



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 02/15/2022

ITEM NO: 11

DATE: February 9, 2022
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Mid-Year Budget Report - July 1 - December 31, 2021:
a. Receive FY 2021/22 Mid-Year Budget Report;
b. Authorize Budget Adjustments as Recommended in the Mid-Year Budget Report; and
c. Adopt the Town Council and Management Classifications Salary Schedule Updated with the Urban Forest Manager Position.

RECOMMENDATION:

Staff recommends that the Town Council take the following actions regarding the Mid-Year Budget Performance Report - July 1 - December 31, 2021:

- a. Receive FY 2021/22 Mid-Year Budget Report (Attachment 1);
- b. Authorize budget adjustments as recommended in the Mid-Year Budget Report; and
- c. Adopt the Town Council and Management Classifications Salary Schedule updated with the Urban Forest Manager Position (Attachment 2).

REMARKS:

The purposes of the Mid-Year Report (Attachment 1) are to provide the Town Council with a status of the adopted Fiscal Year (FY) 2021/22 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 primarily focus on the Town's General Fund. The analysis and recommendations are contained in Attachment 1.

PREPARED BY: Stephen Conway
Finance Director

ATTACHMENT 1

Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

REMARKS (continued):

Highlights of the Mid-Year Budget Report include:

Financial Overview and Executive Summary

As discussed in the Report, the projected deficit for FY 2021/22 is less than originally estimated due to projected increases in Educational Revenue Augmentation Funds (ERAF) property tax distributions and Transient Occupancy Tax (TOT). In addition to the slight 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 2021/22, salaries were again budgeted at actual salary plus a one step increase, which was a significant budgeting methodology change from previous practice. Current fiscal year-end projections for FY 2021/22 reflect an anticipated \$1.4 million deficit of operating revenues over expenditures compared to the anticipated \$1.9 million deficit in the Adopted Budget.

General Fund Revenue Analysis

The current forecast expects decreases in economically sensitive revenues such as sales tax, property tax, and franchise fee; however, transient occupancy tax, and revenues related to development activities are performing significantly better. Business license tax for the current fiscal year was budgeted anticipating the continued impact of lower gross retail activities and additional business license closures due to the pandemic and no adjustments are needed at this time. The combined recommended mid-year revenue adjustments total a net increase of \$1.0 million. While staff conducted a detailed analysis of all General Fund revenues and provided the expected year-end estimates, only major revenue sources are recommended for adjustment at this time.

General Fund Expenditure Analysis

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 47% 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. The staff analysis examines potential salary and other expenditure savings; however, budget adjustments are only recommended in certain instances as outlined in the next section of the Report. The recommended General Fund mid-year expenditure adjustments total a net increase of \$0.5 million.

REMARKS (continued):

FY 2021/22 Recommended Budget Adjustments and Summary of Key Recommended Budget Adjustments

All recommended revenue and expenditure adjustments are contained in these sections along with a description of the major adjustments.

General Fund Financial Summaries and Estimates

This section introduces the *Schedule of General Fund Operating Revenues Versus Operating Expenditures* for the second quarter of FY 2021/22 which includes comparison information from the prior year.

Financial Summaries of Other Funds

This section provides financial summaries and presents 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.

COORDINATION:

All Town Departments participated in the data collection and analysis that informed the preparation of the Mid-Year Report and proposed budget adjustments.

CONCLUSION AND NEXT STEPS:

Staff is continuing to monitor all revenues and expenditures during the preparation of the Proposed Operating and Capital Budgets for FY 2022/23. Should any additional budget adjustments be necessary to balance operating revenue and expenditures prior to the FY 2021/22 close, staff will advise the Council accordingly. The Draft FY 2022/23 Operating and Capital Budgets will be available in May with the budget hearing tentatively scheduled for May 17, 2022.

Staff recommends that the Town Council approve the proposed revenue and expenditure budget adjustments as described in Attachment 1 and adopt the updated Town Council and Management Classifications Salary Schedule (Attachment 2). In addition, staff looks forward to answering the Town Council's questions.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

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SUBJECT: Mid-Year Budget Performance Report – Six Months Ending December 31, 2021

DATE: February 9, 2022

Attachments:

1. Mid-Year Budget Report - July 1 - December 31, 2021.
2. Town Council and Management Classifications Salary Schedule



**TOWN OF LOS GATOS
MID-YEAR BUDGET REPORT
JULY 1 - DECEMBER 31, 2021**

February 10, 2022

**FINANCIAL OVERVIEW AND EXECUTIVE SUMMARY: STATUS OF FY 2021/22
ADOPTED BUDGET**

The purposes of the Mid-Year Report are to provide the Town Council with a status of the Adopted Fiscal Year (FY) 2021/22 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 25, 2022, the Town Council determined the Strategic Priorities for 2022-2024, providing guidance to Town staff and Commissions on workload prioritization. The Town Council reaffirmed its Core Goals, including: Community Character, Good Governance, Fiscal Stability, Quality Public Infrastructure, Civic Enrichment, and Public Safety. In addition, the Council affirmed its ongoing commitments to the Strategic Priorities of Safety, Quality of Life, Traffic/Transportation, and Prudent Financial Management. Even with budgetary challenges associated with the COVID-19 pandemic, many of Council's primary goals and priorities will continue to be programed in the FY 2022/23 Operating and Capital Budgets. Specifically, the Council would like continued progress on wildfire protection safety; emergency preparedness; semi-permanent parklets; diversity, equity, and inclusion; community policing; parking study implementation; and the General Plan update (see the following page).

Based on the Town Council's identified Strategic Priorities, staff has started budget development work, 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 2022/23 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 2022/23 Budget on May 17, 2022.

Current fiscal year-end projections for FY 2021/22 reflect an anticipated \$1.4 million deficit of operating revenues over expenditures compared to the anticipated \$1.9 million deficit in the Adopted Budget.

ATTACHMENT 1



Ongoing Strategic Priorities 2022-2024

SAFETY

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

PRUDENT FINANCIAL MANAGEMENT

- Address Pension & OPEB Obligations
- Explore New Revenue Opportunities
- Sell or Lease Certain Town Properties

QUALITY OF LIFE

- Community Vitality
 - Diversity, Equity & Inclusion Efforts
 - Community Where Older Adults Thrive & Senior Road Map
 - Events & Other Town-Wide Efforts
 - Community Engagement
 - Environmental Sustainability/Climate Resiliency
- Economic Vitality & Pandemic Recovery
 - Policies & Ordinances
 - Semi-Permanent Parklets
- Land Use Planning
 - General Plan 2040
 - Housing Element
 - Affordable Housing
 - Dittos Lane Affordable Housing
 - Objective Standards
 - SB9 Implementation

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

As discussed in greater detail later in this Report, the primary drivers of the reduction in the projected deficit is projected increases in Educational Revenue Augmentation Funds (ERAF) property tax distributions and Transient Occupancy Tax (TOT). In addition to the slight 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 2021/22, salaries were again budgeted at actual salary plus a one step increase, which was a significant budgeting methodology change from previous practice.

On June 1, 2021, the Town Council, under advisement from the Finance Commission, adopted the use of \$1,912,536 in American Recovery Plan Act (ARPA) funding to balance the FY 2021/22 budget. With the slight reduction in projected deficits into the close of FY 2021/22, staff recommends maintaining one-time ARPA revenue loss funding in the amount of \$1,444,021 for budget balancing.

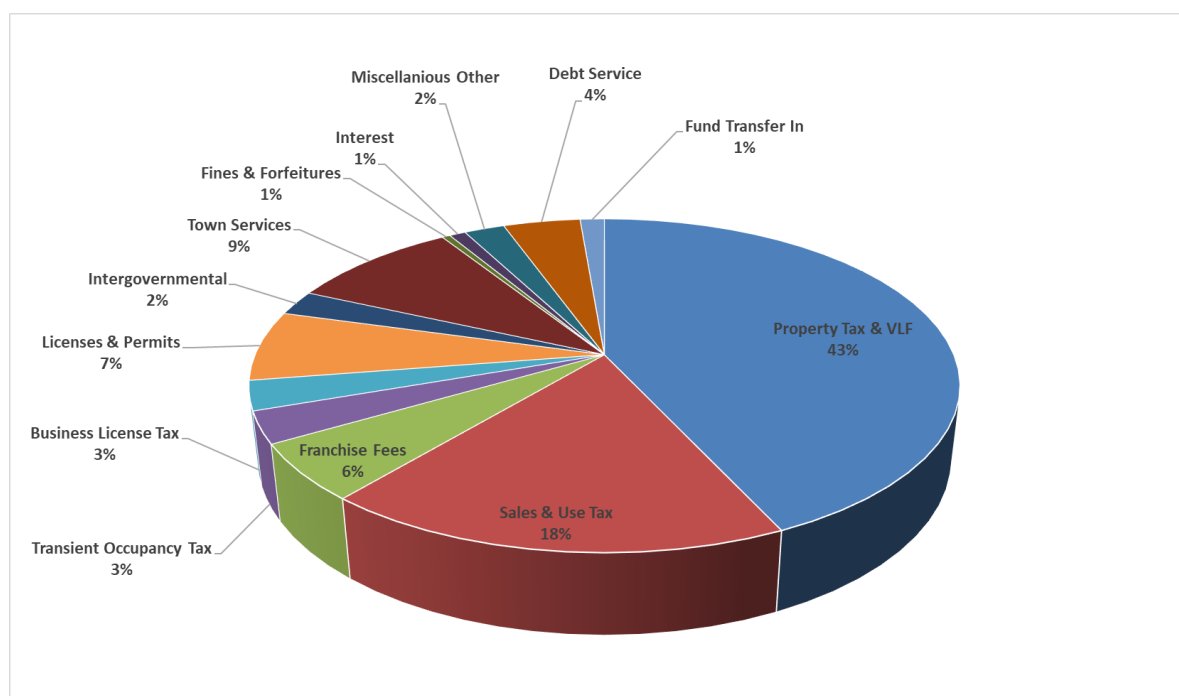
Providing services to the community in this and future fiscal years will require a strong return to pre-pandemic performance of the Town's economically sensitive revenues to offset continued projected cost increases. The FY 2022/23 budget development process will endeavor to maintain essential public 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 for the second quarter of FY 2021/22 which includes comparison information from the prior year.

