 revenue and expenditure budget increase due to an updated gas tax revenue forecast from the State of California.
- Lock Out Tag Out Procedure Development: Staff recommends a \$59,750 expenditure budget increase from available Workers Compensation Fund balance. Staff will work with safety vendor to develop Lock Out Tag Out procedures for equipment and machinery in all Town facilities to be compliant with Cal/OSHA regulations.
- Workers' Compensation Third Party Administration Fees: Staff recommends a \$40,100 expenditure budget increase from available Workers' Compensation Fund balance. Increase in Department of Industrial Relations assessment based on increased claims exposure in FY 18/19.
- Civic Center Emergency Boiler Repairs: Staff recommends a \$27,056 expenditure budget increase from available Facilities Maintenance Fund balance. The boiler was replaced at the Civic Center when the boiler structure failed and was unrepairable. The new boiler is now in place and operational.
- Adult Recreation Center Commercial Water Heater Replacement: Staff recommends \$27,000 expenditure budget adjustment for replacing the failed commercial water heater at the Adult Recreation Center and hot water piping asbestos abatement at the Civic Center. There are sufficient funds available in the Facilities Maintenance Fund to cover the additional expenditures.
- Library Donation: Staff recommends a \$5,000 revenue and expenditure budget decrease since an anticipated donation was never received.
- Restricted Pension Trust Fund: Staff recommends a \$5,057,367 expenditure budget increase to transfer the IRS 115 PARS Trust balance to CalPERS California Employees' Pension Payment Trust (CEPPT) per direction of the Town Pension/OPEB Oversight Committee. The first additional discretionary payment (ADP) of \$4,753,965 for payment of the 2016 gain/loss amortization base was transferred to CalPERS from PARS on October 11, 2019. As of December 31, 2019, the PARS account has a residual balance of \$303,402. The balance will be transferred to CalPERS during the current Fiscal Year.





# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

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## 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 2019/20 which includes comparison information from the prior year. The FY 2019/20 Adopted column represents the General Fund Adopted Budget. The FY 2019/20 Adjusted column includes items that Council approved during the course of the first two quarters of fiscal year, such as additional funding for vegetation management grant match requirements from the available Capital/Special Project Reserve, additional funding for Traffic Engineering Services from the available General Plan Update Deposit account, and salary adjustments for Council appointed employees. The FY 2019/20 Estimated column contains projections of final balances for the current fiscal year based upon the aforementioned Council actions during the current fiscal year, the early trends observed through the second quarter in sales tax and property tax projections and the proposed mid-year adjustments as listed in this report. The FY 2019/20 Estimated figures do not include analysis on potential salary and other expenditure savings. More detailed analysis for the FY 2019/20 year-end estimated revenue and expenditure numbers will be provided with the presentation of the proposed Fiscal Year 2020/21 budget.

# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

## General Fund

### Fund 111

#### SUMMARY OF REVENUES AND EXPENDITURES

	FY 2018/19 Actuals	FY 2018/19 Q2	Q2% of FY 2018/19 Actuals	Q2% of FY 2019/20 Adopted	FY 2019/20 Q2	FY 2019/20 Adopted	FY 2019/20 Adjusted Council Action through 12/31/2019	FY 2019/20 Estimated Including Mid-Year Proposed
<b>Revenues</b>								
Property Tax	\$ 13,636,099	\$ 4,785,479	35.1%	35.4%	\$ 5,017,946	\$14,174,700	\$ 14,174,700	\$ 14,476,966
Sales & Use Tax	8,158,152	2,568,415	31.5%	34.4%	2,755,208	8,001,917	8,001,917	8,723,000
VLF Backfill Property Tax	3,685,247	-	0.0%	0.0%	-	3,795,800	3,795,800	3,875,914
Franchise Fees	2,475,916	840,555	33.9%	35.2%	864,849	2,458,520	2,458,520	2,458,520
Transient Occupancy Tax	2,692,043	994,581	36.9%	32.0%	910,806	2,848,730	2,848,730	2,848,730
Business License Tax	1,526,894	240,293	15.7%	4.3%	60,500	1,400,000	1,400,000	1,400,000
Licenses & Permits	3,059,894	1,692,252	55.3%	47.1%	1,592,059	3,382,534	3,382,534	3,382,534
Intergovernmental	950,380	310,803	32.7%	41.6%	410,882	988,441	988,441	1,028,441
Town Services	4,643,715	2,905,238	62.6%	72.7%	3,158,772	4,344,336	4,467,156	4,467,156
Fines & Forfeitures	510,266	207,631	40.7%	27.8%	134,707	483,950	483,950	483,950
Interest	801,729	212,238	26.5%	56.4%	417,197	739,774	739,774	739,774
GASB 31 to Market	643,911	517,744	80.4%	114.7%	(126,168)	(110,000)	(110,000)	(110,000)
Use of Property	32,960	-	0.0%	-	-	-	-	-
Miscellaneous Other	562,712	223,684	39.8%	41.6%	134,336	322,870	322,870	324,425
Park Construction Tax	6,309	-	-	-	-	7,000	7,000	7,000
Debt Service - Entry Eliminated for CAFR	1,909,073	-	0.0%	0.0%	-	1,905,024	1,905,024	1,905,024
Closing Fund 961 to 111 - Entry Eliminated for CAFR	1,928,865	-	-	-	-	-	-	-
Proceeds for Sales of Assets	1,912,316	-	0.0%	-	-	-	-	-
Fund Transfer In	1,578,911	102,000	6.5%	18.9%	102,000	538,536	538,536	538,536
<b>Total Revenues &amp; Transfers In</b>	<b>\$ 50,715,392</b>	<b>\$ 15,600,913</b>	<b>31%</b>	<b>34%</b>	<b>\$ 15,433,094</b>	<b>\$ 45,282,132</b>	<b>\$ 45,404,952</b>	<b>\$ 46,549,970</b>
<b>Use of Other Funding Sources:</b>								
Use of Reserves - Capital/Special Projects	\$ 2,785,220	\$ -	0.0%	0.0%	\$ -	\$ 6,691,884	\$ 6,982,591	\$ 6,982,591
Use of Reserve - Pension/OPEB	3,181,758	1,800,000	-	-	-	-	-	4,232,500
Use of Compensated Absences	-	-	-	-	-	1,061,256	1,061,256	1,061,256
<b>Total Other Funding Sources</b>	<b>\$ 5,966,978</b>	<b>\$ 1,800,000</b>	<b>30%</b>	<b>0%</b>	<b>\$ -</b>	<b>\$ 7,753,140</b>	<b>\$ 8,043,847</b>	<b>\$ 12,276,347</b>
<b>Total Revenues and Use of Reserves</b>	<b>\$ 56,682,370</b>	<b>\$ 17,400,913</b>	<b>31%</b>	<b>29%</b>	<b>\$ 15,433,094</b>	<b>\$ 53,035,272</b>	<b>\$ 53,448,799</b>	<b>\$ 58,826,317</b>
<b>Expenditures</b>								
Mayor and Council	\$ 205,903	\$ 100,209	48.7%	45.3%	\$ 109,011	\$ 240,605	\$ 240,605	\$ 240,605
Attorney	562,542	310,219	55.1%	47.7%	296,424	621,391	628,793	628,793
Administrative Services	3,931,807	2,069,839	52.6%	45.8%	2,204,552	4,815,138	4,830,405	4,830,405
Non- Departmental	3,304,002	827,150	25.0%	30.2%	1,169,739	3,873,255	3,898,255	3,898,255
Community Development	4,577,495	2,104,258	46.0%	39.0%	2,245,767	5,760,099	5,760,099	5,760,099
Police	14,945,407	7,832,251	52.4%	50.2%	8,501,570	16,940,786	16,940,786	16,940,786
Parks & Public Works	7,934,869	3,717,900	46.9%	48.3%	3,893,808	8,070,068	8,192,888	8,281,730
Library	2,493,617	1,280,179	51.3%	51.0%	1,497,419	2,935,010	2,935,010	2,936,565
Capital Outlay	38,307	-	-	-	-	-	-	-
<b>Total Department Expenditures</b>	<b>\$ 37,993,949</b>	<b>\$ 18,242,005</b>	<b>48%</b>	<b>46%</b>	<b>\$ 19,918,290</b>	<b>\$ 43,256,352</b>	<b>\$ 43,426,841</b>	<b>\$ 43,517,238</b>
Debt Service - Entry Eliminated for CAFR	\$ 1,909,073	\$ -	0.0%	0.0%	\$ -	\$ 1,905,024	\$ 1,905,024	\$ 1,905,024
Transfers Out	2,785,220	-	0.0%	0.0%	-	7,753,140	8,043,847	8,043,847
Transfer to Pension Trust Fund - Entry Eliminated for CAFR	3,571,758	1,800,000	-	-	-	-	-	4,232,500
<b>Total Non-Departmental Expenditures</b>	<b>\$ 8,266,051</b>	<b>\$ 1,800,000</b>	<b>22%</b>	<b>0%</b>	<b>\$ -</b>	<b>\$ 9,658,164</b>	<b>\$ 9,948,871</b>	<b>\$ 14,181,371</b>
<b>Total Operating Expenditures</b>	<b>\$ 46,260,000</b>	<b>\$ 20,042,005</b>	<b>43%</b>	<b>38%</b>	<b>\$ 19,918,290</b>	<b>\$ 52,914,516</b>	<b>\$ 53,375,712</b>	<b>\$ 57,698,609</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 4,455,392 **</b>	<b>\$ (4,441,092) *</b>			<b>\$ (4,485,196) *</b>	<b>\$ 120,756</b>	<b>\$ 73,087</b>	<b>\$ 1,127,708</b>

\*\*FY 2018/19 and FY 2019/20 Q2 Net Operating Revenues are negative because some revenues budgeted for the entire fiscal year are received in the third or fourth quarters and fund expended in the first or second quarters.

