TOWN OF LOS GATOS

QUARTERLY FINANCIAL REPORT – FY 2026-27

JULY-SEPTEMBER

The following is the First Quarter Financial Report for Fiscal Year 2026-27. It informs the Town Council, Town Leadership, and the public of the Town's fiscal status. The Finance Commission is receiving the report in its advisory capacity and may provide comments or recommendations to the Town Council. This report also provides a preliminary, unaudited prior year-end analysis of the General Fund; year-to-date revenue and expenditure analysis as of the first quarter of the fiscal year; analysis by fund; General Fund analysis by revenue and expense categories; and department and vacancy savings estimates to date. Lastly, it looks forward to mid-year and third-quarter reporting.

Executive Summary

FY 2025-26 Year-End

Across all funds, FY 2025-26 is expected to end the fiscal year with the following: $88.1M in revenues and $76.6M in expenditures. This resulted in an overall positive impact on the fund balance/retained earnings of $11.4M. General Fund revenue is $66.8M, and expenditures are $60.8M, resulting in an increase to fund balance of $6.0M. A more in depth discussion of the General Fund is included later in this report.

FY 2025-26 YEAR-END UNAUDITED ACTUALS BY FUND TYPE

Fund Type	Revenues	Expenditures[1]	Impact to Fund Balance
General (111/121/732)	$66,749,831[2]	$60,802,878	$5,946,953
Special Revenue (2*)	$515,788	$413,033	$102,755
Capital Projects (4*)	$9,622,689	$7,171,054	$2,451,635
Internal Service (6*)	$7,178,957	$5,915,283	$1,263,674
Trust (9*)	$3,983,262	$2,320,741	$1,662,521
TOTAL	**$88,050,527**	**$76,622,989**	**$11,427,538**

FY 2026-27 First Quarter

Revenue across all funds for the first quarter of the fiscal year is at 14.8% and trending above the prior three-year range of 8.9 to 13.6%. Expenditure and encumbrances across all funds are 22.2% and trending below the prior three-year range of 28.9% to 31.9%. Delays in reporting between the Community Development and Finance systems are resulting in the Q1 revenue

[1] For FY 2025-26 only YTD Exp are included in the Expenditures totals. Encumbrances in all but Capital Funds will be liquidated as part of the financial system year-end close after the completion of the Annual Comprehensive Financial Report.

[2] System-reported revenue for funds 111, 121, and 732 totaled $66,252,654. To report only actual revenue received accurately, staff added back the negative $777,343 in unrealized mark-to-market loss and removed the positive $280,166 of unrealized interest in Fund 732, resulting in an adjusted General Fund revenue of $66,749,831. The Town currently includes both the loss and unrealized interest earnings in a revenue account.

numbers being understated by approximately $1.2 million in the Licenses and Permits and Town Services revenue categories in the General Fund. Staff anticipates posting these items to the financial system by the October monthly reports.

FY 2026-27 BY FUND TYPE FIRST QUARTER SUMMARY

Fund	Fund Type	REVENUE			EXPENDITURES		
		HISTORICAL RANGE	FY 26-27 % COLL	TREND	HISTORICAL RANGE	FY 26-27 % EXP	TREND
111/ 121/ 732	GENERAL FUND	11.0%- 14.7%	17.3%	↑	25.3%- 26.5%	22.1%	↓
2*	SPECIAL REVENUE FUNDS	30.3%- 63.2%	35.7%	✓	18.5%- 26.7%	26.1%	✓
4*	CAPITAL PROJECTS FUND	3.1%- 11.3%	3.6%	✓	29.5%- 35.2%	11.5%	↓
6*	INTERNAL SERVICE FUNDS	12.7%- 20.5%	21.3%	↑	42.1%- 49.2%	54.2%	↑
9*	TRUST FUND	0.0%- 0.0%	0.0%	✓	44.0%- 45.7%	45.4%	✓
OVERALL REVENUE AND EXPENDITURE TRENDS BY FUND		**8.9%- 13.6%**	**14.8%**	**↑**	**28.9%- 31.9%**	**22.2%**	**↓**

Background

On June 2, 2026, the Town Council adopted the Fiscal Year (FY) 2026-27 Final Budget (Original Approp), an $84,944,559 spending plan funded by $84,016,419 (Original Estim Rev), resulting in the use of fund balance of $928,140. The General Fund expenditure appropriation was adopted at $67,468,583 with estimated revenues of $64,815,086, resulting in an estimated use of unassigned fund balance of $2,653,497 due primarily to the transfer out of $3.0 million of unassigned fund balance to a new Capital Projects Fund for Future Community Use. As of September 2026, $22.9M in budget revisions and transfers have occurred. All increases are the result of the year-end carryover process. The Capital Projects Fund has the largest portion of the carryovers with $21.8M primarily due to funded but uncompleted capital projects. More detail is provided in the table below.

BUDGET TRANSFERS AND ADJUSTMENTS TO DATE

Fund	Department	Category	Amount[3]	Description
General	Townwide	Contracts	$5,000	Prior year encumbered funds for ongoing services
	Emergency Preparedness	Contracts	$905,624	Dedicated allocation for emergency preparedness

[3] Totals may vary due to rounding.

Fund	Department	Category	Amount[3]	Description
				and response. Carryovers each year until fully spent
	Police Administration	Contracts	$22,923	Prior year encumbered funds for ongoing services
	Town Engineering	Contract	$5,260	Prior year encumbered funds for ongoing services
	Measure B Fund Education and Encouragement	Contracts	$116,423	Prior year grant funding carried forward for ongoing services
TOTAL GENERAL FUND ADJ AND TRANSFERS			**$1,055,230**	
Capital Projects Fund	Capital Programs	Capital Projects	$21,812,183	Funding for approved but unfinished capital projects
Internal Service Funds	Parks and Public Works	Capital Projects	$15,449	Prior year encumbered funds for a speed trailer purchase
TOTAL BUDGET TRANSFERS AND ADJUSTMENTS ALL FUNDS			**$22,882,862**	

In this report, the General Fund is shown as a combination of three funds 111, 121, and 732. Attached system reports show these funds separately.