GENERAL FUND - KEY REVENUE ANALYSIS FY 2021/22

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, 2021. 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)

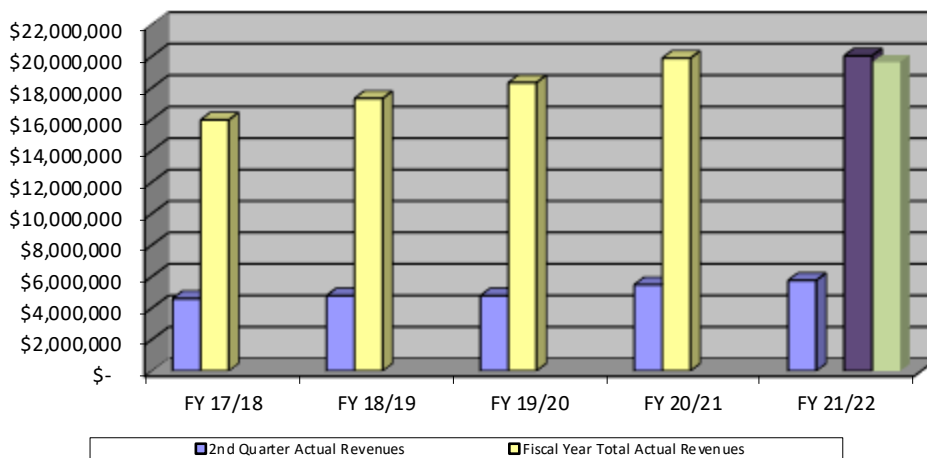
Property tax and VLF are the single largest revenue source for the Town and comprised approximately 43% of total Town General Fund projected revenues for FY 2021/22. Property tax is levied by the Santa Clara County Assessor's Office at 1% of a property's assessed value, of which the Town receives approximately 9.3 cents per dollar paid on property located within the municipal limits of Los Gatos. In compliance with Proposition 13, the assessed value of real property is based on the 1975/76 assessment roll value, adjusted by a 2% inflation factor thereafter. However, when property changes hands or new construction occurs, property is then reassessed at its current market value.

The County of Santa Clara provides property tax collection updates and projections throughout the year. The current County estimate indicates a modest deviation from budget of approximately \$400,000. The decrease is attributed to the combination of lower than expected secured property tax estimates and increases to VLF, property transfer tax, and 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 2020/21; however, the Santa Clara County Assessor's Office recommends budgeting only 70% of the FY 2021/22 projected number. The Adopted FY 2021/22 Budget included a \$1.45 million ERAF estimate, 70% of the current ERAF base revenue estimate is \$1.5 million.

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 27% of budgeted totals. Based on current County projections, staff recommends a \$405,333 decrease in estimated General Property Tax and Motor Vehicle in Lieu Fee collections.

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



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 4,604,788	\$ 4,785,479	\$ 4,785,479	\$ 5,481,928	\$ 5,761,081
Fiscal Year Total Actual Revenues	\$ 15,958,406	\$ 17,321,346	\$ 18,330,427	\$ 19,878,834	
Fiscal Year Total Estimated Revenues					\$ 19,630,853
Fiscal Year Budgeted Revenues					\$ 20,036,186
2nd Quarter Percent of Total	29%	28%	26%	28%	29%
Recommended Budget Revision					\$ 405,333

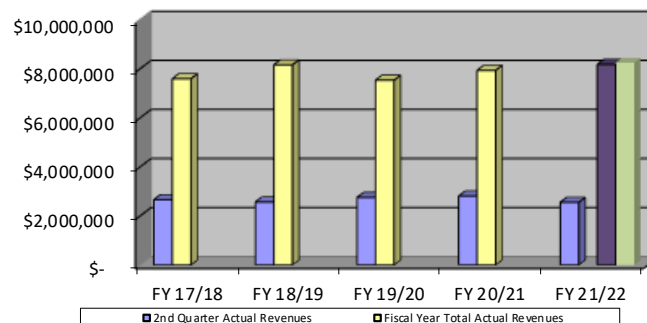
Sales Tax

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 2021/22. 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 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 \$7,069,045 (\$144,495 decrease) in proceeds from regular sales tax and \$1,173,733 (\$209,404 increase) 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 2021/22 second quarter receipts are trending slightly lower than in the same period last fiscal year, staff recommends a \$64,919 budget increase to reflect the MuniServices current estimates.

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



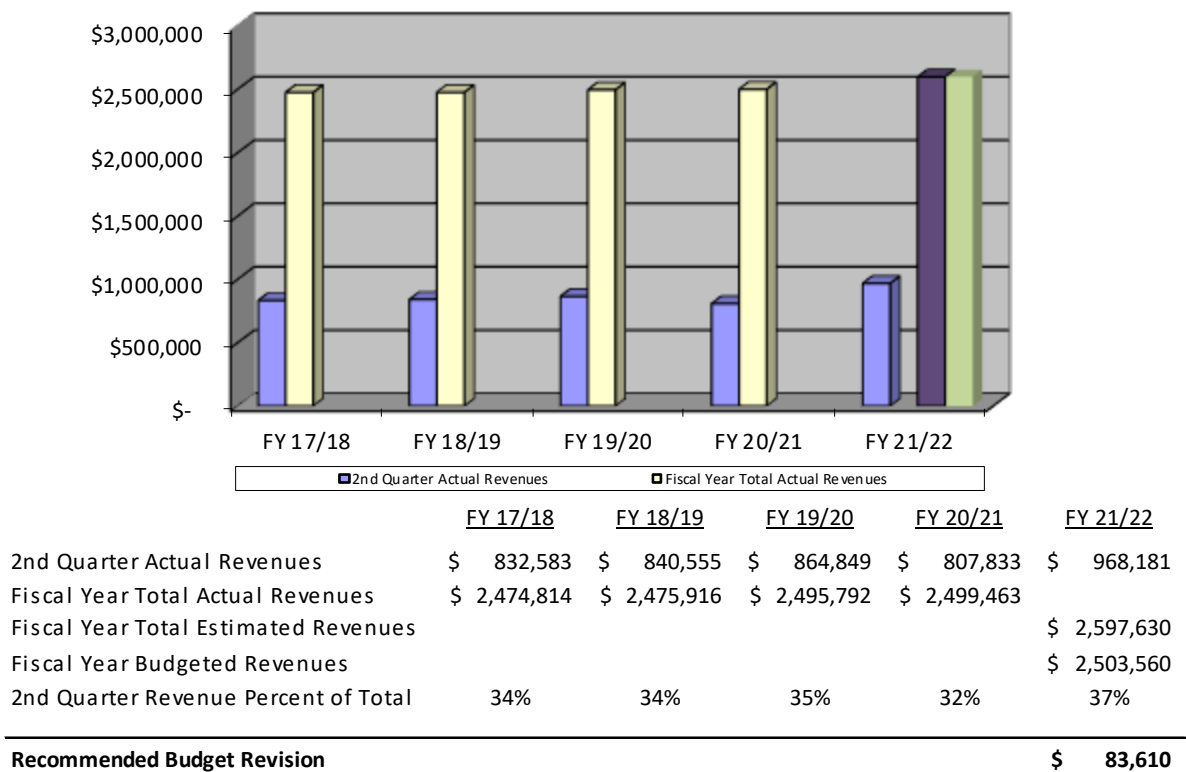
	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 2,662,601	\$ 2,568,415	\$ 2,755,208	\$ 2,813,652	\$ 2,556,341
Fiscal Year Total Actual Revenue	\$ 7,592,206	\$ 8,158,152	\$ 7,531,425	\$ 7,933,604	
Fiscal Year Total Estimated Revenues					\$ 8,242,778
Fiscal Year Budgeted Revenues					\$ 8,177,859
2nd Quarter Percent of Total	35%	31%	37%	35%	31%
Recommended Budget Revision					\$ 64,919

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 6% of projected General Fund revenues in FY 2021/22.

Historically, franchise payments are not remitted equally throughout the fiscal year; therefore, second quarter receipts are not necessarily predictive of future receipts. Total franchise fee revenues are trending slightly lower than those of the second quarter in FY 2020/21 especially in the cable franchise fee category. This decrease reflects the current trend of customers using multiple streaming platforms instead of traditional cable broadcast services. Staff recommends a \$83,610 budget decrease to this revenue source.

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

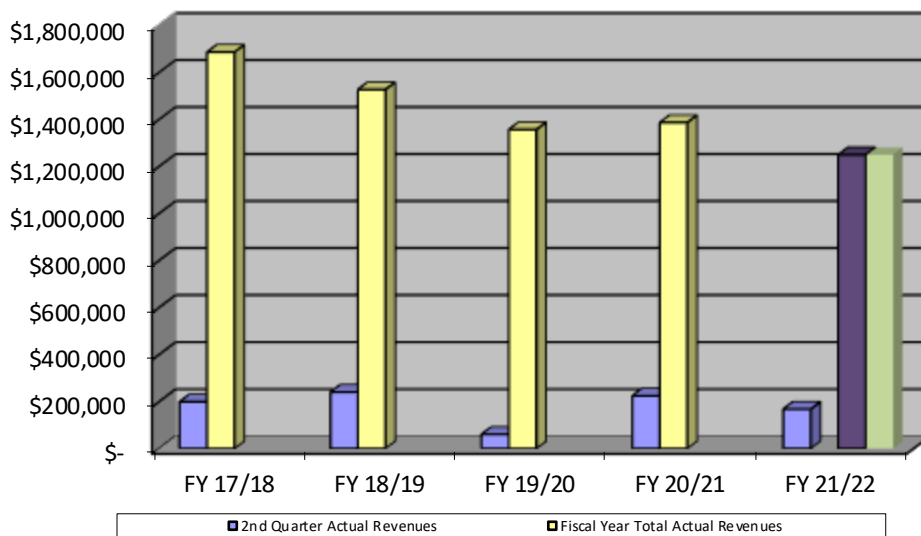


Business License Tax

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

Business license tax revenue for the current fiscal year was budgeted anticipating the continued impact of lower gross retail activities and additional business license closures due to the pandemic. In addition, Council authorized the omission of late business license penalties for all businesses in 2021. 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, and does not recommend any changes to this revenue source this time.

