



**TOWN OF LOS GATOS
MID-YEAR BUDGET REPORT
JULY 1 - DECEMBER 31, 2020**

February 11, 2021

**FINANCIAL OVERVIEW AND EXECUTIVE SUMMARY: STATUS OF FY 2020/21
ADOPTED BUDGET**

The purposes of the Mid-Year Report are to provide the Town Council with a status of the Adopted Fiscal Year 2020/21 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 26, 2021, the Town Council determined the Strategic Priorities for 2021-2023, 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. Even with the significant budgetary challenges associated with the COVID-19 pandemic, many of Council's primary goals and priorities will continue to be programed in the FY 2021-22 Operating and Capital Budgets. Specifically, the Council emphasized wildfire safety; senior services; diversity, equity, and inclusion; sustainability; implementing parking study recommendations; and exploring increased revenue options (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 2021/22 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 2021/22 Budget on May 18, 2021.

Current fiscal year-end projections for FY 2020/21 reflect an anticipated \$1.2 million deficit of operating revenues over expenditures. This represents a 2.3% deviation from the FY 2020/21 adjusted General Fund Budget of \$53.3 million in total revenues and reserve transfers.

ATTACHMENT 1

STRATEGIC PRIORITIES FY 2021-2023



**CORE GOALS: COMMUNITY CHARACTER • GOOD GOVERNANCE • FISCAL STABILITY •
QUALITY PUBLIC INFRASTRUCTURE • CIVIC ENRICHMENT • PUBLIC SAFETY**

ONGOING PRIORITIES

SAFETY

Emergency Preparedness

- CERT Recruitment and Training
- EOC Readiness and Emergency Plan Development

Fire Protection

- Vegetation management
- Implementation of Ad Hoc Wildfire Mitigation Plan

QUALITY OF LIFE

Community Vitality

- Diversity, Equity and Inclusion Efforts
- Engaging Seniors
- Events and Other Town-wide Efforts
- Community Engagement

Economic Vitality

- Policies and Ordinances

Land Use Planning

- Housing Element
- Potential Area Plans and rezoning to implement General Plan

TRAFFIC/TRANSPORTATION

Comprehensive Parking Study

- Short, Medium, and Long Term Actions

Transportation Demand Management

- Develop Measure B Transportation Projects
- Install Bicycle and Pedestrian Improvements
- Community Shuttle
- Summer/Rush Hour/School Traffic

PRUDENT FINANCIAL MANAGEMENT

Address Pension and OPEB Obligations

Explore New Revenue Opportunities

Sell or Lease Certain Town Properties

IN PROGRESS

General Plan 2040

- Objective Standards
- Environmental Sustainability/Climate Resiliency

Vehicle Miles Travelled Policy

Regional Transportation Issues

Dittos Lane Affordable Housing

Pandemic Recovery

Police Reforms

Inclusive Community Efforts

RECENTLY COMPLETED

Streamline regulations to enhance Town businesses

EOC Communication and Situational Awareness Upgrades

Leased Tait and Forbes Mill

Ad Hoc Wildfire Mitigation Plan

SMALL TOWN SERVICE, COMMUNITY STEWARDSHIP, FUTURE FOCUS

| | Revenues | Expenses | Variance FY 2020/21 Budget vs. FY 2020/21 Estimate |
|--------------------|---------------|-------------|---|
| Total General Fund | (\$2,603,789) | \$1,565,612 | (\$1,232,566) |

As discussed in greater detail later in this Report, the primary driver of the projected deficit is projected reductions in the key revenues of Property Tax, Sales Tax, Business License Tax, and Transient Occupancy Tax (TOT). In contrast to the revenue projections, staff is estimating that there will be year-end operating expenditure savings. Staff anticipates savings attributable to reduced use of office supplies, travel restrictions, special event cancellations, and limited crossing guard services due to school closures. In addition, for FY 2020/21, salaries were budgeted at actual salary plus a one step increase, which was a significant budgeting methodology change from previous practice. As a result, staff is anticipating lower year-end salary savings compared to previous years.

