



**TOWN OF LOS GATOS
MID-YEAR BUDGET REPORT
JULY 1 - DECEMBER 31, 2022**

February 9, 2023

**FINANCIAL OVERVIEW AND EXECUTIVE SUMMARY: STATUS OF FY 2022/23
ADOPTED BUDGET**

The purposes of the Mid-Year Report are to provide the Town Council with a status of the Adopted Fiscal Year (FY) 2022/23 Operating Budget after the first six months and to make any adjustments to ensure the continuity of municipal services and operations for the remainder of the fiscal year. The Report is one of several periodic updates to the Town Council on the status of the current year's revenues and expenditures and the projected financial condition of all Town funds compared with the Adopted Operating Budget. The updates typically focus on the Town's General Fund.

On January 24, 2023, the Town Council determined the Strategic Priorities for 2023-2025, providing guidance to Town staff and Commissions on workload prioritization. The Council affirmed its Strategic Priorities to be multi-year efforts focused on Safety, Prudent Financial Management, Traffic/Transportation, and Quality of Life. Under these broad topics, the Council added a few new items including: Hazardous Tree Management, Develop a Five-Year Structurally Balanced and Sustainable Operating Forecast, Develop a Five-Year Full Funded Capital Plan, Traffic Calming/Safety for All Users, Streamline Permit Process, Work with Town Partners to Support Needs of Unhoused Residents, and Redefine Town Commissions in Alignment with Strategic Priorities. (see the following page).

Based on the Town Council's identified Strategic Priorities, staff has started budget development work for the next fiscal year, including an update of the Five-Year Financial Forecast, identification of critical Town needs, contractual obligations, unfunded mandates, potential adjustments to the Fee and Fine Schedule, and other analyses. Staff is actively engaged in the FY 2023/24 budget process with the primary focus of ensuring that the available Town resources are allocated to meet the priority service needs of the community. The Town Council is scheduled to hold a public hearing on the Proposed FY 2023/24 Budget on May 17, 2022.

The prior fiscal year closed with approximately \$0.9 million surplus operating revenues over expenditures. The actual net change in fund balance was \$2,982,171, of which \$2,065,302 are proceeds from the second tranche of American Rescue Plan Act (ARPA) payments that has not been expended yet.

Current fiscal year-end projections for FY 2022/23 reflect an anticipated \$0.7 million surplus of operating revenues and planned use of reserves over expenditures compared to the anticipated \$3.2 million deficit in the Adopted Budget.

ATTACHMENT 1



Ongoing Strategic Priorities 2023-2025

SAFETY

- Community Policing
- Emergency Preparedness
 - CERT Recruitment & Training
 - Communications, EOC Readiness & Emergency Plan Development
- Fire Protection
 - Implementation of Ad Hoc Wildfire Mitigation Plan
- Vegetation and Hazardous Tree Management

PRUDENT FINANCIAL MANAGEMENT

- Address Pension & OPEB Obligations
- Sell or Lease Certain Town Properties
- Develop a Five-Year Structurally Balanced and Sustainable Operating Forecast
 - Explore New Revenue Opportunities
 - Cure Forecasted Structural Deficit
- Develop a Five-Year Full Funded Capital Plan

QUALITY OF LIFE

- Community Vitality
 - Diversity, Equity & Inclusion Efforts
 - Community Where Older Adults Thrive
 - Adopt a Senior Road Map
 - Events & Other Town-Wide Efforts
 - Community Engagement
 - Environmental Sustainability/Climate Resiliency
- Economic Vitality & Pandemic Recovery
 - Policies & Ordinances
 - Semi-Permanent Parklets
 - Streamline Permit Process
- Land Use Planning
 - General Plan 2040
 - Housing Element
 - Affordable Housing Partnerships
 - SB9 Implementation
- Work with Town Partners to Support Needs of Unhoused Residents
- Redefine Town Commissions in Alignment with Strategic Priorities

TRAFFIC/TRANSPORTATION

- Comprehensive Parking Study
 - Short, Medium, and Long-Term Actions
- Transportation Demand Management
 - Measure B Transportation Projects
 - Bicycle & Pedestrian Improvements
 - Community Shuttle
 - Summer/Rush Hour/School Traffic
 - Regional Transportation Issues
- Traffic Calming/Safety for All Users

As discussed in greater detail later in this Report, the primary drivers of the reduction in the projected deficit are estimated increases in property tax, business license tax, Transient Occupancy Tax (TOT), and franchise fee distribution. In addition to the improvement in revenue projections, staff is estimating that there will be year-end operating expenditure savings. Staff anticipates savings attributable to Departmental vacancies and lower cost structures associated with retiree replacements. In addition, for FY 2022/23, salaries were again budgeted at actual salary plus a one step increase, which was a significant budgeting methodology change from previous practice.

On June 7, 2023, the Town Council adopted the combined use of ARPA funding, residual Measure G proceeds, and Other Post-Employment Benefits (OPEB) Trust reimbursement to balance the FY 2022/23 budget as illustrated in the table below.

Planned Use of One-Time Sources Balancing the FY 2022/23 Operating Budget	
ARPA Replacement Revenue	\$1,643,281
Measure G Residual for Operation	\$679,443
OPEB Trust Reimbursement for Retiree Medical	\$902,579
Total	\$3,225,303

The significant revenue increases combined with projected expenditure savings indicate that the approved sources might not be necessary; however it can only be determined at the time of the final close of the fiscal year. Staff recommends not to re-program the proposed sources until the fiscal year is closed. Since it is probable that not all sources will be utilized, staff is asking for Council direction regarding what source should be utilized first to cure current fiscal year deficit, if needed. Due to the fact that OPEB Trust withdrawal should be requested in June, significantly earlier than the final numbers are available, staff recommend to not utilizing the Trust Reimbursement.

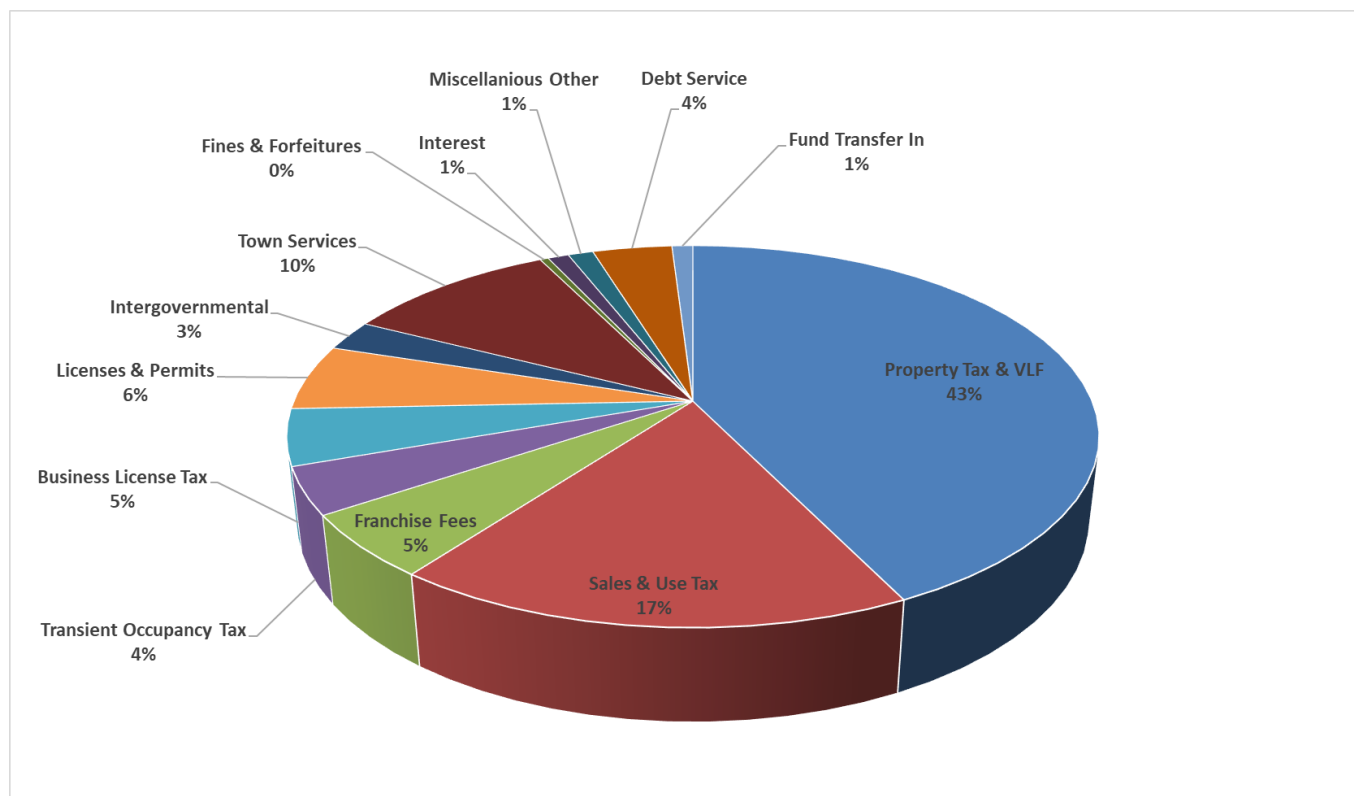
Providing services to the community in this and future fiscal years will require a strong return to pre-pandemic performance of the Town's economically sensitive revenues to offset continued projected cost increases. The FY 2023/24 budget development process will endeavor to maintain essential public services while controlling operational costs in light of the five-year fiscal forecast, which predicts operating revenue shortfalls in subsequent fiscal years.

CONTENT OVERVIEW

The remainder of this Report focuses on the General Fund and provides analyses of key revenues and expenditures, including historic data by Town Department/Service Area. The next section contains descriptions of recommended revenue and expenditure budget adjustments. The Report also includes financial summaries of other funds as well as a table of General Fund Operating Revenues Versus Operating Expenditures through the second quarter of FY 2022/23 which includes comparison information from the prior year.

GENERAL FUND - KEY REVENUE ANALYSIS FY 2022/23

The following information provides a recap of the General Fund budgeted significant revenue sources, including estimated year end collection as of the second quarter ending December 31, 2022. Staff is monitoring developments in each major revenue source closely for potential adjustments to budgeted revenues as recommended in this Report.



Property Tax and Motor Vehicle in Lieu Fee (VLF)

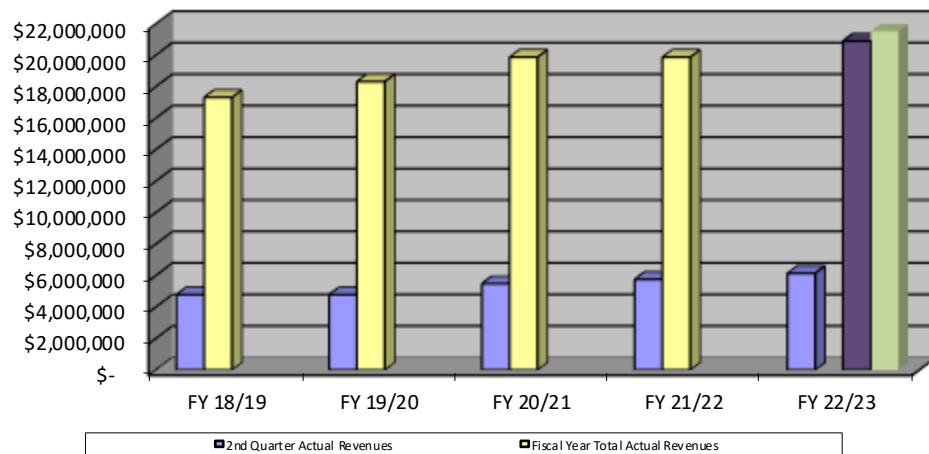
Property tax and VLF are the single largest revenue source for the Town and comprise approximately 42% of total Town General Fund estimated revenues for FY 2022/23. Property tax is levied by the Santa Clara County Assessor's Office at 1% of a property's assessed value, of which the Town receives approximately 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 annually thereafter. However, when property changes hands or new construction occurs, the property is then reassessed at its current market value.