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

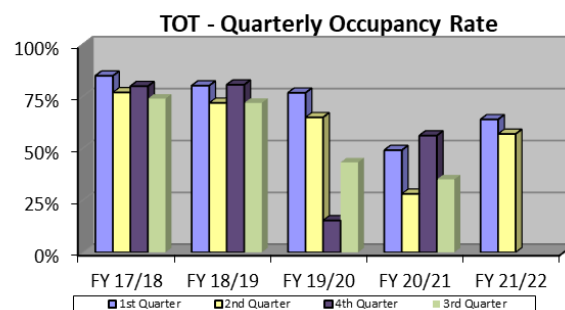


	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 199,045	\$ 240,293	\$ 60,500	\$ 224,388	\$ 167,942
Fiscal Year Total Actual Revenues	\$ 1,686,251	\$ 1,526,894	\$ 1,357,080	\$ 1,386,943	
Fiscal Year Total Estimated Revenues					\$ 1,250,000
Fiscal Year Budgeted Revenues					\$ 1,250,000
2nd Quarter Revenue Percent of Total	53%	53%	59%	16%	13%
Recommended Budget Revision					\$ -

Transient Occupancy Tax

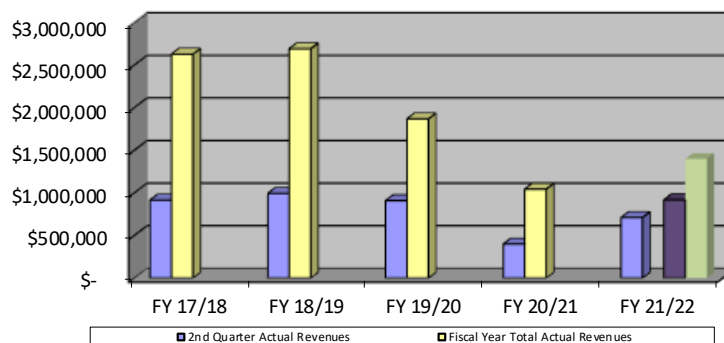
TOT is an important revenue source for the Town and comprises approximately 3% of total Town adjusted estimated revenues of \$1.4 million for FY 2021/22. The Town levies a 12% transient occupancy tax (TOT) on all hotel and motel rooms within the municipal limits of Los Gatos. The 12% rate has been in 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 2021/22 Adopted Budget modeled a slight increase to \$900,000 in anticipated TOT revenues from \$700,000 the prior year. The slight increase reflected significant uncertainty around the return of corporate travel and a continuation of slower leisure travel. Due to a significant rebound in leisure “staycation” 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 do not fully reflect what effect, if any, the Omicron variant may have had on occupancy in late December and January. However, based on the current trend and occupancy data analysis staff is recommending a \$479,960 budget increase.

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



	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
2nd Quarter Actual Revenues	\$ 917,019	\$ 994,581	\$ 910,806	\$ 399,620	\$ 711,861
Fiscal Year Total Actual Revenues	\$ 2,628,927	\$ 2,692,043	\$ 1,869,685	\$ 1,044,820	
Fiscal Year Total Estimated Revenues					\$ 1,400,000
Fiscal Year Budgeted Revenues					\$ 920,040
2nd Quarter Revenue Percent of Total	35%	37%	49%	38%	77%
Recommended Budget Revision					\$ 479,960

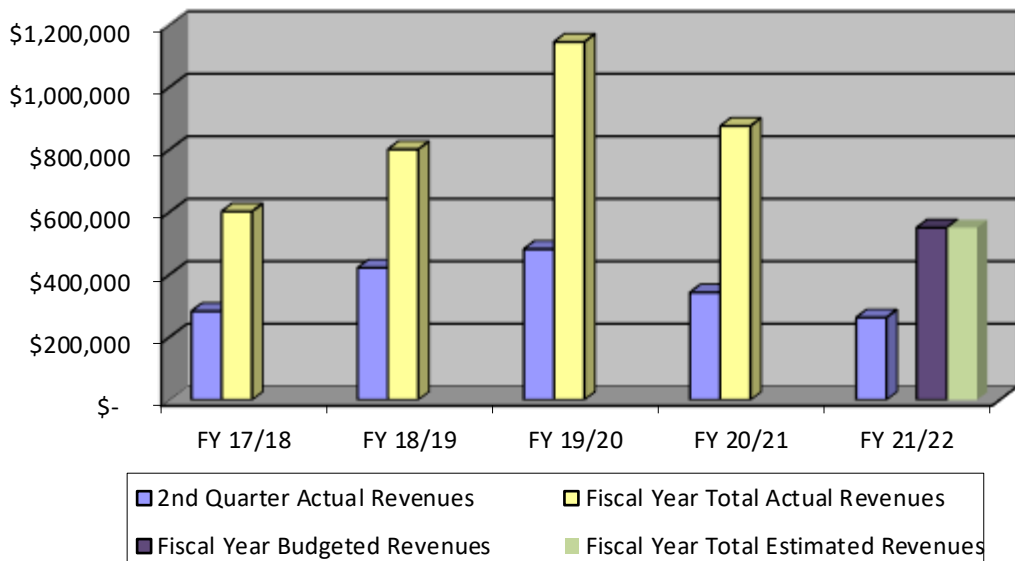
Interest Income

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, 2021, the Town's weighted portfolio yield was 1.20% which trended approximately 100 basis points above the Local Agency Investment Fund (LAIF) yield of 0.21%. This favorable yield differential to LAIF was primarily due to the LAIF portfolio's lower weighted average maturity (WAM) of 338 days versus the Town's longer WAM of 471 days. The Town's weighted average rate of return of 1.20% at the close of the Second quarter was 42 basis points lower when compared to the Second quarter return of 1.62% in 2020.

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

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



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 284,009	\$ 422,729	\$ 482,517	\$ 343,813	\$ 263,702
Fiscal Year Total Actual Revenues	\$ 603,017	\$ 801,729	\$1,145,538	\$ 876,640	
Fiscal Year Total Estimated Revenues					\$ 551,233
Fiscal Year Budgeted Revenues					\$ 551,233
2nd Quarter Revenue Percent of Total	47%	53%	42%	39%	48%

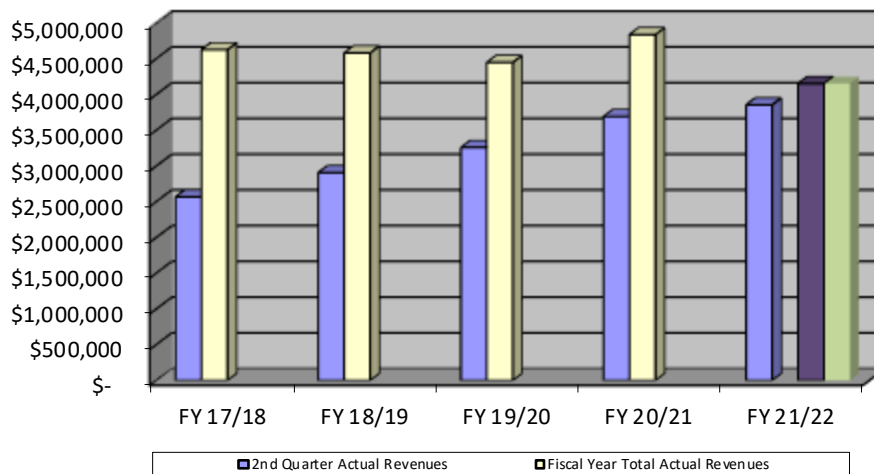
Recommended Budget Revision

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 higher than in the second quarter compared to the previous fiscal year, with 93% of budgeted revenues already received. Typically, development fees are collected in advance for projects and recognized as revenue in the fiscal year the work is performed. Staff recommends a \$287,660 budget increase to reflect increased activities in planning and engineering services.

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



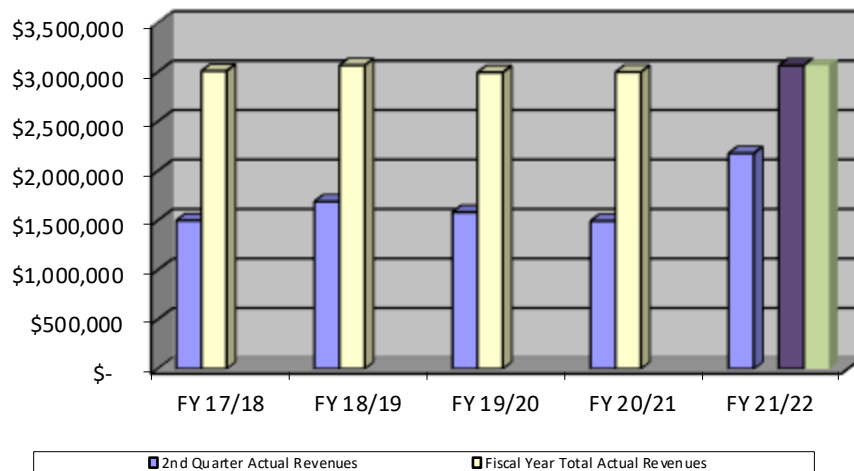
	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 2,567,814	\$ 2,905,238	\$ 3,258,027	\$ 3,691,233	\$ 3,854,415
Fiscal Year Total Actual Revenues	\$ 4,625,136	\$ 4,580,511	\$ 4,447,213	\$ 4,835,962	
Fiscal Year Total Estimated Revenues					\$ 4,152,549
Fiscal Year Budgeted Revenues					\$ 3,860,490
2nd Quarter Revenue Percent of Total	56%	63%	73%	76%	93%
Recommended Budget Revision					\$ 287,660

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 2020/21 in anticipation of slower development activity; however, actual development activities are higher in the current fiscal year.