With current projected deficits into the close of FY 2020/21, staff presented several initial budget balancing options to the Finance Commission on February 8, 2021. Given the episodic nature of the revenue impacts associated with the pandemic, staff is primarily targeting one-time budget balancing solutions for FY 2020/21. If revenue impacts during FY 2021/22 appear to become more sustained/structural in nature (such as TOT), staff will evaluate initial ongoing expense reduction options. In the event further expense reductions become necessary, the Council may choose to direct staff to initiate community-wide discussions regarding potential changes in service levels in addition to exploring new revenue generation opportunities as identified in the Council's Strategic Priorities.

Following are the legally available options for consideration:

1. General Fund Reserve Policy – Catastrophic and Budget Stabilization Reserves

The revenue shortfalls directly correlated to the pandemic could be cured utilizing the Catastrophic and/or Budget Stabilization Reserves per the Council adopted General fund Reserve Policy. The Policy language describing the Reserves is presented below for reference.

Catastrophic Reserve

Funds reserved under this category shall be used to mitigate costs associated with unforeseen emergencies, such as a disaster or catastrophic event. Should unforeseen and unavoidable events occur that require the expenditure of Town resources beyond those provided for in the annual budget, the Town Manager or designee shall have authority to approve Catastrophic Reserve appropriations. The Town Manager or designee shall then present to the Town Council a budget amendment confirming the nature of the emergency and authorizing the appropriation of reserve funds.

The Town currently commits to maintaining this Reserve at a minimum of 12.5% (\$5,427,603) of General Fund ongoing operating expenditures (minus one-time expenditures).

Budget Stabilization Reserve

Funds reserved under this category shall be used to mitigate annual revenue shortfalls (actual revenues less than projected revenues) due to changes in the economic environment and/or one-time uses that will result in future efficiencies and/or budgetary savings. Examples of “economic triggers” and one-time uses include, but are not limited to:

- An unplanned, major event such as a catastrophic disaster requiring expenditures which exceed the General Fund Catastrophic Reserve;
- Drop in projected/actual revenue of more than five percent in property or sales tax, or other economically sensitive revenues;
- Budgeted revenue taken over by another entity exceeding \$100,000;
- Loss of businesses considered to be significant sales tax generators;
- Reductions in projected/actual revenue of more than five percent due to actions by the state/federal government;
- Workflow/technical system improvements to reduce ongoing, personnel costs and enhance customer service;
- One-time maintenance of service levels due to significant economic/budget constraints; and
- One-time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.

The Town currently commits to maintaining this Reserve at a minimum of 12.5% (\$5,427,603) of General Fund ongoing operating expenditures (minus one-time expenditures).

2. Other Post-Employment Benefits (OPEB) Prefunding

Since 2009 the Town has been proactively prefunding its OPEB which consists of a retiree healthcare plan. While this is considered a best practice, it is not mandated similar to payment of the required annual contributions for pension benefits to CalPERS. For FY 2020/21, the adopted budget provided OPEB prefunding of \$591,000.

3. Utilization of OPEB IRS 115 Trust for Pay Go Retiree Healthcare Expenses

In 2009 the Town initiated the prefunding of the retiree healthcare unfunded benefit obligation. Since that time the IRS Section 115 OPEB Trust has accumulated \$23,560,833 in Trust assets as of December 31, 2020. IRS regulations allow Trust assets to be used for payment of healthcare expenses. The FY 2020/21 budget programmed \$1.3 million in anticipated Pay-go healthcare expenses and \$1.4 million in projected Pay-go healthcare expenses in FY 2021/22.

4. Sale of Winchester Property to Santa Clara County Fire District

During the development of the FY 2020/21 budget, the Town Council left \$1,200,000 in property sale proceeds unprogrammed as a contingency to mitigate potential impacts to revenues from the pandemic.

5. Delayed or canceled Capital Improvement Plan (CIP) projects

Each year as part of the budget process, Council adopts a Five-Year Capital Improvement Program. Attachment 6 to the Five-Year Forecast staff report prepared for the February 16, 2021 Town Council meeting contains a matrix summarizing the budget for each capital project, source of funds, amount expended/encumbered to date, and status. This information conveys the level of investment and commitment of particular projects, and the potential opportunity for reallocation to other Town priorities or future capital needs.