The County of Santa Clara provides property tax collection updates and projections throughout the year. The current County estimate indicates \$617,332 of more than the Adopted Budget. The increase is a combined effect of higher than expected Redevelopment Agency (RDA) Residual Apportionment, and VLF allocation, as well as decreases in secured property tax estimates, and no change to property transfer tax and the Educational Revenue Augmentation Fund (ERAF) estimates.

The Town has been monitoring ongoing developments regarding the distribution of excess ERAF funds. A portion of property tax revenue goes to the ERAF to support local school districts. When the amount contributed to ERAF is more than the minimum cost of funding local schools, excess funds have traditionally been returned to the county, cities, and special districts. Five counties, including Santa Clara, have been using a redistribution allocation formula that has been contested by the State. The Town received the full amount for FY 2021/22; however, the Santa Clara County Assessor's Office recommends budgeting only 70% of the FY 2022/23 projected number. The Adopted FY 2022/23 Budget included a \$1. 5 million ERAF estimate, 70% of the current ERAF base revenue estimate is still the same.

Property tax distributions are largely received in the third and fourth quarters. Second quarter receipts are trending similar to those received during the second quarter of the previous fiscal year and are at 29% of budgeted totals. Based on current County projections, staff recommends a \$617,332 increase in estimated General Property Tax and Motor Vehicle in Lieu Fee collections.

**Property Tax and VLF - Quarterly and Annual Revenues
5-Year History**



	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
2nd Quarter Actual Revenues	\$ 4,785,479	\$ 4,785,479	\$ 5,481,928	\$ 5,761,081	\$ 6,141,998
Fiscal Year Total Actual Revenues	\$ 17,321,346	\$ 18,330,427	\$ 19,878,834	\$ 19,878,834	\$ 21,525,226
Fiscal Year Total Estimated Revenues					\$ 21,525,226
Fiscal Year Budgeted Revenues					\$ 20,907,894
2nd Quarter Percent of Total	28%	26%	28%	29%	29%
Recommended Budget Revision					\$ 617,332

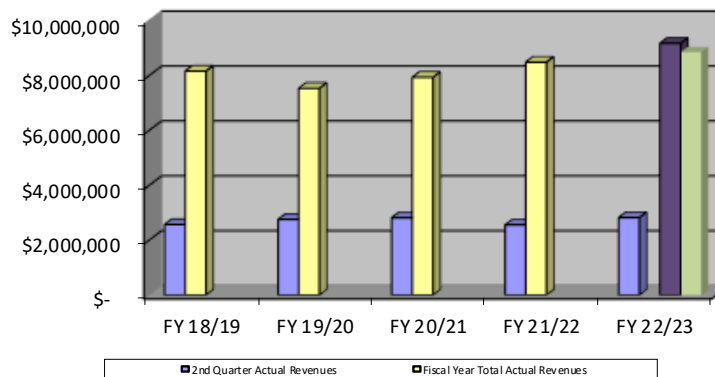
Sales Tax

Sales tax is the second largest revenue source for the Town's General Fund, accounting for 18% of budgeted General Fund projected revenues for FY 2022/23. The Town currently receives 1.125 cents 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 in 2018 enacting a one-eighth cent (0.125%) district sales tax for 20 years.

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. In addition to brick-and-mortar sales tax generation, the MuniServices estimates include several online sales tax projections. The 2018 Wayfair Decision resulted in e-commerce vendors utilizing the Amazon platform to collect sales tax based on destination; however, items shipped directly from Amazon fulfillment centers are collecting sales tax based on the point of distribution. Regular sales tax collected through online transactions are distributed through the Santa Clara County pool for which the Town receives a pro rata share of the sales tax generated in Santa Clara County for that particular quarter. The Town directly receives the one-eighth district tax portion of the sales tax generated by the residents of Los Gatos. Current total sales tax estimates include \$7,559,566 (\$301,422 decrease) in proceeds from regular sales tax and \$1,287,690 (\$26,266 decrease) in proceeds from the Measure G one-eighth cent district tax. Actual receipts net of administrative fees collected by the State will be confirmed at the close of the fiscal year and per prior Council direction, the Measure G funds are allocated 50% for capital improvement projects and 50% for operating expenses.

While FY 2022/23 second quarter receipts are trending slightly higher than in the same period last fiscal year, staff recommends a \$327,688 budget decrease to reflect the MuniServices current estimates.

**Sales Tax & Measure G Tax - Quarterly and Annual Revenues
5-Year History**



	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>
2nd Quarter Actual Revenues	\$ 2,568,415	\$ 2,755,208	\$ 2,813,652	\$ 2,556,341	\$ 2,821,421
Fiscal Year Total Actual Revenue	\$ 8,158,152	\$ 7,531,425	\$ 7,933,604	\$ 8,483,673	
Fiscal Year Total Estimated Revenues					\$ 8,847,256
Fiscal Year Budgeted Revenues					\$ 9,174,944
2nd Quarter Percent of Total	31%	37%	35%	30%	31%
Recommended Budget Revision					\$ (327,688)

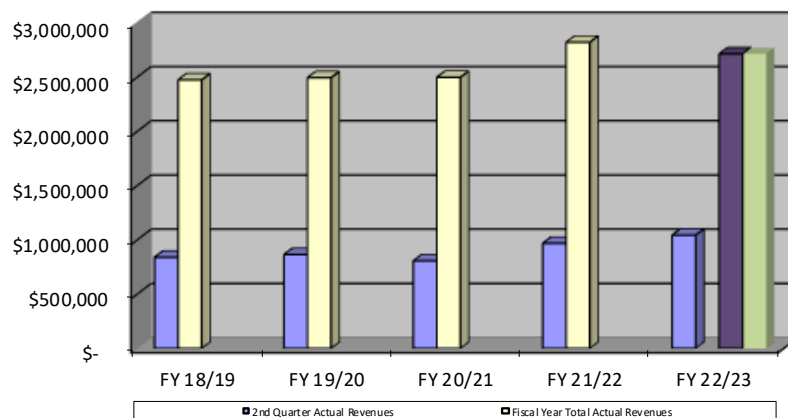
Franchise Fees

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% of projected General Fund revenues in FY 2022/23.

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 higher than those of the second quarter in FY 2021/22 especially in the garbage franchise fee category. Staff recommends a \$222,600 budget increase to this revenue source.

As the Town previously enclosed in the FY 2021/22 Annual Comprehensive Financial Report (ACFR), the California Supreme Court recently issued an opinion in a case challenging the franchise fees that the city of Oakland charges to certain waste hauling companies. In *Zolly v. City of Oakland*, the court concluded that it did not have enough evidence to rule as a matter of law that the fees are exempt from the voter approval requirements that apply to taxes under Proposition 26, Article XIII C of the California Constitution. However, there are several exceptions to the general rule that a tax must be approved by the voters. One exception (Article IIIC, section 1 (e)(1)) is for “a charge imposed for a specific benefit conferred or privileged granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.” In the event the Town is unable to utilize one of the exceptions, the potential impact is a loss of approximately \$2.4 million annually.

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



	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
2nd Quarter Actual Revenues	\$ 840,555	\$ 864,849	\$ 807,833	\$ 968,181	\$ 1,044,055
Fiscal Year Total Actual Revenues	\$ 2,475,916	\$ 2,495,792	\$ 2,499,463	\$ 2,822,515	
Fiscal Year Total Estimated Revenues					\$ 2,716,470
Fiscal Year Budgeted Revenues					\$ 2,493,870
2nd Quarter Revenue Percent of Total	34%	35%	32%	34%	38%
Recommended Budget Revision					\$ 222,600

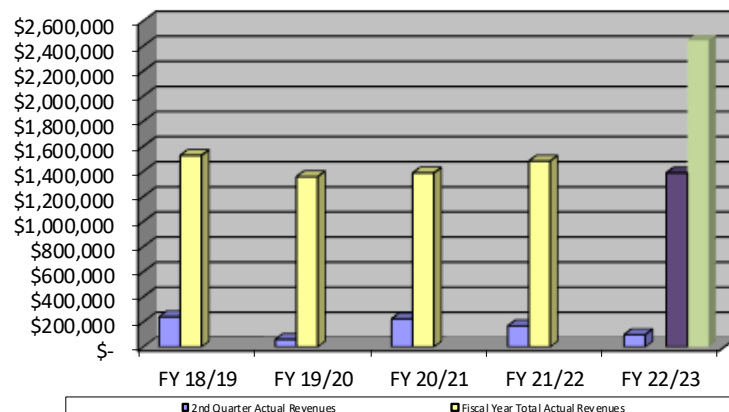
Business License Tax

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. In November 2022, Los Gatos voters approved Measure J, which modernized the Town's business license tax program. This is the first update to the program since 1991, strengthening funding for core Town services that are enjoyed by Town businesses. Measure J included a 30% increase on flat rate fees, a 40% increase in retailing gross receipts, and a 120% increase in e-commerce, manufacturing, wholesaling, and jobbing gross receipts. 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 \$1,365. 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 prorated by quarter.

The Town is partnering with HdL Companies (HdL) to provide dedicated business license support to Los Gatos businesses. The Town's business license application and renewal process is now streamlined by offering online business license applications and renewals. Council authorized the omission of late business license penalties for all businesses in 2023 to assist with the business license management transition.

Business license tax revenue for the current fiscal year was budgeted at the prior tax rate, current estimates based on the updated tax rate predict a significant increase for the business license tax revenue. Staff is recommending a \$1,056,500 increase to this revenue source. Staff anticipates collecting the majority of the business license revenue during the third quarter. Staff is closely monitoring the activities and will return with any recommended adjustments in May.