Reports Provided

The First Quarter Financial Report provides expenditure and revenue information with the following breakdowns:

1. **By Fund**
   Total expenditures and revenues for each Town fund, allowing for high-level review of fiscal performance across all funding sources.
2. **By Fund and Category**
   Expenditures and revenues within each fund divided into major categories such as personnel, operating, capital, charges for services, taxes, and other revenue types.
3. **By Fund and Department**
   Departmental expenditures by the specific fund supporting each program or operational area.
4. **By Fund, Department and Expense/Revenue Category**
   A detailed breakdown that ties each department's budget activity to the relevant fund and categorizes expenditures and revenues for more granular analysis.
5. **Historical Reports by Fund and Revenue, Expense and by Department for the General Fund**
   Revenue and expenditures for 4 years. Includes 3 prior years and the current fiscal year.

6. **Prior fiscal year-end revenue and expenditure reports by Fund**
   Provided only in the first quarter report, these provide preliminary unaudited year-end revenue and expenditure totals by fund.
7. **Prior fiscal year-end reports by fund and category for the General Fund only**
   Provided only in the first quarter report, these provide preliminary unaudited year-end numbers for the General Fund by revenue and expense categories.

Analysis Overview

These reports support ongoing monitoring of budget-to-actual performance, highlight variances that may require adjustment, and help ensure compliance with adopted financial policies. Staff approaches the analysis in two ways.

The first quarter report differs from the monthly reports in three ways:

1. A preliminary unaudited General Fund prior year-end analysis
2. By Fund vs. by Fund Type Analysis
3. Look forward to Mid-Year Reporting

Analysis remains the same; staff begins with a straight-line analysis that assumes expenditures and revenues are expended and collected evenly throughout the year, with each month representing 3/12, or 25.0%, of the annual budget. Straight line analysis was shown as part of trend analysis tables; however, staff show this for illustrative purposes. As you will see, the trend analysis provides far more meaningful analysis, and we would expect this trend to continue throughout the fiscal year.

In trend analysis, staff have reviewed the first quarter reports for revenue/expenditures of three prior fiscal years (FY) 2023-24 to 2025-26 against actual revenues/expenditures and collections in FY 2026-27 to determine if we are on trend with prior years.

Analysis is done by Fund first, followed by in depth analysis for the General Fund only that includes, by category, by department analysis. Staff focused on irregular patterns and on items trending above or below prior year trends for both revenues and expenditures for all analysis completed in this report.

Staff completed a vacancy savings analysis across all funds to determine how the budget is tracking against projected salary savings. This is done across all funds because salary and benefits are charged across multiple funds, with the largest majority being in the General Fund.

When looking at the % Collected and % Expended columns across various reports, the following formulas are used: revenue YTD Actuals/Revised Budget. For expenditures, the formula is (YTD Actuals + Encumbrances)/Revised Budget.

MTD refers to Month to Date, and encumbrances represent money that has been set aside for an agreement to purchase goods or services. As actual expenditures are charged against the

encumbrance, it should decrease, and actual expenditures should increase. For this reason, in many areas where % Expended is trending greatly above the trend or straight line, staff will note the reason, but this is not a cause for concern. We expect both analyses to normalize as the year progresses. However, should a budget be over 100% expended, staff will note the reason, as this may indicate an issue that may require an adjustment.

The Town operates on a modified accrual basis. Under this basis, revenues and expenditures are generally recognized when measurable and incurred, with year-end accruals used to assign transactions to the appropriate fiscal year.

By the first quarter of the fiscal year, the prior two months' reporting anomalies related to receivables, encumbrances, and budget carryovers should be mostly resolved. Any outstanding issues will be discussed.

FY 2025-26 Preliminary Year-End Revenue Analysis General Fund (111, 121 and 732) Only

Overall, the General Fund ended FY 2025-26 with $66.7M in actual revenue, $2.7M, or 4.2% higher than the revised budget of $64.0M. Categories that varied significantly from the revised budget are discussed in more detail.

Revenue Category	FY 2025-26 Revised Budget	FY 2025-26 Actuals	Variance	% Variance
PROPERTY TAX	$26,771,710	$26,960,910	$189,200	0.7%
SALES & USE TAX	$7,501,065	$7,628,141	$127,076	1.7%
MEASURE G	$1,369,000	$1,385,985	$16,985	1.2%
TRANSIENT OCCUPANCY	$2,255,805	$2,215,045	($40,760)	-1.8%
BUSINESS LIC & OTHER	$2,619,281	$2,813,957	$194,676	7.4%
FRANCHISE FEES	$1,008,838	$1,009,397	$ 559	0.1%
FINES & FORFEITURES	$312,200	$525,003	$212,803	68.2%
LICENSES & PERMITS	$7,302,170	$7,976,805	$674,635	9.2%
TOWN SERVICES	$4,446,819	$4,409,580	($37,239)	-0.8%
OTHER SOURCES	$2,883,699	$4,541,143	$1,657,444	57.5%
INTERGOVERNMENTAL	$1,531,719	$1,198,288	($333,431)	-21.8%
PASS THRU	$3,540,829	$3,605,398	$64,569	1.8%
TRANSFERS IN	$582,029	$572,029	($10,000)	-1.7%
DEBT SERVICE REMIB	$1,908,150	$1,908,150	$ 0	0.0%
Total General Fund Revenue	**$64,033,314**	**$66,749,831**	**$2,716,517**	**4.2%**

Business Lic & Other actual revenue at year-end is $2.8M, $0.2M, or 7.4% higher than the revised budget. This is primarily due to business license revenue materializing higher than budgeted. The last 5 years have averaged $2.3M, with the most recent two years materializing

at $3.0M and $2.8M. Staff will continue to monitor this category and may return at the mid-year financial report to increase this revenue category.