The Finance Commission had a detailed discussion of each of the options and formed consensus around several areas. Of note, all Commissioners agreed that the Catastrophic and Budget Stabilization Reserves should not be considered at this time and should remain intact in the event the pandemic impacts become even greater in severity or the Town experiences a serious event (e.g., earthquake or wildfire). While Commissioners acknowledged the unprecedented nature of the pandemic, they felt it prudent to maintain the reserves as other unforeseen disasters could befall the Town. In addition, the Commission had general consensus that both of the OPEB options were reasonable given the benefit has less legal constraints as compared to pension benefits. However, it was noted that the removal of assets from the OPEB IRS 115 Trust would be contrary to the long-standing practice of trying to prefund benefit obligations. At the conclusion of the discussion, the Finance Commission recommended that the budget balancing options of Winchester property proceeds, OPEB Prefunding, and the utilization of OPEB IRS 115 Trust for Pay Go healthcare expenses be programmed in that order.

In addition to the options provided by staff, a conversation emerged regarding the future funding of the Capital Improvement Plan (CIP) utilizing the Measure G District Tax. Discussions revolved around having the District Tax become a dedicated funding source for the General Fund Appropriated Reserve (GFAR) accounts which typically fund capital projects. Staff will bring this item back to the Finance Commission and Town Council for consideration during the development of the FY 2021/22 Proposed Operating and Capital Budgets in the spring. And lastly, the Finance Commission discussed the need for a greater understanding of the Town's expenditure cost structure and historic cost escalation of Town services.

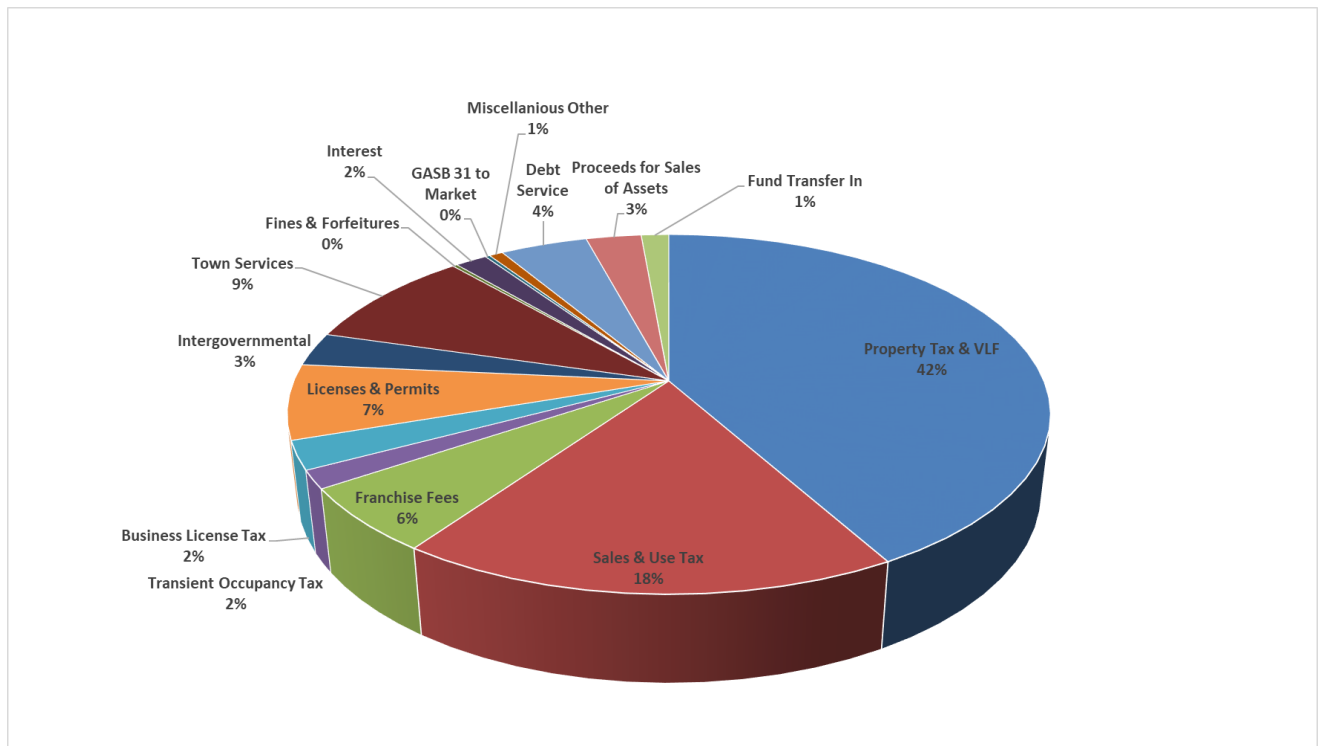
Providing services to the community in this and future fiscal years will require a strong return to pre-pandemic performance of the Town's economically sensitive revenues to offset continued projected cost increases. The FY 2021/22 budget development process will endeavor to maintain essential public 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 2020/21 which includes comparison information from the prior year.