**Business License Tax - Quarterly and Annual Revenues
5-Year History**

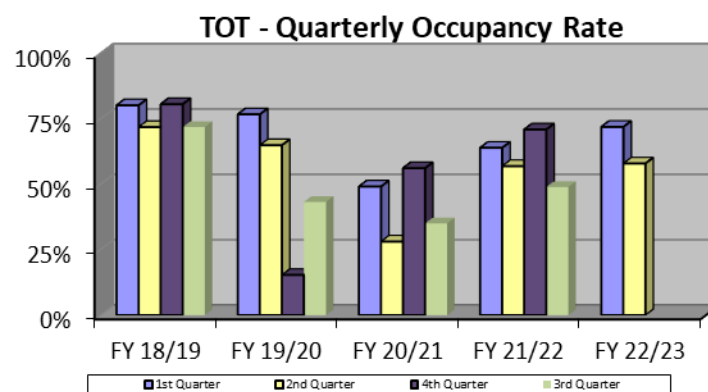


	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
2nd Quarter Actual Revenues	\$ 240,293	\$ 60,500	\$ 224,388	\$ 167,942	\$ 97,974
Fiscal Year Total Actual Revenues	\$ 1,526,894	\$ 1,357,080	\$ 1,386,943	\$ 1,481,667	\$ 2,444,000
Fiscal Year Total Estimated Revenues					\$ 2,444,000
Fiscal Year Budgeted Revenues					\$ 1,387,500
2nd Quarter Revenue Percent of Total	53%	53%	59%	11%	4%
Recommended Budget Revision					\$ 1,056,500

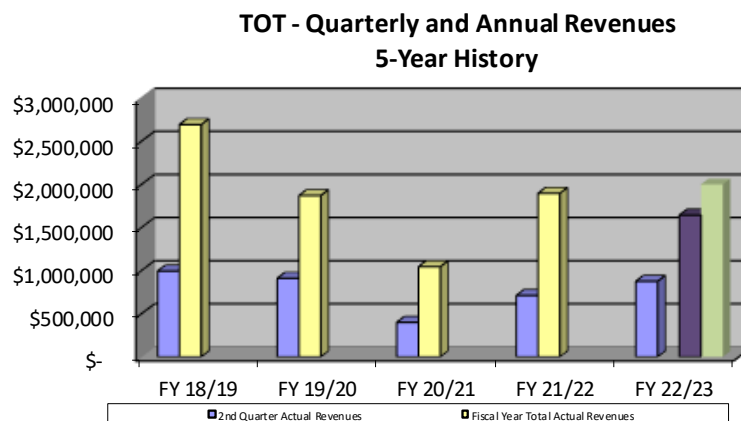
Transient Occupancy Tax

TOT is an important revenue source for the Town and comprises approximately 4% of total Town estimated revenues in the amount of \$2.0 million for FY 2022/23. The Town levies a 12% transient occupancy tax (TOT) on all hotel and motel rooms within the municipal limits of Los Gatos. The 12% rate has been in effect since January 1, 2017, after the voters approved a ballot measure to increase in the TOT from 10% to 12% at the November 8, 2016 election.

The FY 2022/23 Adopted Budget modeled a 17.3% increase from FY 2021/22 adjusted budget. During the pandemic, TOT experienced the most significant percentage decline relative to historical adopted budgets. Due to a significant rebound in leisure “staycation” travel and modest improvements in business travel, current TOT collections are trending higher than anticipated and average occupancy rates are rebounding as well.



Staff will continue to monitor this revenue source since current estimates, however, based on the current trend and occupancy data analysis staff is recommending a \$357,540 budget increase.



	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
2nd Quarter Actual Revenues	\$ 994,581	\$ 910,806	\$ 399,620	\$ 711,861	\$ 875,715
Fiscal Year Total Actual Revenues	\$ 2,692,043	\$ 1,869,685	\$ 1,044,820	\$ 1,895,064	
Fiscal Year Total Estimated Revenues					\$ 2,000,000
Fiscal Year Budgeted Revenues					\$ 1,642,460
2nd Quarter Revenue Percent of Total	37%	49%	38%	38%	53%
Recommended Budget Revision					\$ 357,540

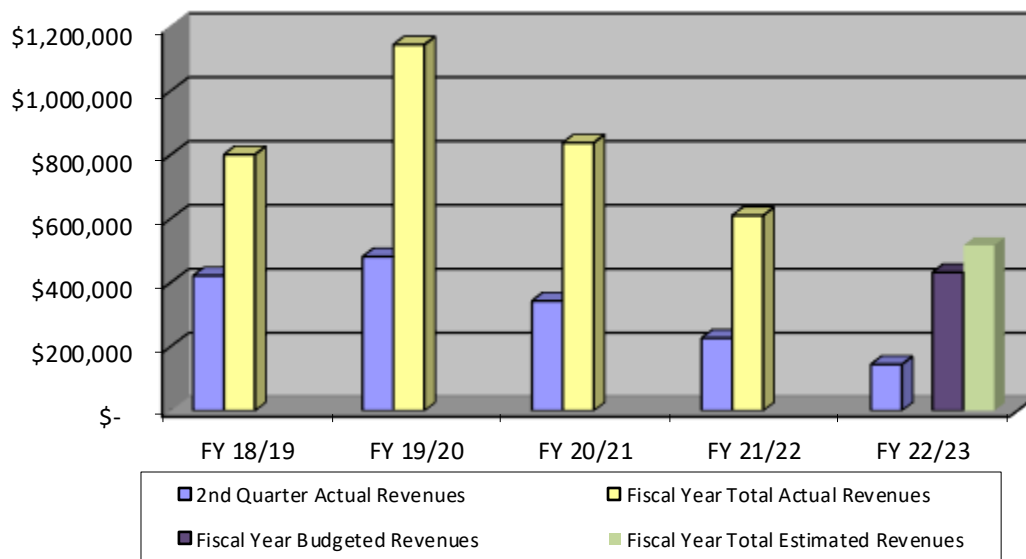
Interest Income

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 and State regulation. The Town's investment goal is to achieve a competitive rate of return while maintaining sufficient liquidity and 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.

As of December 31, 2022, the Town's weighted portfolio yield was 2.28% which exceeded by 11 basis points the Local Agency Investment Fund (LAIF) yield of 2.17% for the same reporting period. Currently the LAIF portfolio's weighted average maturity (WAM) is 304 days versus the Town's longer WAM of 439 days. This slightly longer maturity allows the Town to pick up higher yields available on the later maturities. The Town's weighted average rate of return of 2.28% at the close of December was 25 basis points higher when compared to the prior months return of 2.03% reported as of November 30, 2022.

Staff recommends no change to this revenue source at this time.

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



	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>
2nd Quarter Actual Revenues	\$ 422,729	\$ 482,517	\$ 343,813	\$ 227,164	\$ 145,002
Fiscal Year Total Actual Revenues	\$ 801,729	\$1,145,538	\$ 838,649	\$ 610,975	
Fiscal Year Total Estimated Revenues					\$ 517,379
Fiscal Year Budgeted Revenues					\$ 432,947
2nd Quarter Revenue Percent of Total	53%	42%	41%	37%	33%

Recommended Budget Revision

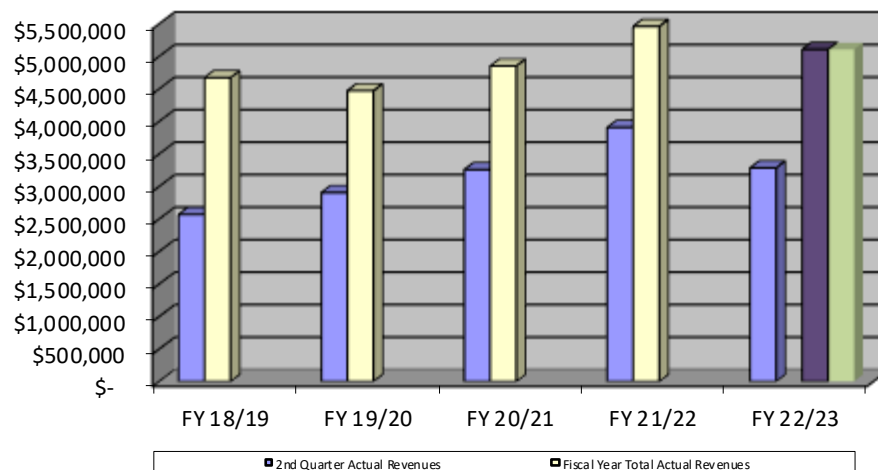
* GASB 31 Market Adjustment is not Included

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. This category includes charges for the School Resource Officer and crossing guard services.

Second quarter Town Service revenues, specifically Charges for Services, are trending lower than in the second quarter compared to the previous fiscal year. Typically, development fees are collected in advance for projects and recognized as revenue in the fiscal year the work is performed. Fiscal Year estimated revenues includes all revenue line item in this category. Staff recommends a \$660,314 budget increase in selected items to reflect increased activities in planning and engineering services as explained in the next section of this Report.

**Charges for Services - Quarterly and Annual Revenues
5-Year History**



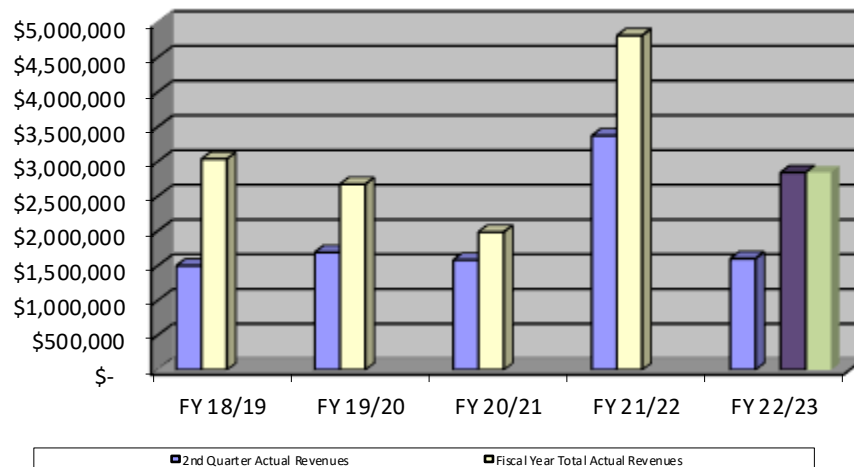
	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>
2nd Quarter Actual Revenues	\$ 2,567,814	\$ 2,905,238	\$ 3,258,027	\$ 3,906,577	\$ 3,284,766
Fiscal Year Total Actual Revenues	\$ 4,672,407	\$ 4,469,963	\$ 4,851,273	\$ 5,460,608	
Fiscal Year Total Estimated Revenues					\$ 5,105,701
Fiscal Year Budgeted Revenues					\$ 4,445,635
2nd Quarter Revenue Percent of Total	55%	65%	67%	72%	64%
Recommended Budget Revision					\$ 660,314

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 lower than FY 2021/22 in anticipation of slower development activity.

Second quarter License and Permit revenue is trending 59% of budgeted revenue. Fiscal Year estimated revenues includes all revenue line item in this category. Staff recommends a \$95,545 increase in selected items in this category as explained in the next section of this Report.

**Licenses & Permits - Quarterly and Annual Revenues
5-Year History**



	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>
2nd Quarter Actual Revenues	\$ 1,498,864	\$ 1,692,252	\$ 1,584,098	\$ 3,373,287	\$ 1,602,633
Fiscal Year Total Actual Revenues	\$ 3,036,390	\$ 2,673,706	\$ 1,984,400	\$ 4,814,650	
Fiscal Year Total Estimated Revenues					\$ 2,841,374
Fiscal Year Budgeted Revenues					\$ 2,735,029
2nd Quarter Revenue Percent of Total	49%	63%	80%	70%	59%
Recommended Budget Revision					\$ 95,545

GENERAL FUND – EXPENDITURE ANALYSIS

For FY 2022/23, General Fund Operating expenditures (not including debt payment and transfers out) are programmed at \$47.7 million. The delivery of Town services is highly dependent on talent which comprises 67.5% of budgeted General Fund expenditures for FY 2022/23. During the fiscal year, the Town Council has approved several budget adjustments, which are tracked against the Adopted Budget. The net effect is an Adjusted Budget. General Fund expenditure totals are trending in accordance with the Adjusted Budget, with total operational expenditures at the end of the second quarter at or about 44% of the Adjusted Budget. With six months of data now available, staff expects that the next six months of expenditures will be within the Adjusted Budget, although unexpected costs can still occur which may require future Council action.