Second quarter License and Permit revenue is trending 83% of budgeted revenue and higher than second quarter results from the previous fiscal year. Staff recommends a \$433,128 increase to this revenue source.

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



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 1,498,864	\$ 1,692,252	\$ 1,584,098	\$ 1,494,487	\$ 2,180,000
Fiscal Year Total Actual Revenues	\$ 3,011,309	\$ 3,067,994	\$ 2,996,457	\$ 2,999,711	
Fiscal Year Total Estimated Revenues					\$ 3,065,997
Fiscal Year Budgeted Revenues					\$ 2,641,779
2nd Quarter Revenue Percent of Total	50%	55%	53%	50%	83%
Recommended Budget Revision					\$ 433,128

GENERAL FUND – EXPENDITURE ANALYSIS

For FY 2021/22, General Fund Operating expenditures (not including debt payment and transfers out) are programmed at \$44.7 million. The delivery of Town services is highly dependent on talent which comprises 64% of budgeted General Fund expenditures for FY 2021/22. 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 47% 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.

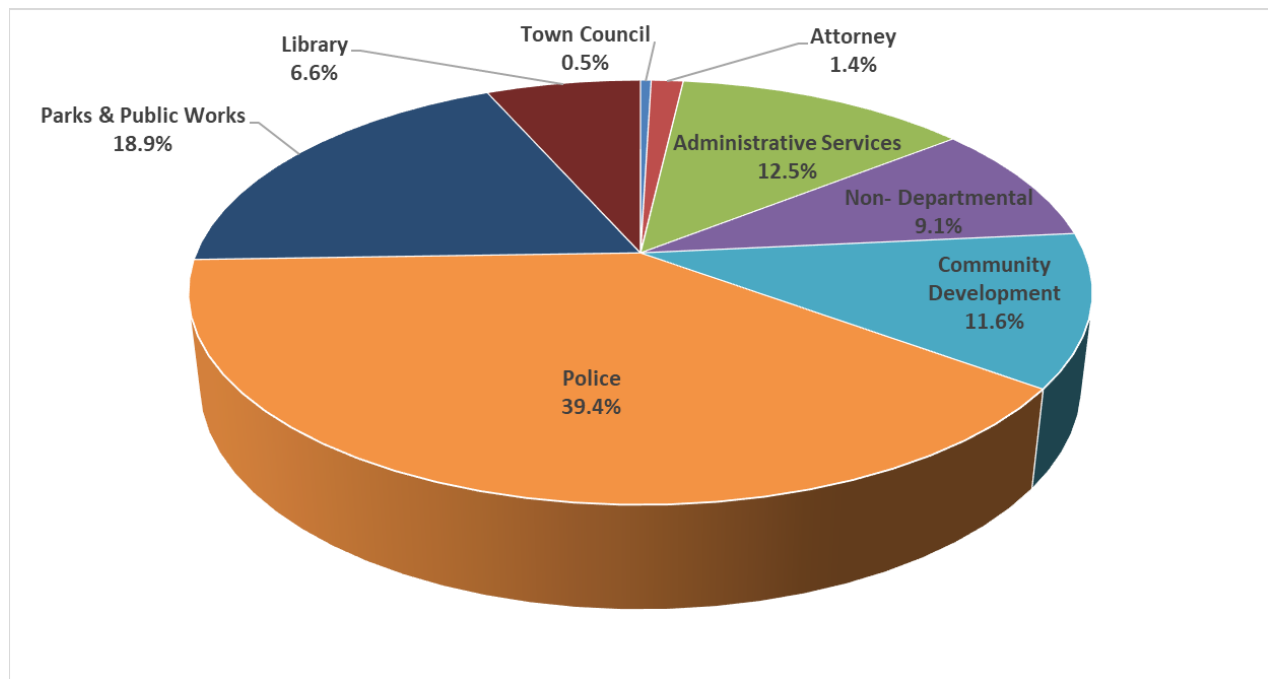
As with most municipalities, services are provided directly by employees to the Town’s residents, businesses, and visitors. As a service delivery enterprise, the cost of salaries and benefits are a significant portion of the budget. As the table below illustrates, at mid-year, actual salaries are trending at 47% of budgeted salaries, while pension benefits and other benefits are trending at 45% and 44% respectively to the adjusted budget. The Town submits its entire annual amortization payment of the Town’s unfunded pension liability upfront in July as a cost savings measure, saving approximately \$145,000 in interest expense. The Town traditionally booked the entire lump sum payment in July to reflect the unfunded liability payment. Starting in the current fiscal year, staff continued disbursement of the lump sum payment in July to take advantage of the interest savings; however, the expense will be booked monthly to accurately reflect staffing costs throughout the year.

General Fund Salaries & Benefits							
	FY 2020/21 Actuals	FY 2020/21 2Q	Q2% of FY 2020/21 Actuals	Q2% of FY 2021/22 Adjusted Budget	FY 2021/22 2Q	FY 2021/22 Estimated	FY 2021/22 Adjusted Budget
Salaries	\$ 20,213,047	\$ 9,977,252	49%	47%	\$ 9,805,293	\$ 20,599,803	\$ 20,812,013
Pension Benefits	\$ 6,374,120	\$ 5,127,995	80%	45%	\$ 3,259,216	\$ 6,630,301	\$ 7,316,731
Other Benefits	\$ 3,710,337	\$ 1,853,907	50%	44%	\$ 1,868,661	\$ 3,760,575	\$ 4,228,303
Total Salary & Benefit	\$ 30,297,504	\$ 16,959,154	56%	46%	\$ 14,933,170	\$ 30,990,679	\$ 32,357,047
FY 2020/21 Upfront Annual Payment to CalPERS in July 2020 \$3,954,819 (not including ADP) - Booked in July 2020							
FY 2021/22 Upfront Annual Payment to CalPERS in July 2021 \$4,231,602 (not including ADP) - Booked Monthly							

Salaries and benefits savings are anticipated due to vacancies and reduced cost structure due to 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-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Town Attorney	Legal Administrative Assistant	Vacant					Filled with Temp
Administrative Services	Emergency Manager	Vacant					
Administrative Services	Administrative Technician	Filled - Permanent				Vacant	Filled
Community Development	Planning Manager	Vacant	Filled Interim		Filled - Permanent		
Community Development	Assistant Planner	Filled - Permanent			Vacant	Filled with Temp	Filled
Community Development	Senior Planner	Filled - Permanent				Vacant	Filled
Community Development	Associate Planner	Filled - Permanent					Vacant
Police	Police Dispatcher	Vacant					
Police	Police Dispatcher	Vacant					
Police	Police Dispatcher	Vacant					Filled
Police	Police Dispatcher	Filled - Permanent		Vacant			
Police	Police Officer	Vacant					
Police	Police Officer	Vacant					Filled
Police	Police Officer	Filled - Permanent		Vacant			Filled
Police	Police Officer	Filled - Permanent					Vacant
Police	Police Officer	Filled - Permanent					Vacant
Police	Police Officer	Filled - Permanent					Vacant
Police	Police Chief	Filled - Permanent		Vacant			
Police	Police Records & Communication Manager	Filled - Permanent			Vacant		
Police	Police Record Specialist	Filled - Permanent					Vacant
Parks & Public Works	Streets Maintenance Worker	Filled with Temp		Filled with Trainee			
Parks & Public Works	Administrative Assistant	Filled - Permanent					Vacant
Library	Library Specialist	Vacant	Filled - Permanent				
Library	Librarian	Vacant			Filled - Permanent		
Library	Senior Library Page	Filled - Permanent			Vacant - Filled with Temp		

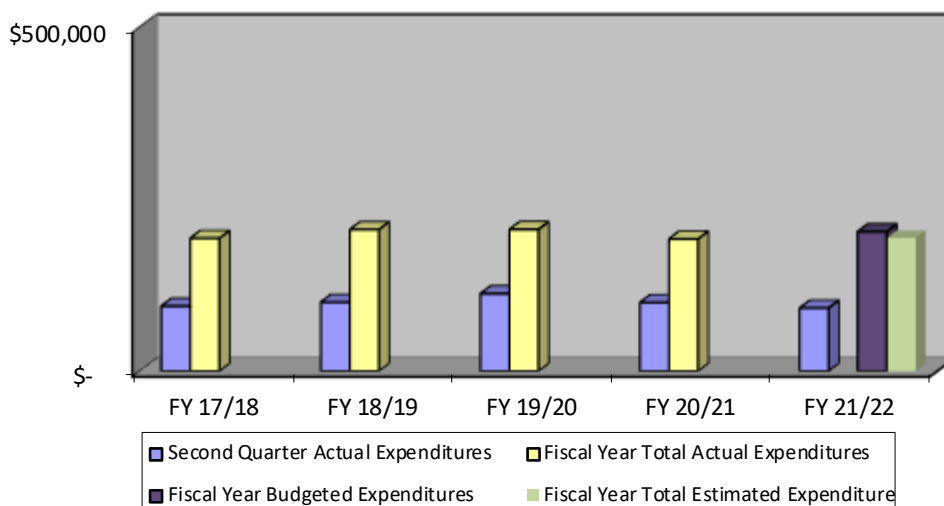
The pie chart below represents the Departmental proportion of Town General Fund estimated operating expenditures. The subsequent pages review program expenditures and any anticipated savings are provided for each program. Also provided are historical program costs, year over year (YOY) percentage changes 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 2021/22 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 less than \$10,000 in 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**