GENERAL FUND - KEY REVENUE ANALYSIS FY 2020/21

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, 2020. 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)

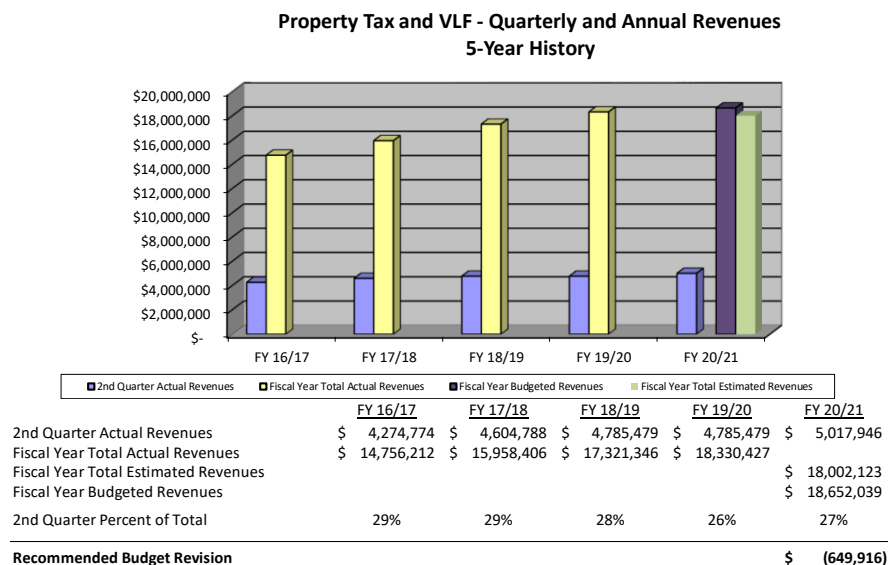
Property tax and VLF are the single largest revenue source for the Town and comprised approximately 42% of total Town General Fund projected revenues for FY 2020/21. Property tax is levied by the Santa Clara County Assessor's Office at 1% of a property's assessed value, of which the Town receives approximately 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 \$700,000 which is primarily the result of the Redevelopment Agency (RDA) residual payment decrease, which the County has already retained, and staff modeling a 50% reduction in Educational Revenue Augmentation Fund (ERAF) payments both of which are unrelated to the COVID pandemic.

The Town has been monitoring 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 is now being contested by the State. The Town's Adopted FY 2020/21 Budget had ERAF base revenue estimated at \$433,000. However, the most recent County property tax estimate included \$1.8 million of additional excess ERAF funds. If the State is successful in contesting ERAF distribution of excess funds, the result would be a negative impact on budgeted revenues. Given that the distribution of ERAF excess funds is a binary outcome, staff is modeling a 50% reduction in ERAF into yearend.

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 and staff recommendations to reduce ERAF projections by 50% as a contingency, staff recommends a \$649,916 decrease in General Property Tax and Motor Vehicle in Lieu Fee collections.