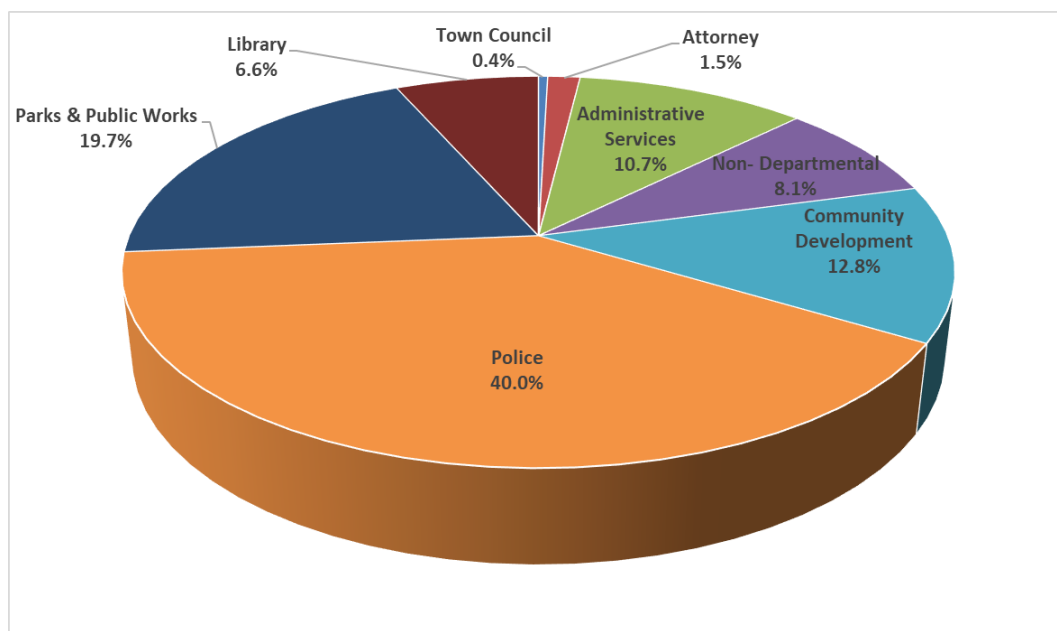
As with most municipalities, services are provided directly by employees to the Town’s residents, businesses, and visitors. As a service delivery enterprise, the cost of salaries and benefits are a significant portion of the budget. As the table below illustrates, at mid-year, actual salaries are trending at 46% of budgeted salaries, while pension benefits and other benefits are trending at 46% and 40% respectively to the Adjusted Budget.

General Fund Salaries & Benefits							
	FY 2021/22 Actuals	FY 2021/22 2Q	2Q % of FY 2021/22 Actuals	2Q % of FY 2022/23 Adjusted Budget	FY 2022/23 2Q	FY 2022/23 Estimated	FY 2022/23 Adjusted Budget
Salaries	\$ 19,981,412	\$ 9,805,293	49%	46%	\$ 10,801,348	\$ 21,951,228	\$ 23,260,024
Pension Benefits	\$ 6,531,958	\$ 3,259,216	50%	46%	\$ 3,493,382	\$ 7,128,830	\$ 7,666,660
Other Benefits	\$ 3,679,378	\$ 1,868,661	51%	40%	\$ 1,841,519	\$ 3,931,260	\$ 4,561,640
Total Salary & Benefit	\$ 30,192,748	\$ 14,933,170	49%	45%	\$ 16,136,249	\$ 33,011,318	\$ 35,488,324

Salaries and benefits savings are anticipated due to vacancies and reduced cost structure due to replacements after retirements. In addition, vacant positions are often filled with temporary unbenefitted positions, which translate into additional benefit savings. Actual vacancies during the course of the first half of fiscal year are illustrated in the table below.

Department	Position		Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Town Attorney	Legal Admin Assistant	Separation	Filled with Temp	Filled - Permanent				
Clerk	Deputy Clerk	Separation	Vacant					
Admin Services	Emergency Manager - Temp	Separation					Vacant	
Admin Services	Finance Director	Retirement	Filled Interim			Filled - Permanent		
Admin Services	Finance Manager	Promotion	Vacant					
Admin Services	IT Technician	Separation	Vacant	Filled - Permanent				
Admin Services	Events and Mark Specialist	Separation	Vacant		Filled - Permanent			
Community Development	Associate Planner	Separation	Vacant			Filled - Permanent		
Community Development	Permit Technician	Retirement			Vacant		Filled - Permanent	
Police	Police Dispatcher	Separation				Vacant		
Police	Police Dispatcher	Separation	Vacant					
Police	Police Dispatcher	Separation					Vacant	
Police	Police Dispatcher	Separation	Vacant					
Police	Police Officer	Separation					Filled - Permanent	
Police	Police Officer	Separation		Vacant				Filled
Police	Police Officer	Retirement						
Police	Police Officer	Retirement						Filled
Police	Police Officer	Retirement						Filled
Police	Police Officer	Separation				Vacant		
Police	Police Captain	Promotion	Vacant	Filled - Permanent				
Police	Records & Com Manager	Separation	Vacant					
Police	Police Record Specialist	Promotion	Vacant				Filled - Permanent	
Police	Police Record Specialist	Separation					Vacant	Filled - Permanent
Police	Senior Parking Control Officer	Retirement	Vacant		Filled - Permanent			
Parks & Public Works	Parks & Public Works Director	Separation		Filled - Permanent				
Parks & Public Works	Senior Civil Engineer	Separation	Vacant				Filled - Permanent	Vacant
Parks & Public Works	Transp and Mob Manager	Separation			Vacant			Filled
Parks & Public Works	Town Engineer	Separation					Vacant	Interim
Library	Senior Library Page	Separation	Filled with Temp	Filled - Permanent				
Library	Librarian	Separation	Vacant			Filled - Permanent		

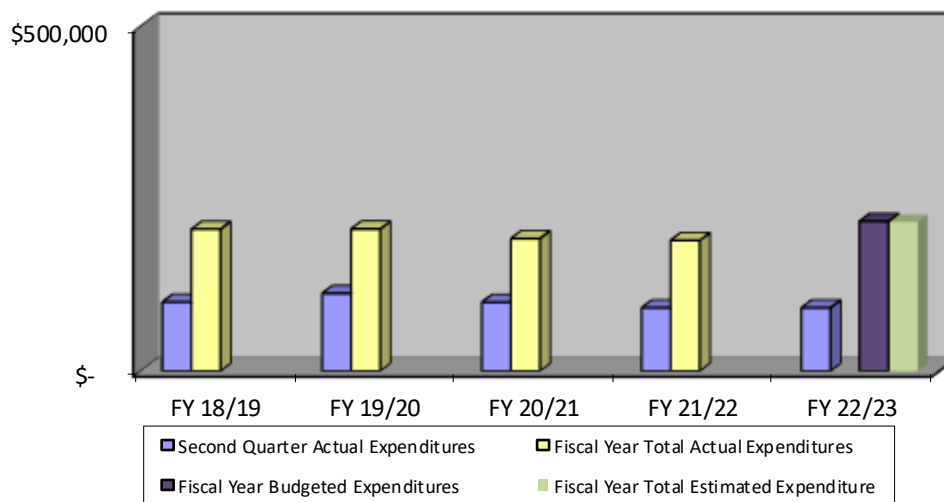
The pie chart below represents the Departmental proportion of Town General Fund estimated operating expenditures. The subsequent pages review program expenditures and any anticipated savings are provided for each program. Also provided are historical program costs, year over year (YOY) percentage changes in actual expenditures, and five-year average changes per the Finance Commission's suggestion. YOY percentage changes are, in many cases, impacted by the timing of one-time expenditures that occur during the fiscal year. Historical analysis has been provided in selected cases to provide explanations for some of the fluctuations between fiscal years. The FY 2022/23 Estimated figures also include analysis on potential salary and other expenditure savings; however, budget adjustments are only recommended as identified in this Report.



Town Council

The Town Council is the elected legislative body that represents the residents and provides policy direction for the delivery of services and capital improvements for the Town of Los Gatos. Town Council expenditures are trending lower than the same quarter in prior year. Staff anticipates minimal expenditures savings in this program. Savings are anticipated in office supplies and medical benefits. Staff does not recommend any expenditure budget adjustment in this program.

**Town Council - Quarterly and Annual Expenditures
5-Year History**



	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>
Second Quarter Actual Expenditures	\$ 100,209	\$ 112,711	\$ 99,787	\$ 91,800	\$ 91,822
Fiscal Year Total Actual Expenditures	\$ 205,903	\$ 206,163	\$ 192,280	\$ 189,569	
Fiscal Year Total Estimated Expenditure					\$ 216,231
Fiscal Year Budgeted Expenditures					\$ 217,238
Second Quarter Percentage of Total	49%	55%	52%	48%	42%

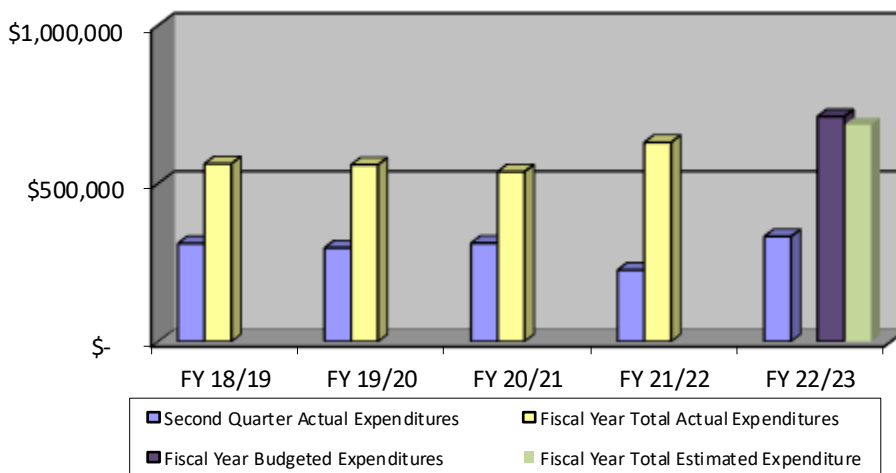
Recommended Budget Revision

YOY Percentage Changes	6.58%	0.13%	-6.73%	-1.41%	14.06%
5-year Average Percentage Change					2.53%

Town Attorney

The Town Attorney is the legal advisor to the Town Council, Successor Agency to the former Redevelopment Agency, and Town staff. In this capacity, the office of the Town Attorney provides a wide range of legal services to ensure that Town actions and activities are legally sound. Town Attorney program expenditures are trending at 47%. Staff estimates approximately \$26,000 expenditures savings in this program. Savings is anticipated in staff salaries and benefits, travel and training, and office supplies. Staff does not recommend any expenditure budget adjustment in this program.