Fines and Forfeitures actual revenue at year-end is $0.5M, $0.2M, or 68.2% higher than the revised budget. This is primarily due to citation data revenue materializing higher than budgeted due to underbudgeting of this revenue category. The last 5 years have averaged $0.4M, with the most recent two years materializing at $0.4M and $0.5M. Staff will continue to monitor this category and may return at the mid-year financial report to increase this category.

Licenses and Permits actual revenue at year-end is $8.0M, $0.7M, or 9.2% higher than the revised budget. This is primarily due to higher tree removal, online parking, encroachment, alarm, building, and planning permit fees. The largest increase is in tree removal revenue due to the reclassification of pass thru revenues to department revenues because of a crosswalk error between the financial and permitting systems. Town staff conducted a review of all accounts and have corrected any errors.

Other Sources actual revenue at year-end is $4.5M, $1.7M, or 57.5% higher than the revised budget. This is primarily due to the GASB 96 entry of $0.9M that has an offsetting expense entry, resulting in no impact to fund balance. Interest and investment earnings of $0.5M, and an unanticipated insurance reimbursement of $0.2M also contributed to higher revenue.

Intergovernmental actual revenue at year-end is $1.2M, -$0.3M, or 21.8% lower than the revised budget. This is primarily due to unspent Supplemental Law Enforcement (SLESF) funds. These revenues have been carried forward and budgeted in FY 2026-27.

Expense Category	FY 2025-26 Revised Budget	FY 2025-26 Actuals	Variance	% Variance
SALARIES	$23,408,220	$23,348,159	($60,060)	-0.3%
OVERTIME	$704,376	$1,452,950	$748,575	106.3%
PERS	$10,597,119	$9,420,279	($1,176,840)	-11.1%
MEDICAL BENEFITS	$3,395,753	$2,842,329	($553,424)	-16.3%
OTHER BENEFITS	$2,883,003	$2,499,091	($383,912)	-13.3%
Total Salaries & Benefits	$40,988,470	$39,562,809	($1,425,661)	**-3.5%**
RETIREE MEDICAL	$2,173,606	$2,037,365	($136,241)	-6.3%
MATERIALS & SUPPLIES	$1,110,604	$1,180,868	$70,264	6.3%
CONTRACTS	$7,075,983	$5,343,843	($1,732,140)	-24.5%
UTILITIES	$905,046	$906,075	$1,029	0.1%
GRANTS AND AWARDS	$251,820	$261,843	$10,023	4.0%
PASS THRU	$3,852,358	$3,417,988	($434,370)	-11.3%
MISCELLANEOUS	($41,000)	($174,838)	($133,838)	326.4%
INT SERVICE CHARGES	$4,894,461	$4,741,204	($153,256)	-3.1%
DEBT SERVICE	$2,057,884	$2,128,347	$70,463	3.4%
CAPITAL PROJECTS	$191,868	$1,097,372	$905,504	471.9%
TRANSFERS OUT	$300,000	$300,000	$0	0.0%
OPEB	$0	$0	$0	0.0%

Expense Category	FY 2025-26 Revised Budget	FY 2025-26 Actuals	Variance	% Variance
GENERAL FUND EXPENDITURES	**$63,761,100**	**$60,802,878**	**($2,958,222)**	**-4.6%**

Salaries & Benefits actual expenses at year-end are $39.6M, ($1.4M), or 3.5% lower than the revised budget. This is primarily due to two reasons: first, how we budget the vacancy savings, and second, additional vacancy savings achieved due to attrition and the time it takes to replace an employee who has retired or left Town service. We budget vacancy savings as 4.6% of all budgeted salary and benefits. However, the full savings amount is only budgeted in the salary category and not in each benefit category. This is why we don't see consistent savings across all categories. Most of the budget savings, 60%, is in the Police Department, followed by 16% in Parks and Public Works, with the remaining departments making up the 24%.

Contracts actual expenses at year-end are $5.4M or ($1.7M), or 24.5% lower than the revised budget. This is primarily due to savings across various departments, with the largest savings in Non-Departmental, Administrative Services, and Parks and Public Works. In non-departmental, the largest savings come from special studies and financial services. Administrative services savings were in legal and labor relations, software annual support, and custodial trustee services. Parks and public works savings were in misc services and repairs, tree pruning services, special studies, and traffic signalization. In the upcoming fiscal year, we anticipate ending the year closer to budget because of the base budget exercise that was completed as part of the fiscal year 2026-27 budget.

Pass Thru actual expenses at year-end are $3.4M ($0.4M), or 11.3% lower than the revised budget. This is primarily due to decreased plan check expenses of $0.6M, offset by increased expenses for environmental impacts, arborist, and excess SLESF funds.

Miscellaneous actual expenses at year-end are ($0.2M), ($.1M), or 326.4% lower than the revised budget. This is primarily due to higher copy charges and a GASB 96 entry.

Capital Project actual expenses at year-end are $1.1M, $0.9M, or 471.9% higher than the revised budget. This is primarily due to the GASB 96 subscription-based technology agreements entry of $0.9M. This has an offsetting revenue entry in other sources and results in a net zero impact for fund balance in the General Fund.

<u>FY 2026-27 First Quarter Analysis</u>

Revenues by Fund Trend Analysis
Overall revenues across all funds as of the first quarter are 14.8% collected and trending above the same period in prior years. Prior years ranged from 8.9% to 13.6% collected as a percent of the revised budget for the quarter.