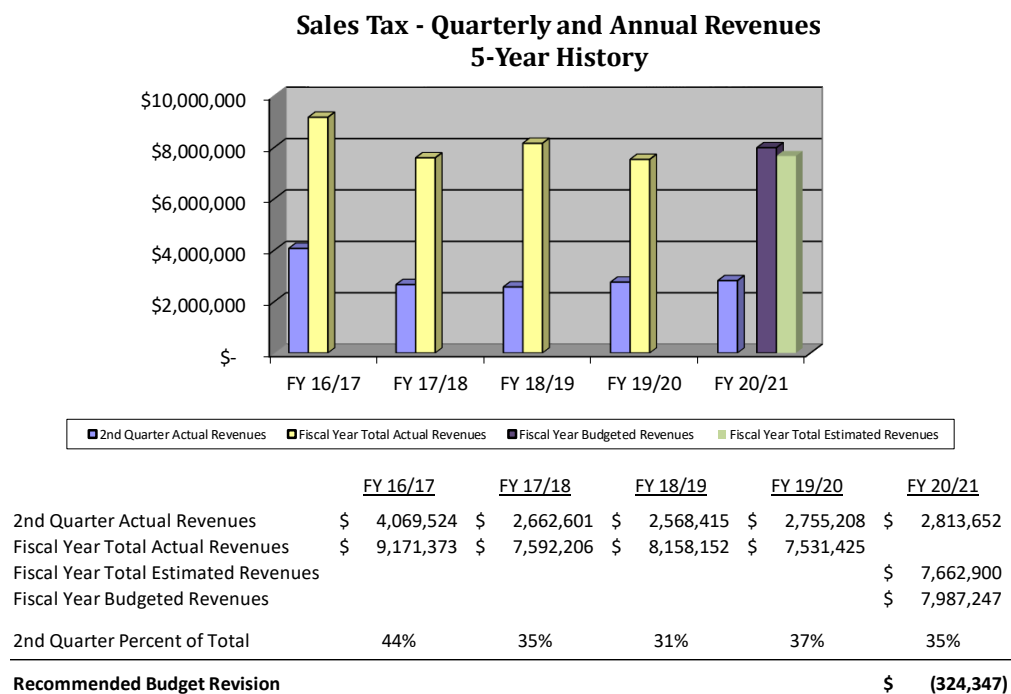


Sales Tax

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 2020/21. The Town currently receives 1.125 cent for every 9.125 cents of sales tax paid per dollar on retail sales and taxable services transacted within Los Gatos, including the Town of Los Gatos residents' approved ballot Measure G enacting a one-eighth cent (0.125%) district sales tax for 20 years.

FY 2016/17 marked the end of the State sales tax distributing mechanism commonly known as the "triple-flip" and included a \$900,000 final triple-flip true-up payment from previous fiscal years as illustrated in the table below. Sales tax estimates are based on actual sales tax data and annual sales tax estimates for five years provided by the Town's consultant, MuniServices including the additional district tax. The MuniServices estimates also include additional proceeds from internet sales due to the 2018 Wayfair Court decision. Current estimates include anticipated \$1,004,300 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.

For FY 2020/21 second quarter receipts are trending lower than in the same period last fiscal year. Staff recommends a \$324,347 budget decrease to reflect the MuniServices current estimates.

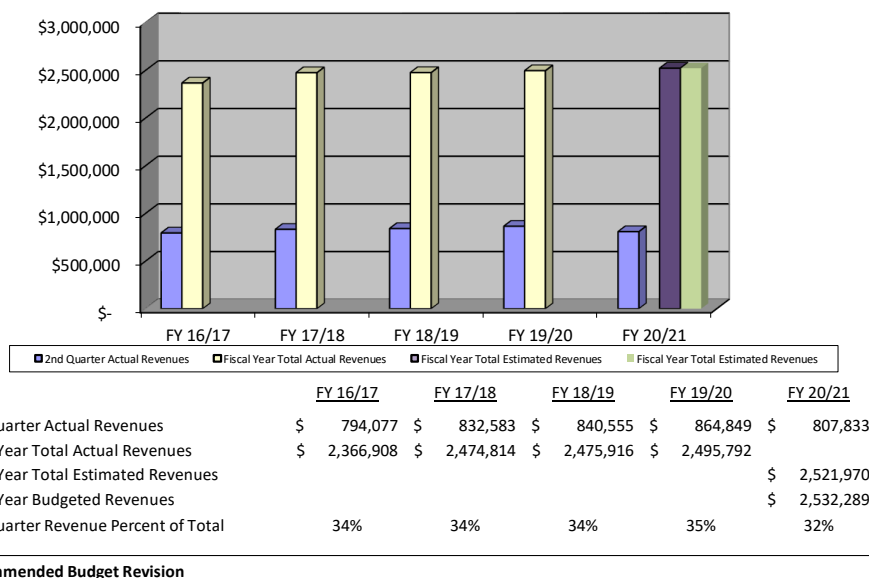


Franchise Fees

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 2020/21.

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 2019/20. Staff recommends no budget adjustment to this revenue source.