**Town Attorney - Quarterly and Annual Expenditures
5-Year History**



	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>
Second Quarter Actual Expenditures	\$ 310,219	\$ 296,424	\$ 311,520	\$ 226,377	\$ 332,183
Fiscal Year Total Actual Expenditures	\$ 562,542	\$ 559,010	\$ 537,296	\$ 629,935	
Fiscal Year Total Estimated Expenditure					\$ 685,473
Fiscal Year Budgeted Expenditures					\$ 711,426
Second Quarter Percentage of Total	55%	53%	58%	36%	47%

Recommended Budget Revision

YOY Percentage Changes	58.82%	-0.63%	-3.88%	17.24%	8.82%
5-year Average Percentage Change					16.07%

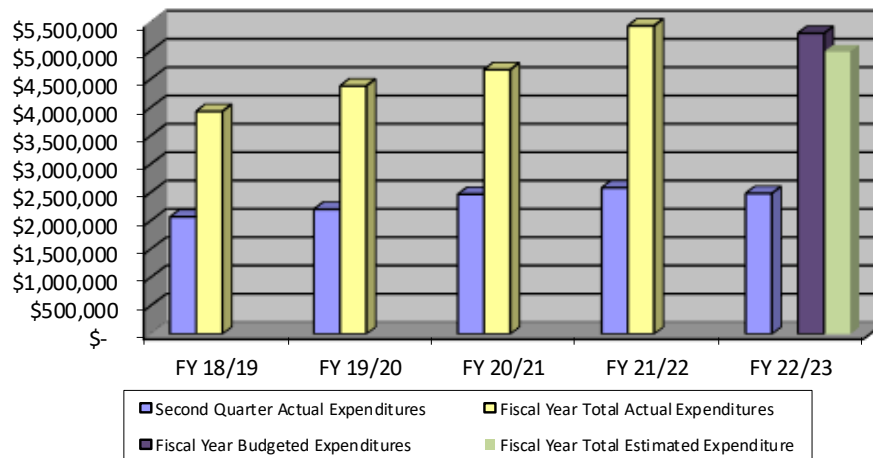
Beginning in FY 2018/19, all personnel costs that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a General Fund expense.

Administrative Services

The Town Manager provides overall management, administration, and direction for the entire Town organization, reporting to the full Town Council. Administrative Services incorporates five key programs: Town Manager's Office, Clerk Department, Finance Department, Human Resources Department, and Information Technology.

Administrative Services program expenditures are trending similar compared to the same quarter expenditures in prior year. This program had some vacancies during the course of the first half of the fiscal year including Finance and Accounting Manager, Special Event Coordinator, Deputy Clerk and Temporary Emergency Services Coordinator. The Special Event Coordinator, Deputy Clerk positions are filled and the recruitment for the other two vacant positions has already started. Staff estimates approximately \$326,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, travel and training, and office supplies.

**Administrative Services - Quarterly and Annual Expenditures
5-Year History**



	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
Second Quarter Actual Expenditures	\$2,069,839	\$2,204,552	\$2,467,813	\$2,583,281	\$2,483,472
Fiscal Year Total Actual Expenditures	\$3,931,807	\$4,380,504	\$4,667,995	\$5,441,605	
Fiscal Year Total Estimated Expenditure					\$4,983,530
Fiscal Year Budgeted Expenditures					\$5,310,119
Second Quarter Percentage of Total	53%	50%	53%	47%	47%

Recommended Budget Revision

YOY Percentage Changes	18.77%	11.41%	6.56%	16.57%	-8.42%
5-year Average Percentage Change					8.98%

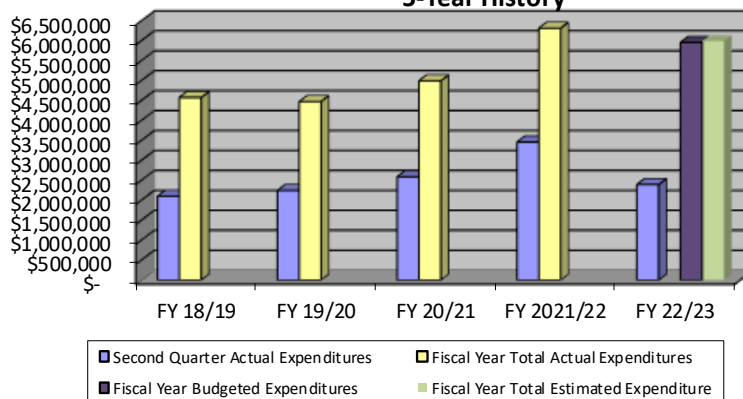
Beginning in FY 2018/19, all personnel that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a General Fund expense. This program budget includes a limited temporary position to assist the Town with its emergency preparedness and response operations since FY 2019/20.

Community Development Services

The Community Development Department works with elected and appointed officials, other Departments, and the community to guide the physical growth, development, and preservation of the Town.

Community Development program expenditures are trending lower than the same quarter expenditures in prior year due to increased development activities in the Department Building and Pass Through programs. The Pass Through program collects the required developer deposits for various review services. The Town provides those services through consultants and the consultants are paid out of the applicant's account. At the close of a project, all remaining fees collected will be refunded to the applicant. This program is fully staffed as of December 31, 2022; however, the Associate Planner and Planning Technician positions were partially vacant during the first half of the fiscal year. Staff is requesting to increase an Associate Planner position from 0.75 Full Time Equivalent (FTE) to 1 FTE to assist the Department with the current and future workload pertaining to unfunded State mandates and other work. In addition, staff recommends expenditure budget adjustments for building permit services (\$150,000) and redepositing the first proceed (\$300,00) of the affordable loan repayment. Both of these requested items have dedicated revenue sources and cost neutral. Not counting the last two items, staff anticipates approximately \$420,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, travel and training, and office supplies.

Community Development - Quarterly and Annual Expenditures
5-Year History



	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 2021/22</u>	<u>FY 22/23</u>
Second Quarter Actual Expenditures	\$2,104,258	\$2,245,767	\$2,589,502	\$3,460,301	\$2,394,537
Fiscal Year Total Actual Expenditures	\$4,577,495	\$4,473,790	\$4,994,391	\$6,313,505	
Fiscal Year Total Estimated Expenditure					\$5,990,576
Fiscal Year Budgeted Expenditures					\$5,960,379
Second Quarter Percentage of Total	46%	50%	52%	55%	40%
Recommended Budget Revision	\$ 456,962				

YOY Percentage Changes	8.42%	-2.27%	11.64%	26.41%	-5.11%
5-year Average Percentage Change	7.82%				

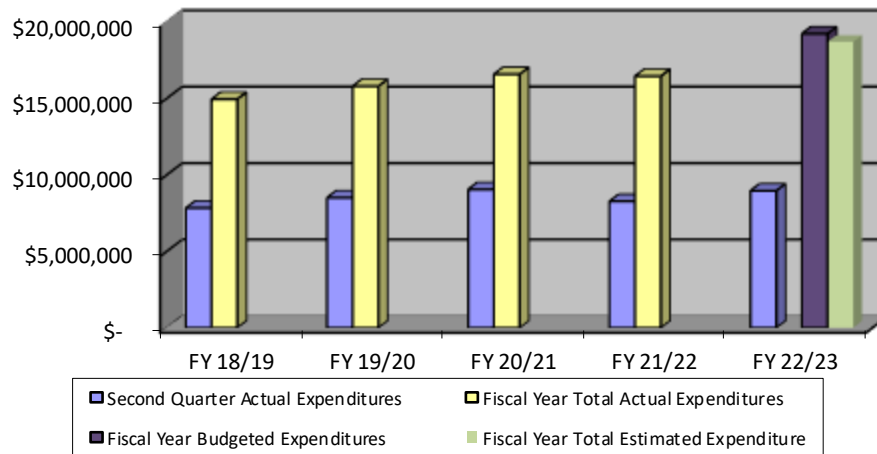
Community Development Department expenditures vary year to year based on the development activity and pass through services.

Police Services

The Los Gatos-Monte Sereno Police Department provides Police services to the Town of Los Gatos and contractually to the City of Monte Sereno. The Department is committed to ensuring public safety with integrity, compassion, and professionalism, by providing exceptional law enforcement services, building community partnerships, and engaging the community in problem solving.

Staff is continuing to monitor Police service program revenues and expenditures. Staffing levels remain a challenge for the Police Department with dedicated ongoing recruitment for open positions. Whenever feasible, open positions are filled with trainees, per diems, and temporary employees until positions are filled. The Police Department does not anticipate any budgetary concerns at mid-year. Staff anticipates approximately \$420,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, travel and training, and office supplies. Staff recommends \$27,151, expenditure budget increase to expend the proceeds of an Opioid Settlement disbursement for opioid preventative and awareness education and additional costs related to increased parking ticket collection administration.

**Police - Quarterly and Annual Expenditures
5-Year History**



	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>
Second Quarter Actual Expenditures	\$ 7,832,251	\$ 8,504,636	\$ 9,041,998	\$ 8,266,432	\$ 8,957,541
Fiscal Year Total Actual Expenditures	\$ 14,948,952	\$ 15,793,815	\$ 16,570,836	\$ 16,451,189	
Fiscal Year Total Estimated Expenditure					\$ 18,695,679
Fiscal Year Budgeted Expenditures					\$ 19,225,986
Second Quarter Percentage of Total	52%	54%	55%	50%	47%
Recommended Budget Revision					\$ 27,151
YOY Percentage Changes	3.51%	5.65%	4.92%	-0.72%	13.64%
5-year Average Percentage Change					5.40%

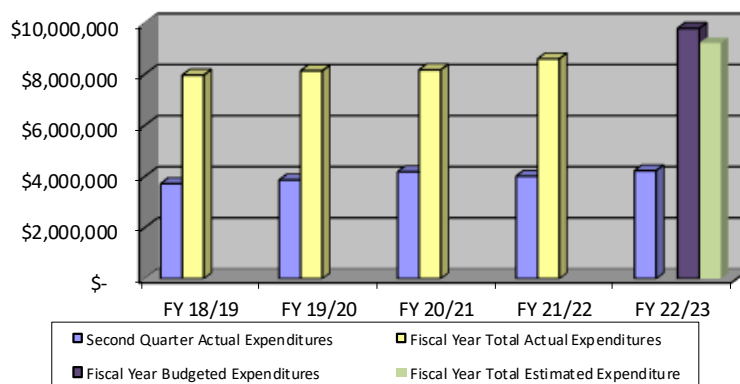
Parks and Public Works Services

The Parks and Public Works Department constructs and maintains the Town's public parks, facilities, roadways, right-of-way, and other infrastructure. Six organizational units work in coordination to achieve the Department's overarching goal of ensuring the Town's facilities are safe, functional, and attractive.

The Parks and Public Works services program expenditures are trending lower than prior year same quarter expenditures. This program experienced vacancies in couple of positions including Parks and Public Works Director, Senior Civil Engineer, Transportation and Mobility Manager, and Town Engineer during the course of the first half of the fiscal year. Staff is requesting the deletion of the hire-ahead one-time Urban Forest Manager position. Funding for the current fiscal year of the position is available from the tree replacement deposit fund while in future years the Department is proposing to reclassify the Town Arborist position as it becomes vacant.

Staff anticipates approximately \$570,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, travel and training, and office supplies. Staff recommends an expenditure budget increase of \$283,112 attributed to the additional contractual obligations, increased pass through activities and defunding the Urban Forest Manager position as explained in the next section of this Report.