Fund	Fund Name	FY 2023-24 % COLL	FY 2024-25 % COLL	FY 2025-26 % COLL	STRAIGHT LINE	FY 2026-27 % COLL	TREND
111	GENERAL FUND	15.0%	11.2%	11.4%	25.0%	17.6%	↑
121	MEASURE G FUND	7.4%	7.2%	0.0%	25.0%	8.1%	↑
732	PERS CEPPT PENSION TRUST	0.0%	0.0%	0.0%	25.0%	0.0%	✓
Total General Fund		**14.7%**	**11.0%**	**11.2%**	**25.0%**	**17.3%**	**↑**
222	URBAN RUNOFF FUND	16.7%	16.7%	16.7%	25.0%	16.7%	✓
251	LOS GATOS THEATRE	24.2%	216.9%	37.3%	25.0%	58.1%	✓
261	LIBRARY TRUST DONATIONS	125.4%	84.9%	98.9%	25.0%	105.6%	✓
411	CAPITAL PROJECTS FUND	23.5%	8.1%	6.8%	25.0%	1.6%	↓
412	COMMUNITY CENTER DEVELOPMENT	0%	0.0%	0.0%	25.0%	N/A	N/A
413	LONG-TERM COMMUNITY BENEFIT	0.0%	0.0%	0.0%	25.0%	0.0%	✓
421	GRANT FUNDED PROJECTS	0.7%	0.2%	11.8%	25.0%	1.7%	✓
461	STORM BASIN 1	38.0%	22.4%	19.2%	25.0%	20.4%	✓
462	STORM BASIN 2	27.2%	4.4%	77.2%	25.0%	7.8%	✓
463	STORM BASIN 3	3784.2%	0.0%	-25.5%	25.0%	0.0%	✓
471	TRAFFIC MITIGATION FUND	0.0%	0.0%	0.0%	25.0%	0.0%	✓
472	UTILITY UNDERGROUND TAX FUND	21.7%	7.8%	18.3%	25.0%	0.0%	↓
481	GAS TAX FUND	13.4%	14.1%	13.0%	25.0%	18.4%	↑
611	GENERAL LIABILITY FUND	0.6%	0.0%	0.0%	25.0%	19.8%	↑
612	WORKERS COMPENSATION FUND	7.0%	2.8%	5.8%	25.0%	26.0%	↑
621	INFO TECH	26.5%	21.1%	21.9%	25.0%	24.2%	✓
631	EQUIPMENT REPLACEMENT FUND	24.4%	25.0%	24.6%	25.0%	24.3%	↓
633	FACILITIES MAINTENANCE FUND	38.2%	24.4%	23.8%	25.0%	16.0%	↓
942	SA TRUST FUND	0.0%	0.0%	0.0%	25.0%	0.0%	✓
TOTAL REVENUE BY FUND		**13.6%**	**8.9%**	**11.0%**	**25.0%**	**14.8%**	**↑**

111/121/732 General Fund revenues collected are 17.3% and trending above the same point in the prior three years. Prior years ranged from 11.2% to 14.7% collected as a percent of the revised budget for the same period. This is primarily due to a large one-time payment for the

sale of the 4 Tait property. This is discussed in more detail in the General Fund by category section of this report.

472 Utility Underground Tax Fund actual revenues collected are 0.0% and trending below the same point in the prior three years. Prior years ranged from 7.8% to 21.7% collected as a percent of the revised budget for the quarter. This is primarily due to a delay in posting community development system revenues into the financial system.

481 Gas Tax Fund actual revenues collected are 18.4% and trending above the same point in the prior three years. Prior years ranged from 13.0% to 14.1% collected as a percent of the revised budget for the quarter. This is primarily due to the timing of the SB1 RMRA payment in the current quarter. Two payments have been received in the current quarter, and only one payment was received in the prior quarters.

612 Workers' Compensation Fund actual revenues collected are 26.0% and trending above the same point in the prior three years. Prior years ranged from 2.8% to 7.0% collected as a percent of the revised budget for the quarter. This is primarily due to a process change to post internal service fund revenue quarterly. In prior years, this revenue was posted in the second half of the fiscal year.

631 Equipment Replacement Fund actual revenues collected are 24.3% and trending below the same point in the prior three years. Prior years ranged from 24.6% to 25.0% collected as a percent of the revised budget for the quarter. This is primarily due to reduced charges to departments from prior years, resulting in decreased revenue.

633 Facilities Maintenance Fund actual revenues collected are 16.0% and trending below the same point in the prior three years. Prior years ranged from 23.4% to 38.2% collected as a percent of the revised budget for the quarter. This is primarily due to higher budgeted revenue than prior years, causing consistent quarterly revenue to trend lower as a percent of budget.

Expenditures by Fund Trend Analysis

Expenditures and encumbrances are 22.2% as of the first quarter and below the trend for the same period in the prior three years, which have ranged from 28.9% to 31.9% expended as a percent of the revised budget.

Fund	Fund Name	FY2023-24 % EXP	FY2024-25 % EXP	FY2025-26 % EXP	STRAIGHT LINE	FY2026-27 % EXP	ON TREND
111	GENERAL FUND	27.1%	25.9%	26.3%	25.0%	22.5%	↓
121	MEASURE G FUND	0.0%	0.0%	0.0%	25.0%	0.0%	✓
732	PERS CEPPT PENSION TRUST	0.0%	0.0%	0.0%	25.0%	0.0%	✓
TOTAL GENERAL FUND		**26.5%**	**25.3%**	**25.8%**	**25.0%**	**22.1%**	**↓**