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

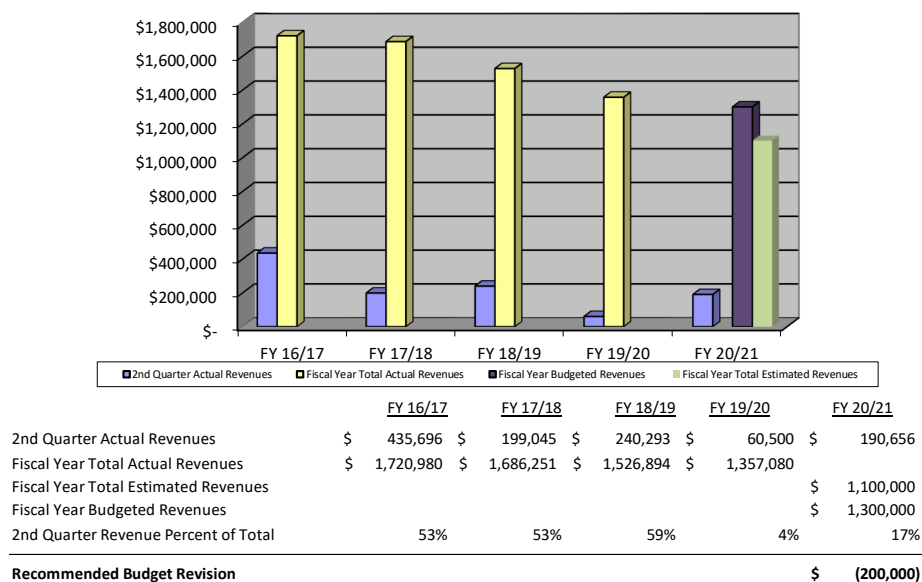


Business License Tax

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 pro-rated by quarter.

Business license tax revenue for the current fiscal year was budgeted in line with prior years based on staff analysis and other anticipated business closures and relocation. Staff anticipates lower gross retail activities and additional business license closures due to the pandemic. In addition, Council authorized to give a calendar year first quarter exemption to hair and nail service providers who were not able to operate due to Santa Clara Public Health Order restrictions and omit late business license penalties for all businesses in 2021. Staff anticipates collecting the majority of the business license revenue during the third quarter. Staff recommends a \$200,000 budget decrease to this revenue source.

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

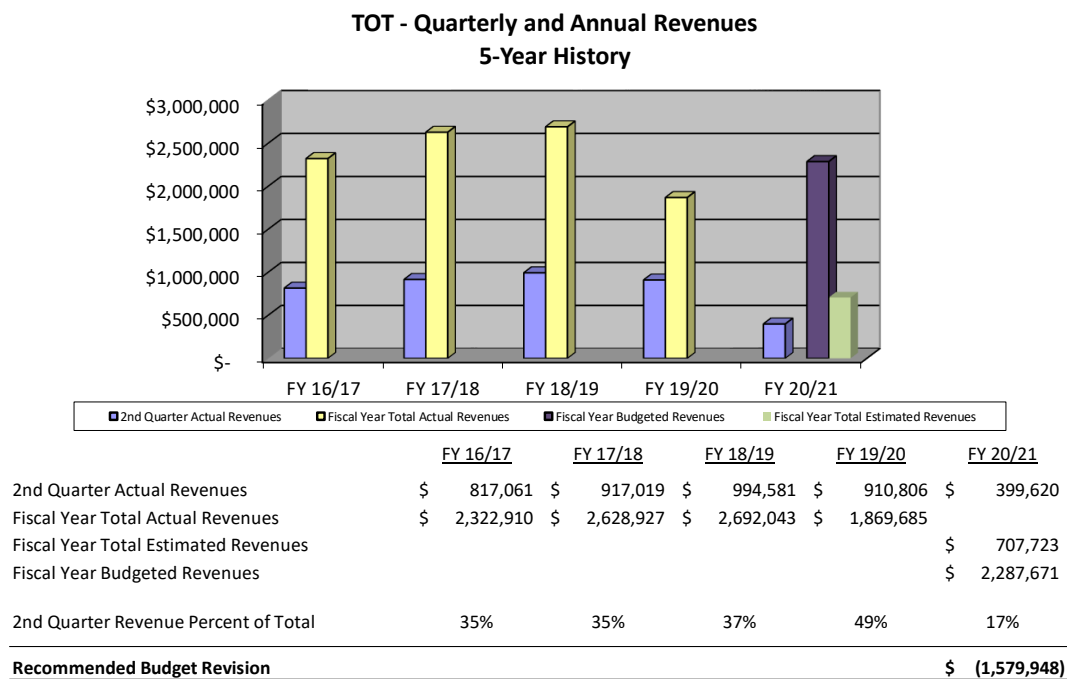


Transient Occupancy Tax

TOT is an important revenue source for the Town and comprised approximately 3.4% of total Town budgeted revenues of \$2.3 million for FY 2020/21. 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. This tax helps to fund Town services provided to visitors to Los Gatos. .