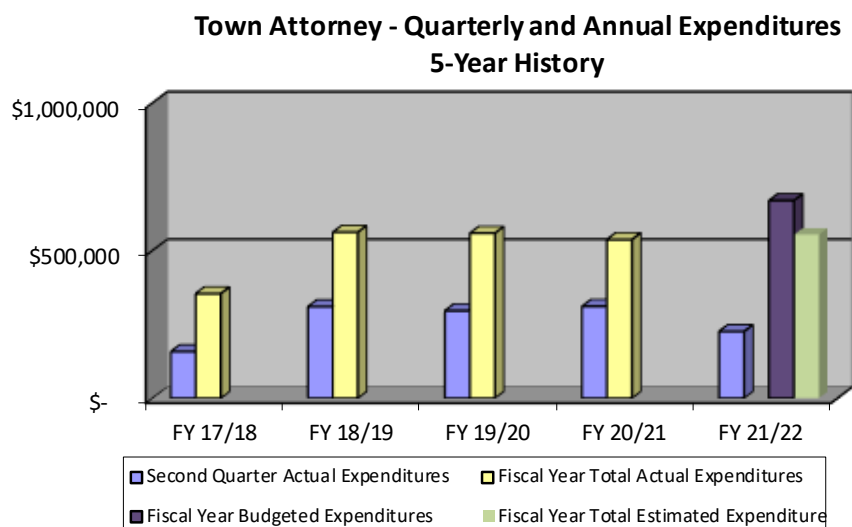
	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
Second Quarter Actual Expenditures	\$ 94,520	\$ 100,209	\$ 112,711	\$ 99,787	\$ 91,800
Fiscal Year Total Actual Expenditures	\$ 193,183	\$ 205,903	\$ 206,163	\$ 192,280	
Fiscal Year Total Estimated Expenditure					\$ 193,559
Fiscal Year Budgeted Expenditures					\$ 202,891
Second Quarter Percentage of Total	49%	49%	55%	52%	45%

Recommended Budget Revision

YOY Percentage Changes	-0.21%	6.58%	0.13%	-6.73%	0.67%
5-year Average Percentage Change					0.09%

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 lower than the same quarter in the prior year. This program had a Deputy Attorney position that was vacated in March 2021 which remained unfilled and was reclassified to Legal Administrative Assistant which was filled as of 12/31/2021. The Town Attorney position was vacated as of January 1, 2022 with an anticipated filling of the position in Spring. Staff estimates approximately \$115,000 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.



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
Second Quarter Actual Expenditures	\$ 158,095	\$ 310,219	\$ 296,424	\$ 311,520	\$ 226,341
Fiscal Year Total Actual Expenditures	\$ 354,205	\$ 562,542	\$ 559,010	\$ 537,296	
Fiscal Year Total Estimated Expenditure					\$ 554,137
Fiscal Year Budgeted Expenditures					\$ 669,733

Second Quarter Percentage of Total	45%	55%	53%	58%	34%
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Recommended Budget Revision

YOY Percentage Changes	-16.96%	58.82%	-0.63%	-3.88%	3.13%
5-year Average Percentage Change					8.10%

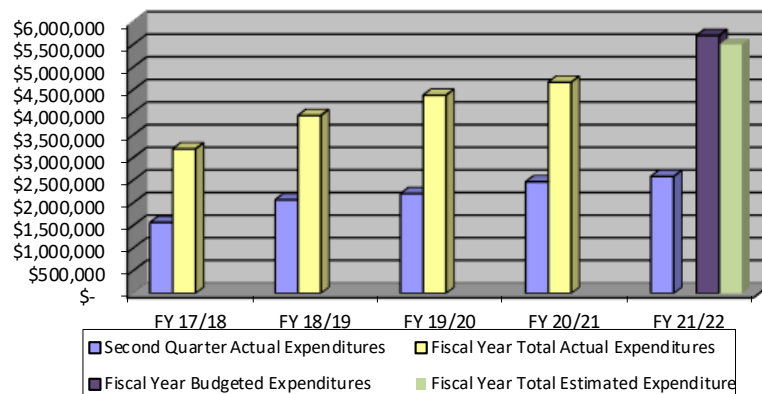
The decrease from FY 2016/17 to FY 2017/18 is attributable to the Town's legal expenses related to the North 40 lawsuit in FY 2016/17. In addition, beginning in FY 2018/19, all personnel costs that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall 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 lower than same quarter expenditures in prior year. While this program had some vacancies during the course of the first half of the fiscal year there is only one vacancy (Temporary Emergency Services Coordinator) as of December 31, 2021. That position is scheduled to be filled in late February. The Finance Director position was vacated as of January 1, 2022, and staff anticipates filling the position in March/April. Staff estimates approximately \$200,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, travel and training, and office supplies. Staff recommends \$28,400 budget adjustments to cover additional executive recruitment expenses.

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



	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
Second Quarter Actual Expenditures	\$1,567,002	\$2,069,839	\$2,204,552	\$2,467,813	\$2,584,905
Fiscal Year Total Actual Expenditures	\$3,193,995	\$3,931,807	\$4,380,504	\$4,667,995	
Fiscal Year Total Estimated Expenditure					\$5,501,110
Fiscal Year Budgeted Expenditures					\$5,701,385
Second Quarter Percentage of Total	49%	53%	50%	53%	45%
Recommended Budget Revision					\$ 28,400
YOY Percentage Changes	11.55%	23.10%	11.41%	6.56%	17.85%
5-year Average Percentage Change					14.09%

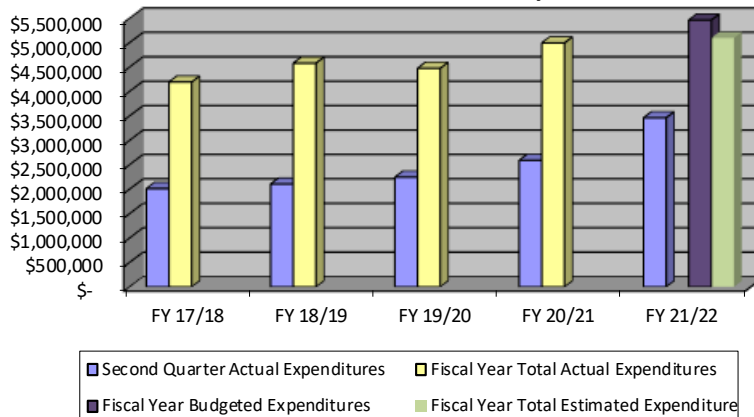
Beginning in FY 2018/19, all personnel that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a 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 higher than the same quarter expenditures in prior year due to increased development activities in the Department Pass Through program. 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 has one vacancy (Associate Planner) as of December 31, 2021; however, the Planning Manager, Assistant Planner, Senior Planner positions were all partially vacant during the first half of the fiscal year. Staff anticipates approximately \$360,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, travel and training, and office supplies. Staff does not recommend any expenditure budget adjustment in the Community Development Department expenditure budget.

**Community Development - Quarterly and Annual Expenditures
5-Year History**



	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
Second Quarter Actual Expenditures	\$2,012,335	\$2,104,258	\$2,245,767	\$2,589,502	\$3,460,301
Fiscal Year Total Actual Expenditures	\$4,192,165	\$4,577,495	\$4,473,790	\$4,994,391	\$5,094,473
Fiscal Year Total Estimated Expenditure					\$5,094,473
Fiscal Year Budgeted Expenditures					\$5,461,716
Second Quarter Percentage of Total	48%	46%	50%	52%	63%

Recommended Budget Revision

YOY Percentage Changes	9.50%	9.19%	-2.27%	11.64%	2.00%
5-year Average Percentage Change					6.01%

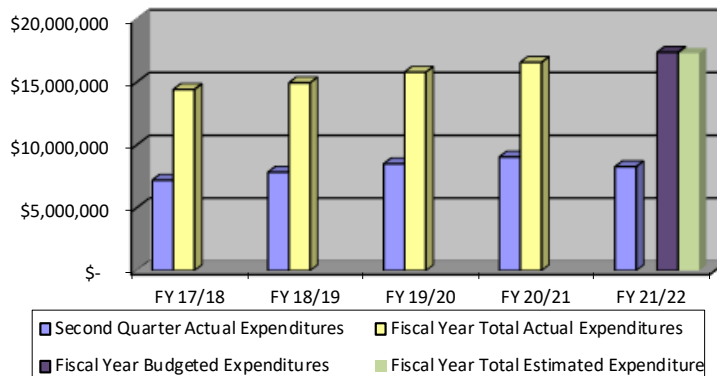
Community Development Department expenditures varies year to year based on the development activity and pass through services. FY 2020/21 and FY 2021/22 include one-time special project related services to the General Plan update.

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 recommends \$14,636 expenditure budget increase related to crossing guard services as explained in the next section of this report.

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



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
Second Quarter Actual Expenditures	\$ 7,197,220	\$ 7,832,251	\$ 8,504,636	\$ 9,041,998	\$ 8,266,574
Fiscal Year Total Actual Expenditures	\$ 14,423,554	\$ 14,948,952	\$ 15,793,815	\$ 16,570,836	
Fiscal Year Total Estimated Expenditure					\$ 17,289,979
Fiscal Year Budgeted Expenditures					\$ 17,376,333
Second Quarter Percentage of Total	50%	52%	54%	55%	48%
Recommended Budget Revision					\$ 14,636
YOY Percentage Changes	8.13%	3.64%	5.65%	4.92%	4.34%
5-year Average Percentage Change					5.34%

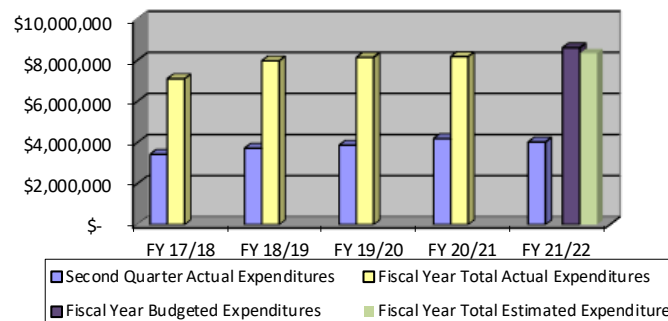
Parks and Public Works Services

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 had one vacancy (Maintenance Worker) that was filled with a temporary replacement in order to deliver services until vacancies were filled permanently. In addition, an Administrative Assistant position opened up during December due to a staff promotion. Staff is requesting the addition of an Urban Forest Manager position to manage the Town's urban forest and fire safety program. 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 \$270,000 expenditures savings in this program. Savings are anticipated in fuel expenditures, travel and training, and office supplies. Staff recommends an expenditure budget increase of \$171,936 attributed to the additional Urban Forest Manager position, increased costs in underground utility locator services, emergency storm responses, and safety measures as explained in the next section of this Report.