Fund	Fund Name	FY2023-24 % EXP	FY2024-25 % EXP	FY2025-26 % EXP	STRAIGHT LINE	FY2026-27 % EXP	ON TREND
222	URBAN RUNOFF FUND	21.0%	19.6%	14.2%	25.0%	25.3%	↑
231	BLACKWELL DISTRICT	53.6%	36.3%	41.7%	25.0%	38.9%	✓
232	KENNEDY MEADOWS DISTRICT	82.5%	61.5%	65.5%	25.0%	61.9%	✓
233	GEMINI COURT DISTRICT	55.6%	31.7%	31.7%	25.0%	33.9%	✓
234	SANTA ROSA HEIGHTS DISTRICT	92.2%	82.2%	82.2%	25.0%	82.9%	✓
235	VASONA HEIGHTS DISTRICT	59.2%	52.5%	52.5%	25.0%	53.1%	✓
236	HILLBROOK DISTRICT	43.4%	25.7%	35.0%	25.0%	42.0%	✓
251	LOS GATOS THEATRE	38.6%	11.0%	12.2%	25.0%	28.6%	✓
261	LIBRARY TRUST DONATIONS	14.4%	7.8%	11.6%	25.0%	10.9%	✓
411	CAPITAL PROJECTS FUND	24.0%	25.5%	36.0%	25.0%	2.6%	↓
421	GRANT FUNDED PROJECTS	53.7%	43.0%	20.9%	25.0%	3.5%	↓
462	STORM BASIN 2	0.0%	20.7%	4.6%	25.0%	32.7%	↑
471	TRAFFIC MITIGATION FUND	35.3%	44.0%	0.0%	25.0%	0.0%	✓
481	GAS TAX FUND	45.2%	47.6%	28.0%	25.0%	49.3%	↑
611	GENERAL LIABILITY FUND	87.3%	86.1%	84.3%	25.0%	89.4%	↑
612	WORKERS COMPENSATION FUND	37.6%	36.9%	37.9%	25.0%	42.1%	↑
621	INFO TECH	63.8%	59.0%	45.3%	25.0%	67.2%	↑
631	EQUIPMENT REPLACEMENT FUND	16.0%	27.4%	7.6%	25.0%	0.0%	↓
633	FACILITIES MAINTENANCE FUND	47.8%	32.3%	47.2%	25.0%	39.5%	✓
942	SA TRUST FUND	44.0%	44.9%	45.7%	25.0%	45.4%	✓
TOTAL EXPENDITURES		**31.9%**	**30.6%**	**28.9%**	**25.0%**	**22.2%**	**↓**

111/121/732 General Fund actual expenditures and encumbrances are 22.1% and trending below the prior three years, which have ranged from 25.3% to 26.5% expended as a percent of

the revised budget for the quarter. This is due to variances across multiple expense categories. See the General Fund by category section for further information.

222 Urban Runoff Fund actual expenditures and encumbered funds are 25.3% and are trending above the same point in the prior three years. Prior years ranged from 14.2% to 21.0% expended as a percent of the revised budget for the quarter. This is primarily due to a West Valley Storm Water Authority (WVSA) assessment for the value of their services that exceed the property assessment residents pay to the County for their work.

411 Capital Projects Fund actual expenditures and encumbered funds are 2.6% and trending below the same point in the prior three years. Prior years ranged from 24.0% to 36.0% expended as a percent of the revised budget for the quarter. This is primarily due to expenses for capital projects varying based on project timelines and phases.

421 Grant Funded Projects actual expenditures and encumbered funds are 3.5% and trending below the same point in the prior three years. Prior years ranged from 20.9% to 53.7% expended as a percent of the revised budget for the quarter. This is primarily due to expenses for capital projects varying based on project timelines and phases.

462 Storm Basin 2 actual expenditures and encumbered funds are 32.7% and trending above the same point in the prior three years. Prior years ranged from 0.0% to 20.7% expended as a percent of the revised budget for the quarter. This is primarily due to expenses for capital projects varying based on project timelines and phases.

481 Gas Tax Fund actual expenditures and encumbered funds are 49.3% and trending above the same point in the prior three years. Prior years ranged from 28.0% to 47.6% expended as a percent of the revised budget for the quarter. This is primarily due to expenses for capital projects varying based on project timelines and phases.

611 General Liability Fund actual expenditures and encumbered funds are 89.4% and trending above the same point in the prior three years. Prior years ranged from 84.3% to 87.3% expended as a percent of the revised budget for the quarter. This is primarily due to a change in insurance providers, resulting in a lower budget number compared to expended funds.

612 Workers' Compensation Fund actual expenditures and encumbered funds are 42.1% and trending above the same point in the prior three years. Prior years ranged from 36.9% to 37.9% expended as a percent of the revised budget for the quarter. This is primarily due to a combination of encumbered funds and fluctuations in budgeted expenditures.

621 Information Technology Fund actual expenditures and encumbered funds are 67.2% and trending above the same point in the prior three years. Prior years ranged from 45.3% to 63.8% expended as a percent of the revised budget for the quarter. This is primarily due to a combination of encumbered funds and fluctuations in budgeted expenditures.

631 Equipment Replacement Fund actual expenditures and encumbered funds are 0.0% and are trending below the same point in the prior three years. Prior years ranged from 7.6% to 27.4% expended as a percent of the revised budget for the quarter. This is primarily due to the timing of vehicle and equipment purchases in the current year.

General Fund[4] Department Revenue Trend Analysis

Overall General Fund revenues across all departments as of the first quarter are 17.3% collected and trending above the same period in prior years. Prior years ranged from 11.0% to 14.7% collected as a percent of the revised budget for the quarter.

Department Name	FY 2023-24 % COLL	FY 2024-25 % COLL	FY 2025-26 % COLL	STRAIGHT LINE	FY 2026-27 % COLL	TREND
Townwide	4.5%	3.6%	3.4%	25%	11.4%	↑
Town Attorney	0.0%	0.0%	0.0%	25%	0.0%	✓
Administrative Services	48.5%	2.3%	-22.5%	25.0%	6.0%	✓
Community Development	35.2%	41.2%	59.7%	25.0%	33.4%	↓
Police	18.4%	18.7%	23.4%	25.0%	31.6%	↑
Parks & Public Works	91.9%	83.5%	77.1%	25.0%	69.1%	↓
Library	123.4%	90.2%	55.6%	25.0%	29.3%	↓
General Fund % Collected by Department	**14.7%**	**11.0%**	**11.2%**	**25.0%**	**17.3%**	**↑**

Townwide actual revenues collected are 11.4% and are trending above the same point in the prior three years. Prior years ranged from 3.4% to 4.5% collected as a percent of the revised budget for the quarter. This is primarily due to the sale of 4 Tait.

Community Development actual revenues collected are 33.4% and are trending below the same point in the prior three years. Prior years have ranged from 35.2% to 59.7% collected as a percent of the revised budget for the quarter. This is primarily due to a continued delay in posting town services revenue from the permitting software to the financial system.

Police actual revenues collected are 31.6% and trending above the same point in the prior three years. Prior years have ranged from 18.4% to 23.4% collected as a percent of the revised budget for the quarter. This is primarily due to the carryforward of unspent Supplemental Law Enforcement Service Funds (SLESF) revenue from the prior fiscal year.