**Parks and Public Works - Quarterly and Annual Expenditures
5-Year History**



	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
Second Quarter Actual Expenditures	\$3,717,900	\$3,864,874	\$4,185,306	\$4,010,181	\$4,226,049
Fiscal Year Total Actual Expenditures	\$7,969,631	\$8,139,106	\$8,175,987	\$8,605,455	\$9,221,597
Fiscal Year Budgeted Expenditures					\$9,798,966

Second Quarter Percentage of Total	47%	47%	51%	47%	43%
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Recommended Budget Revision	\$ 283,112
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YOY Percentage Changes	10.92%	2.13%	0.45%	5.25%	7.16%
5-year Average Percentage Change	5.18%				

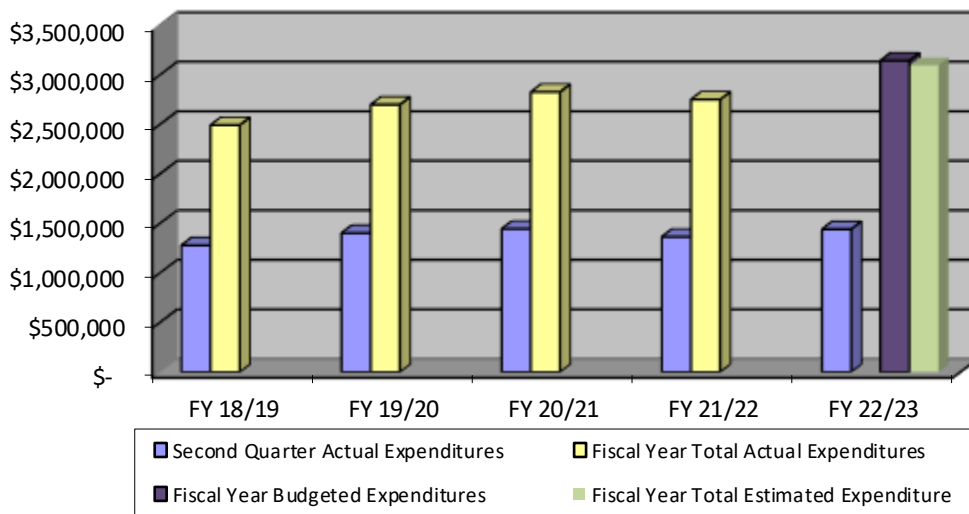
Beginning in FY 2018/19, all personnel that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a General Fund expense.

Library Services

The Los Gatos Library fosters curiosity and community connection and strives to be at the heart of an engaged and vibrant community.

Library services program expenditures are trending lower than prior year same quarter expenditures. This program had Librarian and Senior Library Page vacancies during the first half of the fiscal year. Staff anticipates approximately \$46,000 expenditures savings in this program. Savings are anticipated in temporary employee salaries, travel and training, and office supplies. Staff recommends a \$2,735 budget increase to authorize spending of a State Library Grant received by the Department.

**Library - Quarterly and Annual Expenditures
5-Year History**



	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>
Second Quarter Actual Expenditures	\$1,280,179	\$1,404,285	\$1,445,899	\$1,365,415	\$1,442,555
Fiscal Year Total Actual Expenditures	\$2,493,617	\$2,700,802	\$2,828,873	\$2,752,401	
Fiscal Year Total Estimated Expenditure					\$3,097,584
Fiscal Year Budgeted Expenditures					\$3,144,450
Second Quarter Percentage of Total	51%	52%	51%	50%	46%
Recommended Budget Revision					\$ 2,735
YOY Percentage Changes	-1.42%	8.31%	4.74%	-2.70%	12.54%
5-year Average Percentage Change					4.29%

FY 2022/23 RECOMMENDED BUDGET ADJUSTMENTS

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

FY 2022/23 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUNDS

Fund	Program	Account	General Fund Revenues		
111	1201	411XX	Property Tax	\$ 417,682	Based on Santa Clara County Property Tax Estimates November 2022
111	1201	41141	Motor Vehicle In Lieu Fee	199,650	Based on Santa Clara County Property Tax Estimates November 2022
111	1201	41211	Sales & Use Tax	(301,422)	Based on MuniServices Most Probable January 2023 Sales Tax Estimates
111	1221	41214	Measure G - District Sales Tax	(36,266)	Based on MuniServices Most Probable January 2023 Sales Tax Estimates
111	1201	41311	Transient Occupancy Tax	357,540	Funds Received
111	1201	41612	PG&E Franchise Fee	50,000	Funds Anticipated
111	1201	41613	Garbage Franchise Fee	172,600	Funds Anticipated
111	2301	41411	Business License Tax	1,056,500	Funds Anticipated
111	3201	44214	Other Service Fees	(12,500)	Funds are not Received
111	3201	44412	Plan Check	(45,000)	Funds are not Received
111	3301	44422	Building Inspections	150,000	Funds Anticipated
111	3501	45111	Affordable Housing Loan - Repayment	300,000	Funds Received
111	4202	43336	Prop 172 - Public Safety Sales Tax	37,300	Based on MuniServices Most Probable January 2023 Sales Tax Estimates
111	4301	45922	Opioid Settlement Account	14,151	Funds are Available
111	4304	45126	Online Parking Ticket	25,000	Funds Anticipated
111	5202	42514	Encroachment Permits	50,000	Funds Anticipated
111	5202	44621	Engineering Services	50,000	Funds Anticipated
111	5301	43531	Plan JPA Safety Grant	7,236	Funds Anticipated
111	5301	42512	OMP- Parking Fee	(20,000)	Funds are not Received
111	5301	45421	Donation - Benches	10,347	Funds are Available
111	5302	42522	HHW Fee	8,466	Funds Anticipated
111	5302	42523	JPA Fee	126,177	Funds Anticipated
111	5302	43521	AB 939	2,000	Funds Anticipated
111	5401	42521	Street Sweeping Fees	(69,098)	Funds are not Received
111	5401	48621	From Tree Replacement Deposit - Defund Urban Forest Ma	(234,260)	Funds are Available
111	5999	48416	Plan Check - Pass Thorough	458,575	Funds Received
111	7801	43343	Public Library Fund Grant	2,735	Matching Expenditure
TOTAL GENERAL FUND REVENUES				\$ 2,777,413	
Fund	Program	Account	General Fund Expenditures		
111	1201	62113	Town Share of Retiree Medical	\$ 143,130	Funds are not Expended
111	1201	62119	Additional Payment to IRS Pension Trust	300,000	From Available Reserve
111	1201	72111	PG&E Loan Principal Payment	156,034	Funds are Partially Expended
111	3301	63381	Building Inspections	150,000	Funds are Partially Expended
111	3201	5XXXX	Additional 0.25 FTE Associate Planner	6,962	Funds are not Expended
111	3501	XXXXX	Loan Repayment to BMP	300,000	Funds are Expended
111	4301	64111	Training	14,151	Funds are not Expended
111	4304	62223	SCC Court and Jail Construction Fee	10,000	Funds are Partially Expended
111	4304	63344	Parking Citation Service	3,000	Funds are Partially Expended
111	5203	63332	Software License Maintenance	7,460	Funds are Partially Expended
111	5301	61224	Playground Safety	3,756	Funds are Expended
111	5301	63363	Landscape Maintenance	37,234	Funds are Partially Expended
111	5301	68622	Benches	10,347	Funds are Expended
111	5401	5****	Urban Forest Manager	(234,260)	Funds are not Expended
111	5999	68416	Plan Check - Pass Through	458,575	Funds are Partially Expended
111	7801	61172	Youth Collections	2,735	Matching Revenue
TOTAL GENERAL FUND EXPENDITURES				\$ 1,369,124	

FY 2022/23 MID-YEAR BUDGET ADJUSTMENT REQUESTS - OTHER FUNDS

Fund	Program	Account	Other Fund Revenues		
251			Los Gatos Theatre		
			Theatre Tenant Rent	68,400	<i>Funds Anticipated</i>
				\$ 68,400	
234			Santa Rosa Heights LLD		
234	5504	41152	L&L Assessment	4,500	<i>Funds Anticipated</i>
	5504	42515	Interest Income	465	<i>Funds Anticipated</i>
				\$ 4,965	
481			Gas Tax		
481	411-811-6004	82405	Increased Gas Tax Projections for Street Repair	(67,218)	<i>Based on California City Finance Projection May 2022</i>
				\$ (67,218)	
711			Library Trust		
711	7301	45452	Additional Donation Received	5,000	<i>Funds Received</i>
				\$ 5,000	
TOTAL OTHER FUNDS REVENUES				\$ 11,147	
Fund	Program	Account	Other Fund Expenditures		
231			Blackwell LLD		
232	5501	63363	Landscape Maintenance	(194)	<i>Funds are not Expended</i>
				\$ (194)	
232			Kennedy Meadows LLD		
232	5502	63363	Landscape Maintenance	5,875	<i>Funds are Partially Expended</i>
				\$ 5,875	
233			Gemini Court LLD		
233	5503	63363	Landscape Maintenance	(606)	<i>Funds are not Expended</i>
				\$ (606)	
234			Santa Rosa Heights LLD		
234	5504	63363	Landscape Maintenance	2,270	<i>Funds are Partially Expended</i>
				\$ 2,270	
235			Vasona Heights LLD		
235	5505	63363	Landscape Maintenance	2,352	<i>Funds are not Expended</i>
				\$ 2,352	
236			Hillbrook Drive LLD		
236	5506	63363	Landscape Maintenance	(75)	<i>Funds are not Expended</i>
				\$ (75)	
251			Los Gatos Theatre		
	5408	61214	General Maintenance Supplies	1,000	<i>Funds are Partially Expended</i>
		61241	Office Furniture Equipment	3,000	<i>Funds are Partially Expended</i>
		62371	Building Maintenance and Repairs	47,000	<i>Funds are Partially Expended</i>
		62611	Utilities - Electric	4,091	<i>Funds are Partially Expended</i>
		62612	Utilities - Gas	8	<i>Funds are Partially Expended</i>
		62613	Utilities - Water	715	<i>Funds are Partially Expended</i>
				\$ 55,814	
481			Gas Tax		
481	481-811-9901	82405	Decreased Gas Tax Projections for Street Repair	(67,276)	<i>Based on California City Finance Projection May 2022</i>
				\$ (67,276)	
633			Facilities Maintenance		
633	5404	62161	WVS Annual Fee	8,608	<i>From Available Facilities Maintenance Internal Service Fund</i>
				\$ 8,608	
711			Library Trust Fund		
711	7301	62420	Additional Donation Received	2,500	<i>Funds are not Expended</i>
711	7301	62424	Additional Donation Received	2,500	<i>Funds are not Expended</i>
TOTAL OTHER FUNDS EXPENDITURES				\$ 9,268	

SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

- **General Property Tax and Motor Vehicle in Lieu Fee:** Staff recommends a decrease in projected revenues of approximately \$417,682 in General Property Tax and an increase of \$199,650 Motor Vehicle in Lieu fee which are in line with the estimates and forecasts provided to the Town from Santa Clara County.
- **Sales and Use Tax:** Staff recommends a \$301,422 budget decrease to reflect current sales tax trends based on MuniServices most likely projections.