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



	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
Second Quarter Actual Expenditures	\$3,422,553	\$3,717,900	\$3,864,874	\$4,185,306	\$4,020,953
Fiscal Year Total Actual Expenditures	\$7,099,527	\$7,969,631	\$8,139,106	\$8,175,987	
Fiscal Year Total Estimated Expenditure					\$8,332,422
Fiscal Year Budgeted Expenditures					\$8,605,418
Second Quarter Percentage of Total	48%	47%	47%	51%	47%
Recommended Budget Revision					\$ 171,936
YOY Percentage Changes	7.07%	12.26%	2.13%	0.45%	1.91%
5-year Average Percentage Change					4.76%

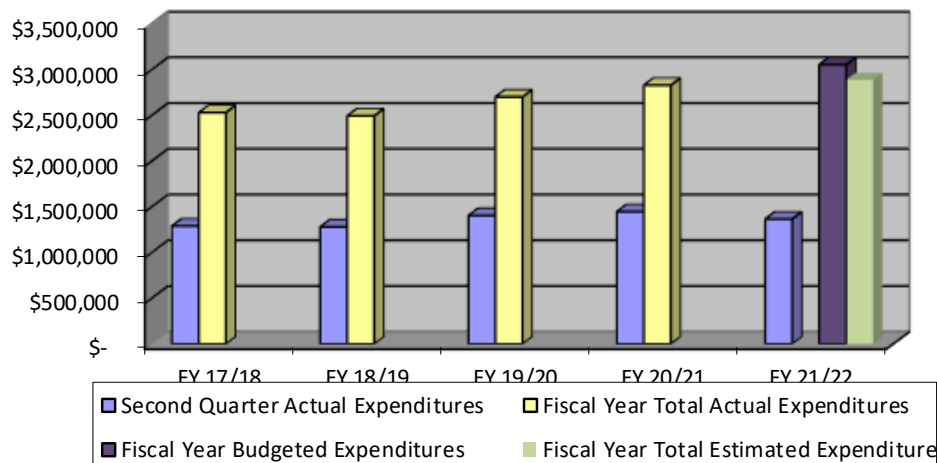
Beginning in FY 2018/19, all personnel that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a 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 has one vacancy (Senior Library Page) as of as of December 31, 2021. Staff anticipates approximately \$160,000 expenditures savings in this program. Savings are anticipated in temporary employee salaries, travel and training, and office supplies. Staff recommends a \$9,000 budget increase to authorize spending of a State Library Grant received by the Department and no other adjustments at this time.

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



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
Second Quarter Actual Expenditures	\$1,289,625	\$1,280,179	\$1,404,285	\$1,445,899	\$1,365,415
Fiscal Year Total Actual Expenditures	\$2,529,017	\$2,493,617	\$2,700,802	\$2,828,873	
Fiscal Year Total Estimated Expenditure					\$2,886,606
Fiscal Year Budgeted Expenditures					\$3,053,708

Second Quarter Percentage of Total	51%	51%	52%	51%	45%
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Recommended Budget Revision	\$ 9,000				
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YOY Percentage Changes	0.80%	-1.40%	8.31%	4.74%	2.04%
5-year Average Percentage Change	2.90%				

FY 2021/22 RECOMMENDED BUDGET ADJUSTMENTS

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

FY 2021/22 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUNDS					
Fund	Program	Account	General Fund Revenues		
111	1201	411XX	Property Tax	\$ (480,475)	Based on Santa Clara County Property Tax Estimates 2/6/2022
111	1201	41141	Motor Vehicle In Lieu Fee	75,142	Based on Santa Clara County Property Tax Estimates 2/6/2022
111	1201	41211	Sales & Use Tax	(144,495)	Based on MuniServices Most Probable Sales Tax Estimates
111	1221	41214	Measure G - District Sales Tax	209,414	Based on MuniServices Most Probable Sales Tax Estimates
111	1201	41311	Transient Occupancy Tax	479,960	Funds Received
111	1201	41612	Cable Franchise Fees	(83,610)	Funds are not Received
111	3201	42413	Planning Permit	100,000	Funds Anticipated
111	3201	44412	Plan Check	25,000	Funds Anticipated
111	3301	45111	Planning Administration Citation	10,000	Funds Received
111	4202	43336	Prop 172 - Public Safety Sales Tax	65,400	Based on MuniServices Most Probable Sales Tax Estimates
111	4302	44512	Crossing Guards' Services	11,660	Funds Anticipated
111	4815	43525	Tobacco Grant	7,000	Funds Anticipated
111	5202	42514	Encroachment Permits	300,000	Funds Anticipated
111	5202	45127	Engineering Services	150,000	Funds Anticipated
111	5202	44417	Engineering Review Services	50,000	Funds Anticipated
111	5202	42511	Grading Inspection	35,000	Funds Anticipated
111	5301	42511	OMP- Reservation Fees	53,128	Funds Anticipated
111	5301	42512	OMP- Parking Fee	(20,000)	Funds are not Received
111	5401	44627	Arborist Reimbursement Fee	16,000	Funds Anticipated
111	5401		From Tree Replacement Deposit	105,000	Funds are Available
111	7801	43343	Public Library Fund Grant	9,000	Matching Expenditure
TOTAL GENERAL FUND REVENUES				\$ 973,124	
Fund	Program	Account	General Fund Expenditures		
111	1201	62113	Town Share of Retiree Medical	\$ 220,000	Funds are not Expended
111	1201	63219	Special Studies - Business Tax Ordinance Review	20,000	Funds are not Expended
111	1201	63219	Special Studies - Council Retreat	20,000	Funds are not Expended
111	1201	63219	Special Studies - NUMU Antique Map	20,000	Funds are not Expended
111	1201	63219	Compensation Study	15,300	Funds are not Expended
111	2201	63213	Additional Executive Recruitment Services	28,400	Funds are not Expended
111	4302	63342	Crossing Guards' Services	14,636	Funds are Partially Expended
111	5202	63356	Underground Utility Locator	15,000	Funds are not Expended
111	5401	63364	Underground Utility Locator	10,000	Funds are Partially Expended
111	5301	61224	Playground Safety Equipment	3,027	Funds are Expended
111	5301	62379	Civic Center Fountain - Safety Enhancements	25,638	Funds are not Expended
111	5401	62379	Emergency Storm Responses	13,271	Funds are Expended
111	5401	5****	Urban Forest Manager	105,000	Funds are not Expended
111	7801	61172	Youth Collections	9,000	Matching Revenue
TOTAL GENERAL FUND EXPENDITURES				\$ 519,272	
FY 2021/22 MID-YEAR BUDGET ADJUSTMENT REQUESTS - OTHER FUNDS					
Fund	Program	Account	Other Fund Revenues		
711			Library Trust		
711	7301	45452	Additional Donation Received	15,000	Funds Received
				\$ 15,000	
TOTAL OTHER FUNDS REVENUES				\$ 15,000	
411			GFAR		
411	411-xxx-xxxx	82405	Recreation Center HVAC Update	160,000	From Available GFAR balance
411	411-812-0130	82405	224 West Main to Below Market Housing Fund	1,498,776	From Available GFAR balance
				\$ 1,658,776	
612			Workers Compensation		
	2202	63323	Increase to Excess Claim Experience	42,000	Balance
				\$ 42,000	
633			Facilities Maintenance		
633	5404	62371	Theatre Needs	20,000	From Available Facilities Maintenance Internal Service Fund
				\$ 20,000	
711			Library Trust Fund		
711	7301	62424	Additional Donation Received	5,000	Funds are not Expended
				\$ 5,000	
TOTAL OTHER FUNDS EXPENDITURES				\$ 1,725,776	

SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

- General Property Tax and Motor Vehicle in Lieu Fee: Staff recommends a decrease in projected revenues of approximately \$480,475 in General Property Tax and an increase of \$75,142 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 \$144,495 budget decrease to reflect current sales tax trends based on MuniServices most likely projections.
- Measure G – District Sales Tax: Staff recommends a \$209,414 budget increase 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 \$479,960 budget increase based on the current trends.
- Cable Franchise Fee: Staff recommends a decrease in projected revenues of approximately \$83,610 in cable franchise fee based on current activities and trends.
- Planning Permit Fee: Staff recommends a \$100,000 budget increase based on the current planning activities.
- Plan Check Fee: Staff recommends a \$25,000 budget increase based on the current plan check activities.
- Planning Administration Citation: Staff recommends a \$10,000 budget increase based on the current administrative citation revenue received.
- Prop 172 – Public Safety Sales Tax: Staff recommends a \$65,400 budget increase to reflect the current trends of the Prop 172- Public Safety Sales Tax based on MuniServices projections.
- Crossing Guard Services: The Town Council approved an agreement with All City Management Services, Inc. (ACMS) to provide crossing guard services at selected school crossing locations in the Town of Los Gatos. The Town contracts with ACMS and the expenses for Crossing Guard services are shared between the Town, Los Gatos Union School District, and Union School District. Town expenditures for the contract account for approximately twenty percent of the annual cost. Staff recommends a revenue budget increase of \$11,660 and a corresponding expenditure increase of \$14,636.
- Tobacco Enforcement Grant: Staff recommends a \$7,000 revenue budget increase to recognize the receipt of Tobacco Enforcement Grant funds.
- Encroachment Permits: Staff recommends a revenue budget increase of \$300,000 to recognize increased developments happening in Town.
- Engineering Services: Staff recommends a revenue budget increase of \$150,000 to recognize increased developments happening in Town.