Parks and Public Works actual revenues collected are 69.1% and trending below the same point in the prior three years. Prior years ranged from 77.1% to 91.9%. This is due to a delay in posting deferred pass thru revenues from the prior year.

[4] The General Fund includes Funds 111, 121 and 732.

Library actual revenues collected are 29.3% and trending below the same point in the prior three years. Prior years ranged from 55.6% to 123.4% collected as a percent of the revised budget for the quarter. This is primarily due to larger grant funds received in prior years.

General Fund Revenue by Category Trend Analysis

Overall General Fund revenues across all categories as of the first quarter are 17.3% collected and are above the same period in prior years. Prior years ranged from 11.0% to 14.7% collected as a percent of the revised budget for the quarter.

CATEGORY	FY 2023-24 % COLL	FY 2024-25 % COLL	FY 2025-26 % COLL	STRAIGHT LINE	FY 2026-27 % COLL	TREND
PROPERTY TAX	0.6%	0.3%	0.3%	25.0%	0.5%	✓
SALES & USE TAX	7.0%	7.5%	7.4%	25.0%	5.9%	↓
MEASURE G	7.4%	7.2%	7.2%	25.0%	8.1%	↑
TRANSIENT OCCUPANCY	11.1%	12.6%	10.2%	25.0%	8.1%	↓
BUSINESS LIC & OTHER	1.9%	2.4%	2.5%	25.0%	5.8%	↑
FRANCHISE FEES	20.6%	0.0%	0.0%	25.0%	0.0%	✓
FINES & FORFEITURES	44.4%	23.3%	35.5%	25.0%	37.1%	✓
LICENSES & PERMITS	36.0%	26.5%	32.1%	25.0%	24.9%	↓
TOWN SERVICES	25.6%	26.1%	34.4%	25.0%	18.7%	↓
OTHER SOURCES	96.7%	0.0%	-41.4%	25.0%	136.4%	↑
INTERGOVERNMENTAL	21.4%	38.5%	40.0%	25.0%	81.5%	↑
PASS THRU	101.0%	119.6%	98.8%	25.0%	99.4%	✓
TRANSFERS IN	21.3%	0.0%	0.0%	25.0%	0.0%	✓
DEBT SERVICE REMIB	0.0%	0.0%	0.0%	25.0%	0.0%	✓
GENERAL FUND % COLLECTED BY CATEGORY	**14.7%**	**11.0%**	**11.2%**	**25.0%**	**17.3%**	**↑**

Sales & Use Tax actual revenues collected are 5.9% and trending below the same point in the prior three years. Prior years ranged from 7.0% to 7.5% collected as a percent of the revised budget for the quarter. This is primarily due to increased budgeting in this category based on better analysis from the Town's sales tax consultant. Sales tax received for the quarter is trending above the two most recent years.

Measure G actual revenues collected are 8.1% and trending above the same point in the prior three years. Prior years ranged from 7.2% to 7.4% collected as a percent of the revised budget for the quarter. This is primarily due to increased collections across most sales tax categories.

Transient Occupancy Tax actual revenues collected are 8.1% and are trending below the same point in the prior three years. Prior years ranged from 10.2% to 12.6% collected as a percent of the revised budget for the quarter. This is primarily due to the closure of a hotel in the fall of last fiscal year.

Business Lic & Other actual revenues collected are 5.8% and trending above the same point in the prior three years. Prior years ranged from 1.9% to 2.5% collected as a percent of the revised budget for the quarter. This is primarily due to the business license audit that is currently in progress.
Licenses and Permits' actual revenues collected are 24.9% and trending below the same point in the prior three years. Prior years ranged from 26.5% to 36.0% collected as a percent of the revised budget for the quarter. This is primarily due to a continued delay in posting Licenses and Permits revenue from the permitting software to the financial system.

Town Services actual revenues collected are 18.7% and trending below the same point in the prior three years. Prior years ranged from 25.6% to 34.4% collected as a percent of the revised budget for the quarter. This is primarily due to a continued delay in posting town services revenue from the permitting software to the financial system.

Other Sources actual revenues collected are 136.4% and trending above the same point in the prior three years. Prior years ranged from -41.4% to 96.7%, collected as a percent of the revised budget for the quarter. This is primarily due to the sale of 4 Tait.

Intergovernmental actual revenues collected are 81.5% and are trending above the same point in the prior three years. Prior years ranged from 21.4% to 40.0%, collected as a percent of the revised budget for the quarter. This is primarily due to the carryforward of unspent Supplemental Law Enforcement Service Funds (SLESF) revenue from the prior fiscal year.

<u>General Fund Department Expense Trend Analysis</u>
Actual expenditures and encumbered funds are 22.1% or below the same point in the prior three years. Prior years ranged from 25.3% to 26.5% expended as a percent of the revised budget for the quarter.

Department	FY2023-24 % EXP	FY2024-25 % EXP	FY2025-26 % EXP	STRAIGHT LINE	FY2026-27 % EXP	Trend
Town Council	23.6%	23.6%	22.8%	25.0%	22.5%	↓
Townwide	26.3%	14.6%	15.6%	25.0%	11.9%	↓
Town Attorney	16.2%	36.2%	56.1%	25.0%	44.1%	✓
Administrative Services	22.8%	24.7%	19.3%	25.0%	21.0%	✓
Community Development	27.5%	33.9%	38.7%	25.0%	24.4%	↓
Police	23.6%	21.8%	21.8%	25.0%	20.1%	↓
Parks & Public Works	34.4%	34.9%	35.7%	25.0%	32.4%	↓
Library	26.9%	29.2%	26.4%	25.0%	23.8%	↓
GENERAL FUND % EXPENSED BY DEPARTMENT	26.5%	25.3%	25.8%	25.0%	22.1%	↓

Town Council actual expenditures and encumbered funds are 22.5% and trending below the same point in the prior three years. Prior years ranged from 22.8% to 23.6% expended as a percent of the revised budget for the quarter. This is primarily due to a copier charge that was previously budgeted across departments that is now accounted for in the IT internal service fund.