- Measure G – District Sales Tax: Staff recommends a \$36,266 budget decrease to reflect the current trends of the one-eight cent sales tax based on MuniServices most likely projections.
- Transient Occupancy Tax (TOT): Staff recommends a \$357,540 budget increase based on the current trends.
- PG&E Franchise Fee: Staff recommends an increase in projected revenues of approximately \$50,000 in cable franchise fee based on last year actuals.
- Garbage Franchise Fee: Staff recommends an increase in projected revenues of approximately \$172,600 in cable franchise fee based on current activities and trends.
- Business License Tax: Staff recommends a \$1,056,500 budget increase based on the estimated collection per the new business license tax.
- Plan Check and Other Service Fee: Staff recommends a \$57,500 budget decrease based on the current plan check activities.
- Building Inspection Services: Staff recommends a \$150,000 revenue and budget increase for building inspection services from available developer contribution.
- Additional 0.25 FTE Associate Planner: Staff recommends an expenditure budget increase in the amount of \$6,962 to provide additional 0.25 FTE Associate Planner hours due to ongoing long range planning efforts and unfunded mandates from yearly State Legislation that has and continues to be enacted.
- Affordable Loan Repayment: Staff recommends \$300,000 revenue and budget increase for receiving a partial repayment of the Dittos Lane affordable housing loan and redepositing the proceeds to Below Market Housing Deposit Account.
- Prop 172 – Public Safety Sales Tax: Staff recommends a \$37,300 budget increase to reflect the current trends of the Prop 172- Public Safety Sales Tax based on MuniServices projections.
- Opioid Settlement Proceeds: Staff recommends a \$14,150 revenue and expenditure budget increase to recognize the receipt of Opioid Settlement disbursement. The Settlement requires funds be used primarily for opioid abatement; the Police Department will follow the fiscal guidelines outlined in the Settlement agreement. The Police Department identified utilizing the funding for specific advanced officer training in recognition, response, treatment, and management of an opioid overdose crisis, and to supplement opioid preventative and awareness education training for youth through the School Resource Officer drug awareness program.
- Online Parking Ticket: Staff recommends a \$25,000 revenue budget increase to reflect recent parking citation revenue and \$13,000 expenditure budget increase to increased administrative and processing cost related to increased parking citation revenue collection.

- Encroachment Permits: Staff recommends a revenue budget increase of \$50,000 to recognize increased developments happening in Town.
- Engineering Services: Staff recommends a revenue budget increase of \$50,000 to recognize increased developments happening in Town.
- Oak Meadow Park Parking Fee: Staff recommends a decrease in the Oak Meadow Park Parking fee revenue in the amount of \$20,000. Staff is in the process of procuring a pay station that will integrate with the Town's current parking enforcement efforts.
- Safety Grant: Staff recommends \$10,347 revenue and \$3,756 expenditure budget increase to recognize the receipt of safety grant for playground safety. The playground safety work was partially budgeted before the grant was identified.
- West Valley Solid Waste Management Joint Powers Agency (JPA) Revenue Realignment between Programs: Staff recommends a revenue budget increase of in the amount of \$67,545 to reflect the current contribution for different Town programs based on the agreement signed with the Joint Powers Authority after the original budget was adopted.
- Donation – Benches: Staff recommends revenue and expenditure budget increase of \$10,347 to recognize donation received for bench installation.
- Town Share of Retiree Medical: Staff recommends an expenditure budget increase of \$143,130 to recognize increased cost related the retiree medical services due to additional recent retirements.
- Additional Payment to IRS Pension Trust: Staff recommends an expenditure budget increase in the amount of \$300,000 for additional payment to the IRS Pension Trust from available Pension/OPEB Reserve.
- PG&E Loan Principal Payment: Staff recommends an expenditure budget increase in the amount of \$156,034 for PG&E Loan Payment. The Town utilized an interest free loan from PG&E for energy efficiency improvements for various Town buildings. The payments were suspended by PG&E due to the pandemic during budget development, but the payment schedule was since reinstated.
- Software License Maintenance: Staff recommends an expenditure budget increase of \$7,460 for software license maintenance.
- Landscape Maintenance: Staff recommends an expenditure budget increase of \$37,234 for increased landscape maintenance services.
- Urban Forest Manager: Staff recommends revenue and expenditure budget decrease of \$234,260 to defund the one-time hire ahead Urban Forest Manager position.
- Plan Check Services: Staff recommends a \$485,575 revenue and budget increase for plan check services from available developer contribution.

Other Fund Revenues and Expenditures

- Landscape Maintenance: Staff recommends an expenditure budget increase in the amount of \$9,622 to the various Park Light and Landscaping Districts for increased landscape maintenance services.
- Theatre Needs: Staff recommends \$68,000 revenue increase to recognize the current tenants anticipated rent proceeds and \$55,814 expenditure budget increase from available rent proceeds for initial set-up, utility cost and additional expenses related to the Los Gatos Theatre Building maintenance and repairs.
- Gas Tax: Staff recommends revenue and expenditure budget decrease in the amount of \$67,218 reflecting most recent gas tax projections.
- West Valley Sanitation District Annual Fee: Staff recommends an expenditure budget increase in the amount of \$8,608 to for additional water meter connected and increased water usage fee.
- Library Trust programming: Staff recommends \$5,000 revenue and expenditure adjustment to recognize additional donation from the Friends of the Los Gatos Library. The Friends were able to donate an additional of \$5,000 this year. Staff anticipated spending \$5,000 of the additional donation in the current fiscal year.

American Rescue Plan Act (ARPA) Fund:

In accordance with ARPA, the Town was awarded an ARPA grant in the amount of \$7,229,744 paid to the Town in two separate payments, the first payment of \$3,618,872 was received in early July 2022 and the second payment of \$3,614,872 was received in early July 2023.

Based on initial guidance of eligible uses of ARPA funds the Town allocated these funds to various purposes to respond and support the impacts of the pandemic on Town residents, non-profits, the business community including the construction of downtown parklets, non-profit fee and rent waivers, enhanced senior services, promenades, and increased funding for Town infrastructure capital improvements, among other initiatives.

Upon Treasury's release of the simplified reporting process for entities awarded less than \$10 million in ARPA funding and additional guidance received on federal compliance issues, the Town recognized the \$3.4 M of FY 2021/22 and the recommending recognizing the second tranche of \$3.6M cash collections of ARPA revenues in FY 2022/23 as qualified revenue loss under the Treasury provisions for use in providing government services. To further aid in compliance with federal uniform guidance and Single Audit requirements, staff claimed the lost revenue for use in providing essential government services and accounted for the use of ARPA revenue loss revenues for eligible public safety payroll costs for in FY 2021/22 and proposing the same for FY 2022/23.

The recommended action as illustrated in the below worksheet will allocate all ARPA "replacement" revenues to the General Fund which in turn will unencumber other General Fund operating revenues which were previously dedicated for public safety costs. The newly unencumbered General Fund revenues can then be allocated to the ARPA pandemic responses as identified.

Council has already allocated all the \$7.2 million proceeds for various priorities as illustrated in the below table. Staff will bring back any residual balance not used for the original purpose after completing the program for Council re-programming reconsideration

AMERICAN RESCUE PLAN ACT (ARPA) SUMMARY WORKSHEET

	FY 2020/21		FY 2021/22			FY 2022/23		GRAND
	ACTUALS		BUDGET ADJ. ESTIMATED	ACTUALS	BAL REMAINING	ESTIMATED	EST. MID-YEAR	TOTAL
ARPA FUNDS REVENUE RECOGNIZED	\$ 200,911	\$	3,413,961			\$ 3,614,872		\$ 7,229,744
GOV SERVICES (WAIVERS,CUP&ADA,DIRECT GRANTS)	200,911							200,911
REVENUE LOSS -GOV SERVICES (PUBLIC SAFETY)			3,413,961	3,413,961		3,614,872		7,028,833
	\$ 200,911	\$	3,413,961			\$ 3,614,872		\$ 7,229,744
GENERAL FUND ARPA REPLACEMENT REVENUES AVAILABLE	\$ 200,911	\$	3,413,961			\$ 3,614,872		\$ 7,229,744
LESS APPROVED USES TO BE BUDGETED:								
PARKLETS (DOWNTOWN IMPVTS PROJECT)	\$ -	\$	680,000	\$ 466,428	\$ 213,572	\$ 250,000	\$ -	\$ 930,000
RENT WAIVERS	121,255		341,452	341,452	-	283,756		746,463
CUP/ADA FEE WAIVERS	19,656		27,672	27,672	-	27,672		75,000
DESTINATION MARKETING			55,000	55,000	-			55,000
K-RAILS (DOWNTOWN IMPVTS PROJECT)			68,000	88,654	(20,654)			68,000
PROMENADES			80,000	69,855	10,145	120,000	90,628	200,000
DIRECT GRANTS	60,000		50,000	50,000	-			110,000
ENHANCED SENIOR SERVICES			500,000	249,597	250,403			500,000
CAPITAL IMPROVEMENT PROGRAM SUPPORT TRANSFERS						2,900,000	580,000	2,900,000
REQUIRED FOR GF BALANCING OF OPERATING REV_EXP						1,645,281		1,645,281
TOTAL ALLOCATIONS OF GENERAL FUND ARPA REPLACEMENT REVENUES	\$ 200,911	\$	1,802,124	\$ 1,348,659	\$ 453,465	\$ 5,226,709	\$ 670,628	\$ 7,229,744

While the Town already recognized the full first tranche of the ARPA proceeds during FY 2020/21 and FY 2021/22, only \$1,549,570 was utilized during those fiscal years, \$2,065,302 is part of the General Fund balance and tracked by staff to ensure that the proceeds are spent by Council adopted uses.

The FY 2022/23 budget was adopted prior to the simplified guideline so staff is proposing the following budget adjustments to recognize the revenue and track the Council approved uses.

FY 2022/23 MID-YEAR BUDGET ADJUSTMENT REQUESTS - ARPA RECLASSIFICATION

Fund	Program	Account	American Rescue Plan Act (ARPA) Fund	
111	4301	48219	ARPA - Intergovernmental Revenue	3,614,872
111	5301	48219	ARPA - Intergovernmental Revenue	40,431
111	3201	48219	ARPA - Intergovernmental Revenue	27,672
111	2101	48219	ARPA - Intergovernmental Revenue	120,000
411	411-813-0235	48219	ARPA - Intergovernmental Revenue	250,000
633	5404	48219	ARPA - Intergovernmental Revenue	243,325
241	1241	43217	ARPA - Intergovernmental Revenue	2,310,176
				\$ 6,606,476
241	1241	68219	ARPA - Income Replacement Expense	2,310,176
111	1201	68219	ARPA - Income Replacement Expense	3,581,428
				\$ 5,891,604

GENERAL FUND FINANCIAL SUMMARIES AND ESTIMATES

The following table is the *Schedule of General Fund Operating Revenues Versus Operating Expenditures* for the second quarter of FY 2022/23 which includes comparison information from the prior year.

The FY 2022/23 Adjusted Budget column includes the adopted budget and items that Council approved during the course of the first two quarters of the fiscal year, such as additional funding for legal services, and miscellaneous carry over grants from prior fiscal year.

The FY 2022/23 Estimated column contains projections of final balances for the current fiscal year based upon staff analysis, 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 2022/23 Estimated figures also include analysis on potential salary and other expenditure savings; however, budget adjustments are only recommended as identified in this Report.

Staff continues to fine tune the detailed analysis of the FY 2022/23 year-end estimated revenue and expenditure numbers and an update will be provided with the presentation of the Proposed Fiscal Year 2023/24 Operating Budget.

The following table illustrates the summary of the General Fund balance status based on current estimates and prior year result.