- Engineering Review Surcharge: Staff recommends a revenue budget increase of \$50,000 to recognize increased developments happening in Town.
- Grading Inspection: Staff recommends a revenue budget increase of \$35,000 to recognize increased developments happening in Town.
- Oak Meadow Park Reservation Fees: Staff recommends a revenue budget increase of \$53,128 to recognize the ongoing increased parks reservations during COVID.
- Oak Meadow Park Parking Fee: Staff recommends a decrease in the Oak Meadow Park Parking fee revenue in the amount of \$20,000 to recognize the inability to fill a booth attendant position. Staff is in the process of procuring a pay station that will integrate with the Town's current parking enforcement efforts.
- Arborist Reimbursement Fee: Staff recommends a revenue budget increase of \$16,000 to recognize increased arborist review related to development projects.
- Town Share of Retiree Medical: Staff recommends an expenditure budget increase of \$220,000 to recognize increased cost related the retiree medical services due to additional recent retirements.
- Special Studies: Staff recommends an expenditure budget increase of \$75,730 to cover the cost for special studies related to the Business Tax Ordinance Review, Council Retreat, NUMU Antique Map, and Compensation Study.
- Executive Recruitments Services: Staff recommends an expenditure budget increase of \$28,400 to cover additional executive recruitment services.
- Arborist Reimbursement Fee: Staff recommends a revenue budget increase of \$16,000 to recognize increased arborist review related to development projects.
- Underground Utility Locator: Staff recommends an expenditure budget increase of \$25,000 in multiple programs to recognize the increased construction activities in the first half of the fiscal year.
- Playground Safety Equipment: Staff recommends an expenditure budget increase of \$3,027 to recognize the playground equipment installation needed to replace broken/hazardous equipment at Bachman Park.
- Civic Center Fountain – Safety Enhancements: Staff recommends an expenditure budget increase of \$25,638 to recognize an increase in the contract amount and also for extra charges for the Plaza Fountain due to re-starting it after the COVID shutdown.
- Emergency Storm Responses: Staff recommends an expenditure budget increase of \$13,271 to recognize urgent expenditures during late December storms.

- Urban Forest Manager: Staff recommends an expenditure budget increase of \$105,000 for the addition of an Urban Forest Manager position to manage the Town's urban forest and fire safety program. 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. The Salary Schedule with the Urban Forest Manager classification is a separate attachment to this agenda item.

Other Fund Revenues and Expenditures

- Adult Recreation Center HVAC Cooling System: Staff recommends a \$160,000 expenditure budget increase from available General Fund Appropriated Reserve balance for replacing failing HVAC units in the Adult Recreational Center.
- 224 West Main Property: Staff recommends an expenditure budget increase of \$1,498,776 to transfer the original Redevelopment money utilized for the purchase of the 224 West Main Property for development for low and moderate housing. Since low/mod housing has not been developed on the property as of 12/31/2021, staff recommends transferring the \$1,498,776 to the Below Market Housing Deposit account for future development of low/mod housing. Funds are being drawn down from the available \$1,460,210 Reserve for Parking and an additional \$29,568 GFAR balance.
- Workers Compensation Activities: The Town is self-insured for workers' compensation claims up to the first \$250,000 of expenses per employee claim related to medical treatment and disability payments. Individual employee claims that exceed \$250,000 in cost are fully insured through the Town's excess insurance carrier. The annual premium cost is determined by the history of claim payments for the Town and also by the other local agencies that participate in the joint powers authority pool for the same amount of excess insurance. Based on the recent claims experience and increased costs related to two older claims for former Town employees, the annual premium was more than anticipated when preparing the annual budget. Staff is requesting an adjustment of \$42,000 to replenish the workers' compensation program insurance premium from the available Workers Compensation Fund balance.
- Theatre Needs: Staff recommends a \$20,000 expenditure budget increase from available Facilities Maintenance Internal Service Fund balance for additional expenses related to the Los Gatos Theatre Building for startup of the facility – roof repair, fire system inspection, elevator inspection, fire and building alarm costs.
- Library Trust programming: Library Trust consists of funds that are received from philanthropic donation from the non-profit fundraising organization Friends of the Los Gatos Library. Due to impacts from COVID-19, the Friends normal fundraising operations were greatly reduced resulting in lower anticipated donated amount in the budget; however, the Friends were able to donate an additional of \$15,000 this year. Staff anticipated spending \$5,000 of the additional donation in the current fiscal year.

American Rescue Plan Act (ARPA) Fund:

The FY 2001/22 budget was adopted prior to the receipt of American Rescue Plan Act (ARPA) funds. Accounting procedures require the revenue to be recognized in the newly established ARPA Special Revenue Fund. ARPA adopted revenue and usage budgeted for FY 2021/22 is being reclassified to the ARPA Fund. Council approved ARPA funded expenses will be recorded as an expenditure in the ARPA Fund and as ARPA income replacement in the program ultimately receiving the revenue with the appropriate budget adjustments. The table below summarize the budget adjustment required to reclassify this revenue.

FY 2021/22 MID-YEAR BUDGET ADJUSTMENT REQUESTS - ARPA RECLASSIFICATION					
Fund	Program	Account	American Rescue Plan Act (ARPA) Fund		
111	1201	43217	ARPA - Intergovernmental Revenue	(2,844,315)	Reclassification to ARPA Fund
111	5301	43217	ARPA - Intergovernmental Revenue	(45,070)	Reclassification to ARPA Fund
633	5404	43217	ARPA - Intergovernmental Revenue	(261,382)	Reclassification to ARPA Fund
731	7301	43217	ARPA - Intergovernmental Revenue	(35,000)	Reclassification to ARPA Fund
241	1241	43217	ARPA - Intergovernmental Revenue	3,185,767	Reclassification from General Fund
				\$ -	
111	1201	67109	ARPA - Grant Expense	(296,382)	Reclassification to ARPA Fund
241	1241	68219	ARPA - Income Replacement Expense	296,382	Reclassification from General Fund
				\$ -	

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 2021/22 which includes comparison information from the prior year.

The FY 2021/22 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 special studies, salary adjustments for Police Dispatchers, and miscellaneous carry over grants from prior fiscal year.

The FY 2021/22 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 2021/22 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 2021/22 year-end estimated revenue and expenditure numbers and an update will be provided with the presentation of the Proposed Fiscal Year 2022/23 Operating Budget.

GENERAL FUND
SUMMARY OF REVENUES AND EXPENDITURES

	FY 2020/21 Actuals	FY 2020/21 Q2	Q2% of FY 2019/20 Actuals	Q2% of FY 2020/21 Adjusted Budget	FY 2021/22 Q2	FY 2021/22 Adjusted Budget	FY 2021/22 Estimated YE Including Mid-Year Proposed
Revenues							
Property Tax	\$ 15,826,162	\$ 5,481,928	34.6%	36.3%	\$ 5,761,081	\$ 15,881,866	\$ 15,401,391
VLF Backfill Property Tax	4,052,672	-	0.0%	0.0%	-	4,154,320	4,229,462
Sales & Use Tax	6,794,218	2,429,968	35.8%	29.7%	2,143,460	7,213,540	7,069,045
Measure G Sales & Use Tax	1,139,386	383,684	33.7%	42.8%	412,881	964,319	1,173,733
Franchise Fees	2,499,463	807,883	32.3%	37.3%	968,181	2,597,630	2,503,560
Transient Occupancy Tax	1,044,820	399,620	38.2%	77.4%	711,861	920,040	1,400,000
Business License Tax	1,386,943	224,388	16.2%	13.4%	167,942	1,250,000	1,250,000
Licenses & Permits	2,999,711	1,494,487	49.8%	82.5%	2,180,000	2,641,779	3,065,997
Intergovernmental	1,573,697	818,352	52.0%	9.5%	370,615	3,881,836	1,130,125
Town Services	4,835,962	3,691,233	76.3%	100.5%	3,854,415	3,834,579	4,152,549
Fines & Forfeitures	103,467	31,638	30.6%	58.4%	118,809	203,450	218,120
Interest	876,460	(1,485,278)	-169.5%	-15.4%	(85,001)	551,233	551,233
GASB 31 to Market	(780,399)	517,744	-66.3%	114.7%	(126,168)	(110,000)	(110,000)
Use of Property	36,372	-	0.0%	-	-	-	-
Miscellaneous Other	335,906	1,367,206	407.0%	24.4%	153,036	626,631	964,163
Park Construction Tax	14,921	-	-	-	7,680	7,000	8,280
Debt Service - Entry Eliminated for ACFR	1,908,494	-	0.0%	0.0%	-	1,899,850	1,899,850
ARPA Income Replacement - Entry Eliminated for ACFR	79,176	-	-	-	-	-	-
Proceeds for Sales of Assets	1,201,369	-	0.0%	-	-	-	-
Fund Transfer In	652,056	104,659	16.1%	16.5%	104,659	633,352	633,352
Total Revenues & Transfers In	\$ 46,580,856	\$ 16,267,512	35%	36%	\$ 16,743,451	\$ 47,151,425	\$ 45,540,860
Use of Other Funding Sources:							
Use of Reserves - Capital/Special Projects - Capital	\$ 3,401,479	\$ -	0.0%	0.0%	\$ -	\$ 550,000	\$ 550,000
Use of Reserves - Capital/Special Projects - Other	-	-	-	-	-	\$ 250,596	\$ 250,596
Use of Reserve - Pension/OPEB	\$ 4,532,500	-	-	-	-	-	-
Use of Reserve - Accumulated Measure G	-	-	-	-	-	590,581	590,581
Use of Reserves - Surplus Property	-	-	-	-	-	1,200,000	1,200,000
Use of ARPA - Income Replacement	-	-	-	-	-	-	1,444,021
Use of ARPA - Community Grants	-	-	-	-	-	550,000	-
Total Other Funding Sources	\$ 7,933,979	\$ -	0%	0%	\$ -	\$ 3,141,177	\$ 4,035,198
Total Revenues and Use of Reserves	\$ 54,514,835	\$ 16,267,512	30%	33%	\$ 16,743,451	\$ 50,292,602	\$ 49,576,058
Expenditures							
Town Council	\$ 192,280	\$ 99,787	51.9%	45.2%	91,800	\$ 202,891	\$ 193,559
Attorney	537,296	311,520	58.0%	33.8%	226,341	669,733	554,137
Administrative Services	4,667,995	2,467,813	52.9%	45.3%	2,584,905	5,701,385	5,501,110
Non- Departmental	8,642,563	4,437,554	51.3%	32.0%	1,159,874	3,628,466	4,046,008
Community Development	4,994,391	2,589,502	51.8%	63.4%	3,460,301	5,461,716	5,094,473
Police	16,570,836	9,041,998	54.6%	47.6%	8,266,574	17,376,333	17,289,979
Parks & Public Works	8,175,987	4,185,306	51.2%	46.7%	4,020,953	8,605,418	8,332,422
Library	2,828,873	1,445,899	51.1%	44.4%	1,356,415	3,053,708	2,886,606
Capital Outlay	2,365	-	-	-	-	-	-
Total Department Expenditures	\$ 46,612,586	\$ 24,579,379	53%	47%	\$ 21,167,163	\$ 44,699,650	\$ 43,898,294
Debt Service - Entry Eliminated for ACFR	\$ 1,908,494	\$ -	0.0%	0.0%	\$ -	\$ 1,899,850	\$ 1,899,850
ARPA Income Replacement - Entry Eliminated for ACFR	\$ 79,176	-	-	-	-	-	-
Transfers Out	3,401,479	-	0.0%	0.0%	-	2,801,047	2,801,047
Total Additional Non-Departmental Expenditures	\$ 5,389,149	\$ -	0%	0%	\$ -	\$ 4,700,897	\$ 4,700,897
Total Operating Expenditures	\$ 52,001,735	\$ 24,579,379	47%	43%	\$ 21,167,163	\$ 49,400,547	\$ 48,599,191
Allocate to Budget Stabilization/Catastrophis Reserve	65,764	-	-	-	-	-	-
Allocate to Compensated Absences	110,509	-	-	-	-	-	-
Allocate to Surplus Property Reserve	1,200,000	-	-	-	-	-	-
Allocate to Sale of Property Reserve	5,302	-	-	-	-	-	-
Allocate to Pension/OPEB Reserve	300,000	-	-	-	-	-	-
Allocate to Measure G - Capital	-	-	-	-	-	482,160	586,867
Allocate to Restricted Pension Trust	-	-	-	-	-	390,000	390,000
Excess (Deficiency) of Revenues Over Expenditures	\$ 831,525	\$ (8,311,867) *			\$ (4,423,712) *	\$ 19,895	\$ -