Townwide actual expenditures and encumbered funds are 11.9% and trending below the same point in the prior three years. Prior years ranged from 14.6% to 26.3% expended as a percent of the revised budget for the quarter. This is primarily due to a higher revised budget than prior years.

Community Development actual expenditures and encumbered funds are 24.4% and are trending below the same point in the prior three years. Prior years ranged from 27.5% to 38.7% expended as a percent of the revised budget for the quarter. This is primarily due to prior years having a large encumbrance in pass thru that has yet to be encumbered in the current year.

Police actual expenditures and encumbered funds are 20.1% and trending below the same point in the prior three years. Prior years ranged from 21.8% to 23.6% expended as a percent of the revised budget for the quarter. This is primarily due to a few encumbrances that were set up in prior years that have yet to be set up in the current year.

Parks and Public Works actual expenditures and encumbered funds are 32.4% and trending below the same point in the prior three years. Prior years ranged from 34.4% to 35.7% expended as a percent of the revised budget for the quarter. This is primarily due to prior years having a large encumbrance in pass thrus that has yet to be encumbered in the current year.

Library actual expenditures and encumbered funds are 23.8% and trending below the same point in the prior three years. Prior years ranged from 26.4% to 29.2% expended as a percent of the revised budget for the quarter. This is primarily due to decreased software expenses.

General Fund by Expense Category Analysis: *Actual* expenditures and encumbered funds are 22.1% and below the same point in the prior three years. Prior years ranged from 25.3% to 26.5% expended as a percent of the revised budget for the quarter.

CATEGORY	FY 2023-24 % EXP	FY 2024-25 % EXP	FY 2025-26 % EXP	STRAIGHT LINE	FY 2026-27 % EXP	TREND
SALARIES	21.1%	20.8%	20.9%	25.0%	20.1%	↓
OVERTIME	35.7%	46.2%	31.3%	25.0%	22.3%	↓
PERS	20.3%	21.3%	20.1%	25.0%	20.4%	✓
MEDICAL BENEFITS	21.2%	20.7%	20.4%	25.0%	21.8%	↑
OTHER BENEFITS	20.4%	21.0%	19.9%	25.0%	19.9%	✓
RETIREE MEDICAL	31.0%	33.9%	30.3%	25.0%	25.2%	↓
MATERIALS & SUPPLIES	31.0%	37.1%	32.6%	25.0%	34.7%	✓

CATEGORY	FY 2023-24 % EXP	FY 2024-25 % EXP	FY 2025-26 % EXP	STRAIGHT LINE	FY 2026-27 % EXP	TREND
CONTRACTS	47.6%	46.7%	39.8%	25.0%	48.0%	↑
UTILITIES	39.0%	35.5%	38.3%	25.0%	40.5%	↑
GRANTS AND AWARDS	34.7%	29.7%	10.6%	25.0%	5.5%	↓
PASS THRU	63.7%	58.2%	73.1%	25.0%	10.8%	↓
MISCELLANEOUS	18.1%	59.2%	71.3%	25.0%	NA	N/A
INT SERVICE CHARGES	22.0%	23.2%	23.5%	25.0%	22.9%	✓
DEBT SERVICE	1.3%	0.6%	1.3%	25.0%	1.3%	✓
CAPITAL PROJECTS	100.0%	53.0%	91.3%	25.0%	0.0%	↓
TRANSFERS OUT	0.0%	0.0%	0.0%	25.0%	0.0%	✓
OPEB	0.0%	0.0%	0.0%	25.0%	0.0%	✓
GENERAL FUND TOTALS BY CATEGORY	26.5%	25.3%	25.8%	25.0%	22.1%	↓

Salaries actual expenditures and encumbered funds are 20.1% and trending below the same point in the prior three years. Prior years ranged from 20.8% to 21.1% expended as a percent of the revised budget for the quarter. See the vacancy savings analysis portion of this report for more information.

Overtime actual expenditures and encumbered funds are 22.3% and trending below the same point in the prior three years. Prior years ranged from 31.3% to 46.2% expended as a percent of the revised budget for the quarter. This is primarily due to budgeting overtime closer to prior-year actuals, resulting in a lower overall percentage utilization.

Medical Benefits actual expenditures and encumbered funds are 21.8% and trending above the same point in the prior three years. Prior years ranged from 20.4% to 21.2% expended as a percent of the revised budget for the quarter. This is due to a change in budgeting methodology that has resulted in a lower budgeted number, resulting in higher percentage utilization.

Retiree Medical actual expenditures and encumbered funds are 25.2% and trending below the same point in the prior three years. Prior years ranged from 30.3% to 33.9% expended as a percent of the revised budget for the quarter. This is due to the prior two fiscal years including an October payment, and the current year does not.

Contracts actual expenditures and encumbered funds are 48.0% and trending above the same point in the prior three years. Prior years ranged from 39.8% to 47.6% expended as a percent of the revised budget for the quarter. This is primarily due to the business license administration costs related to the audit, special studies for the fiscal condition assessment, and the Santa Clara County's City's Association annual contribution.

Utilities actual expenditures and encumbered funds are 40.5% and trending above the same point in the prior three years. Prior years ranged from 35.5% to 39.0% expended as a percent of

the revised budget for the quarter. This is primarily due to the timing of September payments for fuel, water, and energy occurring in the first quarter of this year that occurred as part of the second quarter in prior years.

Grants and Awards actual expenditures and encumbered funds are 5.5% and trending below the same point in the prior three years. Prior years ranged from 10.6% to 34.7% expended as a percent of the revised budget for the quarter. This is primarily due to delayed community grant expenditures.

Pass Thru actual expenditures and encumbered funds are 10.8% and trending below the same point in the prior three years. Prior years ranged from 58.2% to 73.1% expended as a percent of the revised budget for the quarter. This is primarily due to several encumbrances that were set up in prior years that are not in the current year.