GENERAL FUND SUMMARY OF REVENUES AND EXPENDITURES							
	FY 2021/22 Actuals	FY 2021/22 Q2	2Q % of FY 2021/22 Actuals	2Q % of FY 2022/23 Adjusted Budget as of 12/31/2022	FY 2022/23 Q2	FY 2022/23 Adjusted Budget	FY 2022/23 Year End Estimates <i>Including Proposed Mid-Year Adjustments</i>
Total Revenues & Transfers In	\$ 54,448,222	\$ 17,978,806	33%	34%	\$ 17,098,505	\$ 50,266,120	\$ 50,546,861
Total Expenditures	51,466,052	21,155,306	41%	40%	21,105,947	52,886,926	51,777,130
Net Increase (Decrease)	\$ 2,982,171				\$ (4,007,441)	\$ (2,620,805)	\$ (1,230,268)
Beginning Fund Balance	23,914,618				26,896,789	26,896,789	26,896,789
Ending Fund Balance	\$ 26,896,789				\$ 22,889,348	\$ 24,275,983	\$ 25,666,521

The table in the following page provides the details of the Revenues and Use of Reserve and Total Expenditures and Reserve Allocations.

GENERAL FUND
SUMMARY OF REVENUES AND EXPENDITURES

	FY 2021/22 Actuals	FY 2021/22 Q2	2Q % of FY 2021/22 Actuals	2Q % of FY 2022/23 Adjusted Budget as of 12/31/2022	FY 2022/23 Q2	FY 2022/23 Adjusted Budget	FY 2022/23 Year End Estimates Including Proposed Mid-Year Adjustments
Revenues							
Property Tax	\$ 16,899,618	\$ 5,761,081	34.1%	37.1%	\$ 6,141,998	\$ 16,551,544	\$ 16,969,226
VLF Backfill Property Tax	4,229,462	-	0.0%	0.0%	-	4,356,350	4,556,000
Sales & Use Tax	7,177,597	2,143,460	29.9%	30.5%	2,398,925	7,860,988	7,559,566
Measure G Sales & Use Tax	1,306,076	412,881	31.6%	32.5%	426,496	1,313,956	1,287,690
Franchise Fees	2,822,515	968,181	34.3%	41.9%	1,044,055	2,493,870	2,716,470
Transient Occupancy Tax	1,895,064	711,861	37.6%	52.2%	857,715	1,642,460	2,000,000
Business License Tax	1,481,667	167,942	11.3%	7.1%	97,974	1,387,500	2,444,000
Licenses & Permits	4,814,650	3,373,287	70.1%	58.6%	1,602,633	2,735,029	2,841,374
Intergovernmental	1,263,352	370,615	29.3%	33.8%	379,739	1,124,093	1,250,731
Town Services	5,460,608	3,906,577	71.5%	73.9%	3,284,766	4,445,635	5,105,701
Fines & Forfeitures	319,170	118,809	37.2%	75.1%	151,615	201,750	232,129
Interest	(1,404,526)	(211,169)	15.0%	33.5%	145,003	432,947	517,379
Use of Property	32,400	-	0.0%	-	-	-	-
Miscellaneous Other	311,040	150,622	48.4%	14.0%	457,906	3,280,749	626,066
Park Construction Tax	14,752	-	-	-	7,680	7,000	8,280
Debt Service - Entry Eliminated for ACFR	1,899,850	-	0.0%	0.0%	-	1,893,713	1,893,713
ARPA Income Replacement - Entry Eliminated for ACFR	556,316	-	-	-	-	-	-
Pension Trust Income - Entry Eliminated for ACFR	690,000	-	-	-	-	-	-
Measure G for Operations - Entry Eliminated for ACFR	629,147	-	-	-	-	-	-
Proceeds for Sales of Assets	2,151	-	0.0%	-	-	-	-
Fund Transfer In	4,047,313	104,659	2.6%	18.9%	102,000	538,536	538,536
Total Revenues & Transfers In	\$ 54,448,222	\$ 17,978,806	33%	34%	\$ 17,098,505	\$ 50,266,120	\$ 50,546,861
Use of Other Funding Sources:							
Use of Reserves - Capital/Special Projects - Capital	\$ 550,000	\$ -	0.0%	0.0%	\$ -	\$ 2,350,000	\$ 2,350,000
Use of Reserves - Surplus Property	1,200,000	-	-	-	-	-	-
Use of Reserve - Pension/OPEB	300,000	-	-	-	-	-	300,000
Use of Reserve - Accumulated Measure G	1,100,000	-	-	-	-	679,443	-
Total Other Funding Sources	\$ 3,150,000	\$ -	0%	0%	\$ -	\$ 3,029,443	\$ 2,650,000
Total Revenues and Use of Reserves	\$ 57,598,222	\$ 17,978,806	31%	32%	\$ 17,098,505	\$ 53,295,563	\$ 53,196,861
Expenditures							
Town Council	\$ 189,569	\$ 91,800	48.4%	42.3%	91,822	\$ 217,238	\$ 216,231
Attorney	629,935	226,377	35.9%	46.7%	332,183	711,426	685,473
Administrative Services	5,441,605	2,583,281	47.5%	45.9%	2,438,472	5,310,119	4,983,530
Non- Departmental	2,792,857	1,160,520	41.6%	33.8%	1,222,789	3,617,671	3,823,598
Community Development	6,313,505	3,460,301	54.8%	40.2%	2,394,537	5,960,379	5,990,576
Police	16,451,189	8,266,432	50.2%	46.6%	8,957,541	19,225,986	18,695,679
Parks & Public Works	8,605,455	4,010,181	46.6%	43.1%	4,226,049	9,798,966	9,221,597
Library	2,752,401	1,356,415	49.3%	45.9%	1,442,555	3,144,450	3,097,584
Principal	156,034	-	-	-	-	-	156,034
Total Department Expenditures	\$ 43,332,550	\$ 21,155,307	49%	44%	\$ 21,105,948	\$ 47,986,235	\$ 46,870,302
Debt Service - Entry Eliminated for ACFR	\$ 1,899,850	\$ -	0.0%	0.0%	\$ -	\$ 1,893,713	\$ 1,899,850
ARPA Income Replacement - Entry Eliminated for ACFR	556,316	-	-	-	-	-	-
Transfer to Pension Trust Fund - Entry Eliminated for ACFR	690,000	-	-	-	-	-	-
Measure G Transfer - Entry Eliminated for ACFR	629,148	-	-	-	-	-	-
Transfers Out	4,358,188	-	0.0%	0.0%	-	3,006,978	3,006,978
Total Additional Non-Departmental Expenditures	\$ 8,133,502	\$ -	0%	0%	\$ -	\$ 4,900,691	\$ 4,906,828
Total Operating Expenditures	\$ 51,466,052	\$ 21,155,307	41%	40%	\$ 21,105,948	\$ 52,886,926	\$ 51,777,130
Allocate to Budget Stabilization/Catastrophis Reserve	1,062,162	-	-	-	-	-	-
Allocate to Carryover Encumbrances	33,145	-	-	-	-	-	-
Allocate to Pension/OPEB Reserve	300,000	-	-	-	-	-	-
Allocate to Restricted Pension Trust	-	-	-	-	-	390,000	690,000
Excess (Deficiency) of Revenues Over Expenditures	\$ 4,736,863 **	\$ (3,176,501) *			\$ (4,007,443) *	\$ 18,637	\$ 729,731

* FY 2021/22 and FY 2022/23 2Q 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.

** This schedule includes fund balance uses. Total Revenues and Transfers In (\$54,448,222) minus Total Operating Expenditures (\$51,466,052) equals \$2,982,171 with rounding.

FINANCIAL SUMMARIES OF OTHER FUNDS

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 Lighting District (LLD) Funds, American Recovery Program Act (ARPA) Fund, and Theatre Fund, and Library Trusts Funds. Staff recommends recognizing the second tranche of ARPA in the amount of \$3,614,872 as revenue replacement in the current fiscal year following the federal streamlined process. Staff also recommends \$68,400 revenue budget adjustment to recognize Theatre tenant lease revenues and \$55,814 expenditure budget adjustment for Theatre related expenses from available rent proceeds.

Special Revenue Funds Budget to Actuals Comparisons						
	CDBG Grants	Non-Point Source	LLD's	ARPA	THEATRE	LIBRARY TRUSTS
Beginning Fund Balance	\$ 166,654	\$ 451,558	\$ 174,237	\$ -	\$ 19,500	\$ 555,252
Budgeted Revenues	-	359,950	34,680	1,304,696	68,400	76,250
Total Actual Revenues - 2nd Qtr	\$ -	\$ 160,698	\$ -	\$3,614,872	\$ 17,850	\$ 45,175
Budgeted Expenditures	-	190,911	100,562	1,304,696	55,814	121,255
Total Actual Expenditures - 2nd Qtr	-	95,587	2,315	-	3,375	30,093
2nd Quarter Ending Fund Balance	\$ 166,654	\$ 516,669	\$ 171,922	\$3,614,872	\$ 33,975	\$ 570,334

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 revenue and expenditure budget adjustments in the amount of \$67,276 to reflect decreased gas tax projections. 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
Beginning Fund Balance	\$ 14,783,787	\$ 405,570	\$ (948,604)	\$ 3,218,811	\$ 3,302,514	\$ 1,836,068
Budgeted Revenues	10,505,492	923,455	11,984,439	105,080	52,490	1,536,413
Total Actual Revenues - 2nd Qtr	2,111,705	671,640	744,808	58,876	60,327	625,666
Budgeted Expenditures	23,414,582	923,455	10,984,377	670,300	347,576	3,258,618
Total Actual Expenditures - 2nd Qtr	992,728	671,640	452,251	1,916	-	1,510,293
2nd Quarter Ending Fund Balance	\$ 15,902,764	\$ 405,570	\$ (656,047)	\$ 3,275,771	\$ 3,362,841	\$ 951,441

** GFAR, Traffic Mitigation, and Grant Funds balances are combined in the FY 2022 ACFR. The combined balance of \$14,240,753 is presented as an Appropriated Reserve.*

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 \$8,606 expenditure budget adjustment to cover additional expenses related to the West Valley Sanitation District annual fee increase from the available Facilities Maintenance Fund. Staff will continue to monitor expenditures and propose a revised cost allocation if needed during the FY 2023/24 budget preparation.

Internal Service Funds Budget to Actuals Comparisons					
	Equipment Replacemt	Workers Compensation	Self Insurance	Information Technology	Facility Maint.
Beginning Fund Balance	\$ 2,222,395	\$ 1,295,185	\$ 803,293	\$ 2,990,931	\$ 928,481
Budgeted Revenues	686,837	1,033,315	429,249	714,309	1,262,247
Total Actual Revenues - 2nd Qtr	328,419	584,101	205,798	371,373	481,561
Budgeted Expenditures	1,351,124	1,840,000	846,940	1,741,242	1,240,344
Total Actual Expenditures - 2nd Qtr	299,565	812,582	784,661	395,392	430,810
2nd Quarter Ending Fund Balance	\$ 2,251,249	\$ 1,066,704	\$ 224,430	\$ 2,966,912	\$ 979,232

Trust and Agency Funds (Fiduciary Fund Type)

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. The fund balance reported is the actual fund balance that incorporated the full accrual of long term debt related to the outstanding bonds payable to the 2002 and 2010 Certificates of Participations. The approved ROPS schedule includes full funding related to the obligation for this debt.

Trust & Agency Fund Budget to Actuals Comparisons

	SA Trust
Beginning Fund Balance	\$ (7,607,527) *
Budgeted Revenues	3,799,926
Total Actual Revenues - 2nd Qtr	1,893,713
Budgeted Expenditures	3,799,877
Total Actual Expenditures - 2nd Qtr	3,537,259
2nd Quarter Ending Fund Balance	\$ (9,251,073)