\*\* FY 2018/19 and FY 2019/20 Q2 Net Operating Revenues are negative because some revenues budgeted for the entire fiscal year are received in the third or fourth quarters and fund expended in the first or second quarters. See reconciliation below.

**GENERAL FUND REVENUES ABOVE EXPENDITURES FUND 111 ONLY \*\***      **\$ 4,455,391.95**

**ADD**

Remove GF contributions to PARS Trust treated as expenditures      \$ 3,578,913.00  
Investment Earnings on PARS not included in GF Revenues Above      \$ 236,706.94  
Transfers-out not included above but in other sources in CAFR      \$ 2,785,220.00

**LESS**

Proceeds from Sales of Assets included above but in other sources in CAFR      \$ (1,912,316.00)  
PARS Trust fees (Fund 731) not included in GF      \$ (7,155.09)  
Transfers-In not included above but in other sources CAFR      \$ (1,578,911.07)  
Elimination of Fund 961 FB as a negative to CAFR Revenues      \$ (1,928,864.00)

**EXCESS OF REVENUE OVER EXPENDITURES PER CAFR**      **\$ 5,628,985.73**



## BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

The group of financial summaries on the following pages present data by governmental, proprietary and fiduciary fund types. For each, the fund information starts with a beginning fund balance, adds current year revenues, and subtracts current year expenditures, resulting in an ending fund balance. Adopted budget amounts are provided as a basis for comparison of actuals to date.

### Special Revenue Funds (Governmental Fund Type)

Special Revenue Funds account for the proceeds derived from specific revenue sources that are legally restricted or assigned to special purposes. The Town's Special Revenue Funds are Community Development Block Grant Fund, Housing Conservation Program Fund, Urban Runoff Source Fund (Non-Point Source), and several Landscaping and Lighting District (LLD) Funds. The revenue from the Non-Point Source Program fund continues to lag expenses. This largely results from increased requirements associated with the Town's storm water permit, including increased inspections and monitoring, trash reduction requirements, and administrative costs. Staff has developed a plan to move the program toward a sustainable cost recovery model as part of the FY 2017/18 budget process. Staff will continue to monitor these revenue funds to ensure payments are received. Staff recommends \$11,240 expenditure budget adjustments to provide additional tree maintenance services for the Kennedy meadows and Vasona Height L&L Districts.

#### Special Revenue Funds Budget to Actuals Comparisons

	CDBG Grants	Non-Point Source	LLD's
<b>Beginning Fund Balance</b>	<b>\$ 166,653</b>	<b>\$ 159,451</b>	<b>\$ 208,137</b>
Budgeted Revenues	-	594,394	39,680
<b>Total Actual Revenues - 2nd Qtr</b>	<b>\$ -</b>	<b>\$ 96,385</b>	<b>\$ -</b>
Budgeted Expenditures	-	579,173	101,513
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>-</b>	<b>79,197</b>	<b>11,610</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ 166,653</b>	<b>\$ 176,639</b>	<b>\$ 196,527</b>



# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

## Capital Projects Funds (Governmental Fund Type)

Capital Projects Funds account for resources used for the acquisition and construction of capital facilities by the Town. Funds in this category are the GFAR (General Fund Appropriated Reserve) Fund, Traffic Mitigation Fund, Grant Funded CIP Projects Fund, Utility Underground Fund, Gas Tax Fund, and three Storm Drain Funds. Staff recommends increasing both gas tax revenue and expenditure by \$48,984 to match current Gas Tax estimates. Staff will continue to monitor these revenues and expenditures throughout the remainder of the year. The Grant Funded CIP fund displays a deficit balance because this grant fund expends Town dollars first, then provides documentation of these expenditures to the State of California or other granting agencies and is reimbursed for those costs. The reimbursements eventually result with the fund “breaking even” or a zero fund balance.