Miscellaneous actual expenditures as no revised budget and therefore does not have a meaningful percentage-utilization calculation. The first-quarter report reflects a net credit of $4,120, related to interdepartmental postage charges that were inadvertently posted after the budget was removed. Staff expects to correct the posting as part of the October reporting.

Capital Projects actual expenditures and encumbered funds are 0.0% and trending below the same point in the prior three years. Prior years ranged from 53.0% to 100.0% expended as a percent of the revised budget for the quarter. This is primarily due to prior years containing encumbrances for capital purchases. There is no encumbrance in the current year.

All Fund Vacancy Savings by Pay Period Analysis

The adopted budget includes a 4.6% vacancy-savings assumption. This amount was calculated by applying 4.6% to the pre-vacancy salary-and-benefit base. The revised salary-and-benefit budget shown below reflects the resulting vacancy-savings reduction.

The payroll percentage column is derived by taking all the pay periods in the quarter (5) plus 29% of the last payroll in June that was paid in July, based on the total days in July in that pay period. Adding these two together and dividing by the total pay periods in a year, or 26, arrives at 5.29 pay periods having occurred as of the first quarter. The by-pay-period analysis is appropriate for salaries and overtime categories. The remaining benefit categories are processed monthly (3/12 or 25%) and are a more accurate benchmark percentage for analysis of these categories.

Category	Revised Budget	YTD Expenditures	Available Budget	PCT USED	% of Pay Periods/ Straight-line
5A SALARIES	$24,306,514	$4,875,252	$19,431,262	20.1%	20.30%
5B OVERTIME	$1,457,000	$324,779	$1,132,221	22.3%	20.30%
5C PERS	$10,841,562	$2,207,419	$8,634,143	20.4%	25.00%

Category	Revised Budget	YTD Expenditures	Available Budget	PCT USED	% of Pay Periods/ Straight-line
5D MEDICAL BENEFITS	$3,386,013	$735,905	$2,650,108	21.7%	25.00%
5E OTHER BENEFITS	$2,931,818	$582,727	$2,349,091	19.9%	25.00%
Total Salary and Benefits	$42,922,906	$8,726,082	$34,196,824	20.3%	25.00%

Salary and benefit expenditures are 20.3% of the revised budget as of the first quarter. Salaries are trending slightly below the benchmark, and overtime is trending above the 20.3% payroll-period benchmark, at 22.3%. Benefit categories of PERS, Medical Benefits, and Other Benefits are all below the 25% monthly straight-line benchmark.

Estimated Additional Salary Savings

In addition to the analysis above, staff has estimated additional vacancy savings above the 4.6% vacancy savings already included in the budget. The table below estimates, based on either a PPP or per pay period or monthly methodology, the estimated actual costs as of the first quarter. We begin by dividing salaries and overtime by 26 pay periods and all other categories by 12 months to get a PPP or monthly costs. We then multiply those amounts by the total pay periods or months in the quarter. This gets us estimated Q1 costs. We then compare this to actual Q1 costs and get either additional vacancy savings or overages. As of Q1, we are projecting to have achieved $805,650 or 8.5% savings.

CATEGORY	REVISED BUDGET	Method	Per PPP Costs (Revised/ 26 pay periods or 12 months)	Q1 Budgeted Costs (PPP Cost*5.29 or 3 months)	Q1 Actual Costs	Est Add'l Vacancy Savings Q1	% Savings
5A SALARIES	$24,306,514	PPP	$934,866	$4,945,441	$4,875,252	$70,189	1.4%
5B OVERTIME	$1,457,000	PPP	$56,038	$296,443	$324,779	($28,336)	-9.6%
5C PERS	$10,841,562	Monthly	$903,463	$2,710,390	$2,207,419	$502,971	18.6%
5D MEDICAL BENEFITS	$3,386,013	Monthly	$282,168	$846,503	$735,905	$110,598	13.1%
5E OTHER BENEFITS	$2,931,818	Monthly	$244,318	$732,954	$582,727	$150,227	20.5%
Total Salary and Benefits	**$42,922,906**		**$2,420,854**	**$9,531,732**	**$8,726,082**	**$805,650**	**8.5%**

A dedicated vacancy report is not yet available from the ERP; once operational, staff will use that report to provide a more direct analysis of vacancy savings.

Mid-Year and Third Quarter Reporting Goals

Town finance staff is working toward providing the following additional updates and recommendations as part of the mid-year and third quarter reports.

At mid-year, staff anticipates providing recommendations for the final year-end fund balance surplus of $6.0M. In addition, staff will provide an updated General Fund forecast. Lastly, we anticipate preliminary year-end projections for FY 2026-27.

In the third quarter, staff will provide an updated FY 2026-27 year-end forecast.

CONCLUSION

The preliminary unaudited FY 2025-26 year-end results reflect a favorable position for the General Fund. Actual revenues totaled $66.7 million, or 4.2% above the revised budget, and expenditures totaled $60.8 million, or 4.6% below the revised budget. This resulted in an approximately $5.9 million increase to the General Fund balance. Although some of the favorable revenue variance resulted from one-time or accounting-related activity, overall results show revenues exceeded expectations and expenditures remained below available appropriations. The Town will present recommendations for the final year-end surplus in the mid-year financial report.

Both revenue and expenditure reports for the quarter provide a generally favorable picture of the Town's financial performance. Revenue collections are trending above the prior three-year range overall, while expenditures and encumbrances are trending below historical levels. General Fund revenues are 17.3% collected, compared with a historical range of 11.0% to 14.7%. General Fund expenditures and encumbrances are 22.1% of the revised budget, compared with a historical range of 25.3% to 26.5%. Delays in reporting between the Community Development and Finance systems are resulting in the Q1 revenue numbers being understated by approximately $1.2 million in the Licenses and Permits and Town Services revenue categories in the General Fund. Staff anticipates posting these items to the financial system by the October monthly reports.

Salaries are at 20.1%, slightly below the 20.3% pay-period benchmark, while overtime is at 22.3% and above the benchmark. PERS, medical benefits, and other benefits remain below the 25% monthly benchmark.