*FY 2020/21 and FY 2021/22 Q2 Net Operating Revenues are negative because some revenues budgeted for the entire fiscal year are received in the third or fourth quarters and fund expended in the first or second quarters.

** FY 2021/22 General Fund Budget included the ARPA revenue receipt, now the ARPA revenue is budgeted in a Special Revenue Fund.

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, and the Newly established American Recovery Program Act (ARPA) Fund. Staff recommends designating ARPA funding as a special revenue fund instead of the recognizing it in the General Fund. This requires revenue budget decreases/increases in the amount of \$3,185,767 for General Fund and In the ARPA Special Revenue Fund respectively and expenditure budget decreases/increases in the amount of \$296,382 for the General Fund and ARPA Special Revenue Fund respectively.

Special Revenue Funds Budget to Actuals Comparisons

	CDBG Grants	Non-Point Source	LLD's	ARPA
Beginning Fund Balance	\$ 166,654	\$ 371,240	\$ 172,355	\$ -
Budgeted Revenues	-	231,323	39,680	3,185,767
Total Actual Revenues - 2nd Qtr	\$ -	\$ 96,385	\$ -	\$ 3,413,961
Budgeted Expenditures	-	221,044	100,199	296,382
Total Actual Expenditures - 2nd Qtr	-	97,568	11,896	-
2nd Quarter Ending Fund Balance	\$ 166,654	\$ 370,057	\$ 160,459	\$ 3,413,961

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 budget adjustment in the amount of \$160,000 for the Adult Recreation Center HVAC Improvements and the Redevelopment funding of \$1,658,776 used for the purchase of the 224 W Main Property to be transferred to the Below Market Housing Program deposit account. 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	\$ 15,433,836	\$ 2,322,525	\$ (699,244)	\$ 2,917,689	\$ 3,201,310	\$ 1,425,095
Budgeted Revenues	7,393,484	1,026,219	7,907,473	104,540	52,490	1,401,865
Total Actual Revenues - 2nd Qtr	1,742,745	159,207	895,330	177,314	34,562	598,329
Budgeted Expenditures	20,620,538	1,441,246	7,854,224	659,447	348,003	2,650,576
Total Actual Expenditures - 2nd Qtr	4,558,512	159,207	1,200,646	39,248	427	868,215
2nd Quarter Ending Fund Balance	\$ 12,618,069	\$ 2,322,525	\$ (1,004,560)	\$ 3,055,755	\$ 3,235,445	\$ 1,155,209

** GFAR, Traffic Mitigation, and Grant Funds balances are combined in the ACFR. The combined balance of \$15,115,912 is presented as an Appropriated Reserve. The Traffic Mitigation Fund balance includes \$1,951,205 deferred revenue.*

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 \$20,000 expenditure budget adjustment to cover additional expenses related to the donated Los Gatos Theatre building. In addition, staff recommends expenditure adjustments in amount of \$42,000 from the available Workers' Compensation Fund to provide for the excess insurance premium due to increased claim activities. Staff will continue to monitor expenditures and propose a revised cost allocation if needed during the FY 2022/23 budget preparation.

Internal Service Funds Budget to Actuals Comparisons

	Equipment Replacemt	Workers Compensation	Self Insurance	Information Technology	Facility Maint.
Beginning Fund Balance	\$ 1,889,536	\$ 1,673,019	\$ 1,021,082	\$ 2,870,823	\$ 156,341
Budgeted Revenues	570,957	1,007,620	423,332	914,018	1,181,297
Total Actual Revenues - 2nd Qtr	317,925	602,947	200,987	509,809	475,412
Budgeted Expenditures	808,083	1,782,569	850,716	1,064,959	1,203,193
Total Actual Expenditures - 2nd Qtr	46,960	1,039,436	703,807	644,963	362,656
2nd Quarter Ending Fund Balance	\$ 2,160,501	\$ 1,236,530	\$ 518,262	\$ 2,735,669	\$ 269,097

Trust and Agency Funds (Fiduciary Fund Type)

Town Trust and Agency Funds have estimated fund balances as of December 31, 2021 of \$570,185 for the Library Trust Funds and \$243,825 for the Successor Agency (SA) Trust Fund. 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.

Staff recommends a \$15,000 revenue budget increase and a \$5,000 expenditure budget increase in the Library Trust to recognize and partially spend the additional donation received in the current fiscal year.

Trust & Agency Funds Budget to Actuals Comparisons

	Library Trust	SA Trust
Beginning Fund Balance	\$ 552,877	\$ 247,344
Budgeted Revenues	59,100	3,500
Total Actual Revenues - 2nd Qtr	30,167	1
Budgeted Expenditures	88,955	1,501,540
Total Actual Expenditures - 2nd Qtr	12,859	4,343
2nd Quarter Ending Fund Balance	\$ 570,185	\$ 243,002

** Certification of Participation Long Term Debt (\$14,423,890) and net land and building value (\$6,579,430) are not presented in the Fund Balance. FY 2022 transfer of Successor Agency property to the Town's BMP Housing Program not presented in the Fund Balance.*

Town of Los Gatos Town Council and Management Classifications
Salary Schedule for Fiscal Year 2021/22
Effective June 27, 2021 (unless otherwise noted)
Adopted by Town Council February 15, 2022

Class Code	Classification Title	Annual Salary Minimum	Annual Salary Maximum
2615	Assistant Parks & Public Works Director/Town Engineer	\$ 141,787	\$ 191,413
2110	Assistant Town Manager	\$ 168,540	\$ 227,529
2420	Chief Building Official	\$ 128,453	\$ 173,411
2400	Community Development Director	\$ 164,425	\$ 221,974
2180	Community Outreach Coordinator	\$ 88,692	\$ 119,734
2130	Economic Vitality Manager	\$ 122,262	\$ 165,054
2310	Finance and Budget Manager	\$ 128,453	\$ 173,411
2300	Finance Director	\$ 160,419	\$ 216,565
2200	Human Resources Director	\$ 148,965	\$ 201,103
2900	Information Technology Manager	\$ 128,453	\$ 173,411
2800	Library Director	\$ 148,965	\$ 201,103
2820	Library Division Manager	\$ 97,899	\$ 132,163
2600	Parks & Public Works Director	\$ 164,425	\$ 221,974
2645	Parks & Public Works Operations Manager	\$ 110,764	\$ 149,531
2630	Parks & Public Works Superintendent	\$ 128,453	\$ 173,411
2412	Planning Manager	\$ 128,453	\$ 173,411
2510	Police Captain	\$ 152,689	\$ 206,130
2500	Police Chief	\$ 172,753	\$ 233,217
2545	Police Records & Communication Manager	\$ 119,280	\$ 161,028
2140	Senior Administrative Analyst	\$ 95,511	\$ 128,940
2650	Senior Civil Engineer	\$ 122,262	\$ 165,054
2000	Town Attorney - Council Appointed (<i>Effective 9/19/21, Adopted by Town Council 11/16/21</i>)		\$ 249,900
2190	Town Clerk	\$ 128,453	\$ 173,411
2100	Town Manager - Council Appointed (<i>Effective 8/22/21, Adopted by Town Council 11/16/21</i>)		\$ 267,750
2655	Transportation & Mobility Manager	\$ 119,280	\$ 161,028
2905	Urban Forest Manager (<i>Classification Added 2/15/22</i>) *	\$ 110,764	\$ 149,531
1000	Town Council (<i>Effective 1/1/19 Pursuant to Ordinance Adopted by Town Council on 2/6/18</i>)	\$570 Stipend per month, for a total compensation of \$6,840 per year	

Management salaries reflect a spread of 35% to the top of the range.

Reflects a General Increase of 2%

**Proposed New Classification*