### Capital Project Funds Budget to Actuals Comparisons

	GFAR* Fund	Traffic * Mitigation	Grant Funds* CIP	Storm Drains	Utility Undergd	Gas Tax
<b>Beginning Fund Balance</b>	\$ 8,518,983	\$ 2,551,088	\$ (255,636)	\$ 2,628,557	\$ 3,079,685	\$ 853,820
Budgeted Revenues	13,177,383	2,218,282	3,211,080	104,540	52,490	1,375,804
<b>Total Actual Revenues - 2nd Qtr</b>	<b>983,474</b>	<b>-</b>	<b>74,006</b>	<b>80,583</b>	<b>9,521</b>	<b>582,528</b>
Budgeted Expenditures	20,162,008	2,238,282	3,472,206	321,058	2,449,201	1,907,282
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>1,195,026</b>	<b>25,998</b>	<b>168,900</b>	<b>7,175</b>	<b>-</b>	<b>688,096</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ 8,307,431</b>	<b>\$ 2,525,090</b>	<b>\$ (350,530)</b>	<b>\$ 2,701,965</b>	<b>\$ 3,089,206</b>	<b>\$ 748,252</b>

\* GFAR, Traffic Mitigation, and Grant Funds balances are combined in the CAFR. The combined balance of \$10,814,435 is presented as an Appropriated Reserve. The Traffic Mitigation Fund balance includes \$2,246,441 deferred revenue.



# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

## Internal Service Funds (Proprietary Fund Type)

Internal Service Funds finance and account for special activities and services performed by a designated Town Department for other Town Departments on a cost reimbursement basis. Included in this fund type are the Equipment Replacement Fund, Workers’ Compensation Fund, Joint Powers Authority Pooled Liability Network (PLAN) Self-Insurance Fund, Information Technology Fund, and the Facilities Maintenance Fund.

Staff recommends a \$37,891 expenditure budget adjustment to cover the Civic Center Emergency Boiler Replacement, the Adult Recreation Center Water Heater replacement, and to remove temporary FTE hours inadvertently budgeted in the Facilities Maintenance Fund. In addition, staff recommends expenditure adjustments in amount of \$99,850 from the available Workers’ Compensation Fund to develop a Lock Out Tag Out Safety Procedure and increased Workers’ Compensation Administration expenditures based on increased claims exposure in FY 2018/19. Staff will continue to monitor expenditures and propose a revised cost allocation if needed during the FY 2020/21 budget preparation.

### Internal Service Funds Budget to Actuals Comparisons

	Equipment Replacem	Workers Compensation	Self Insurance	Information Technology	Facility Maint.
<b>Beginning Fund Balance</b>	<b>\$ 2,808,804</b>	<b>\$ 843,080</b>	<b>\$ 1,313,304</b>	<b>\$ 2,518,467</b>	<b>\$ 970,786</b>
Budgeted Revenues	229,093	2,087,485	443,727	859,223	1,173,757
<b>Total Actual Revenues - 2nd Qtr</b>	<b>136,535</b>	<b>478,543</b>	<b>192,559</b>	<b>533,260</b>	<b>571,110</b>
Budgeted Expenditures	2,186,240	1,657,210	680,137	955,575	1,961,752
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>70,654</b>	<b>758,429</b>	<b>407,246</b>	<b>315,031</b>	<b>470,924</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ 2,874,685</b>	<b>\$ 563,194</b>	<b>\$ 1,098,617</b>	<b>\$ 2,736,696</b>	<b>\$ 1,070,972</b>
	3%	46%	60%	33%	24%



# BUDGET PERFORMANCE REPORT – MID-YEAR FY 2019/20

## Trust and Agency Funds (Fiduciary Fund Type)

Town Trust and Agency Funds have estimated fund balances as of December 31, 2019 of \$582,230 for the Library Trust Funds and \$2,807,395 for the Successor Agency (SA) Trust Fund. Staff recommends a \$5,000 revenue and expenditure budget decrease in the Library Trust since an expected donation was never received.

### Trust & Agency Funds Budget to Actuals Comparisons

	Library Trust	SA Trust
<b>Beginning Fund Balance</b>	<b>\$ 538,015</b>	<b>\$ 2,807,505</b>
Budgeted Revenues	74,150	3,823,202
<b>Total Actual Revenues - 2nd Qtr</b>	<b>61,784</b>	-
Budgeted Expenditures	128,255	3,823,202
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>17,569</b>	<b>110</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ 582,230</b>	<b>\$ 2,807,395</b>
	14%	0%

## Successor Agency to the Redevelopment Agency

AB1x26 is the “Dissolution Bill” that eliminated the Town’s Redevelopment Agency effective February 1, 2012. AB 1484 is the “clean-up” bill that revised and attempted to clarify AB1x26. In accordance with the law, the Successor Agency continues to wind down the affairs and operations of the former Redevelopment Agency by implementing programs and activities in accordance with the State-approved Recognized Obligation payment Schedule (ROPS). The Successor Agency monies are now accounted for in a Private Purpose Trust fund and no longer part of the Town’s Financial Statements.

### CONCLUSION

The financial results from the prior fiscal year, coupled with the FY 2019/20 first and second quarter data, confirm that the mid-year financial results are stable and improving. Staff is actively engaged in the 2020/21 budget process with the primary focus of ensuring that the available Town resources are allocated to meet the priority service needs of the community.