The FY 2020/21 Adopted Budget modeled a steep contraction with subsequent rebound for a net 15% reduction over the course of the year in TOT revenues from the prior January 21, 2020 initial forecast projection. In addition to the initial Shelter-in-Place (SIP) and Stay-at-Home restrictions instituted on March 17, 2020, on November 28, 2020, Santa Clara County issued new mandatory directives which included that hotels and other lodging facilities will be open only for essential travel and for use to facilitate isolation or quarantine. Given that the November restrictions remain as of this writing, staff anticipates that the current Health Order will continue to degrade TOT revenues for the remainder of the year resulting in YOY declines of 69%.

Based on the current trend staff is recommending a \$1,579,948 budget decrease.

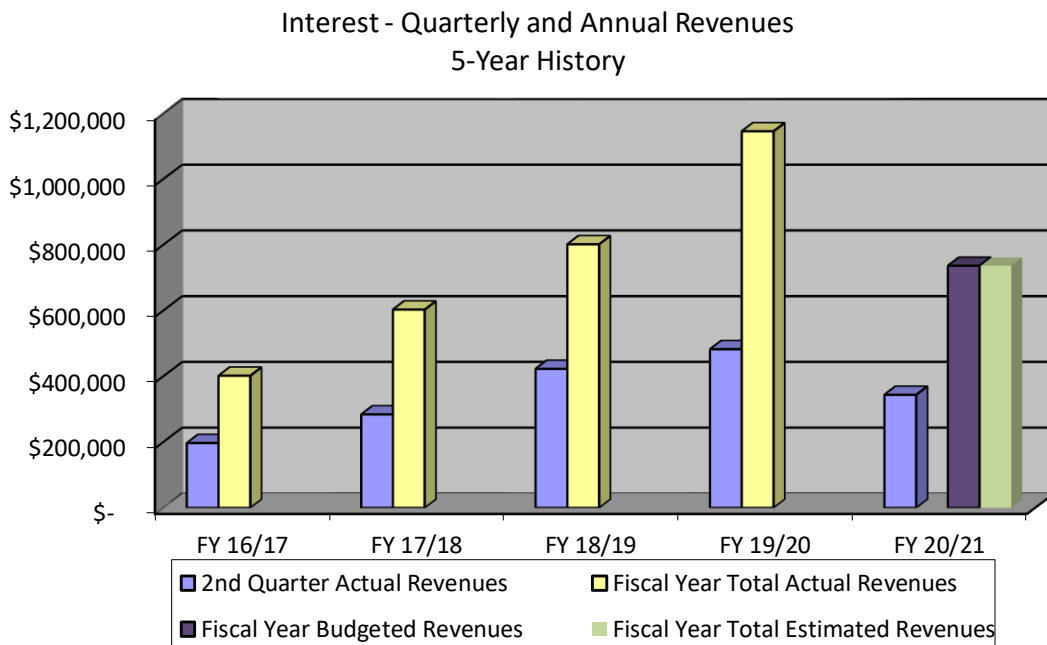


Interest Income

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 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, 2020, the Town's weighted portfolio yield was 1.62% which trended above the Local Agency Investment Fund (LAIF) yield of 0.62%. This favorable yield differential was primarily due to the LAIF portfolio's weighted average maturity (WAM) of 169 days and the Town's longer WAM of 579 days. Despite the pandemic, the Town's weighted average rate of return of 1.62% for the second quarter remained relatively stable when compared to the second quarter return of 1.93% in 2020.

In the months prior to the COVID-19 outbreak, staff in consultation with the Town's investment advisor had been extending maturities to capture higher yields currently associated with longer dated securities. In recent months, the economic fallout associated with the pandemic has led to Treasury yields falling dramatically. Staff recommends no change to this revenue source at this time.



| | FY 16/17 | FY 17/18 | FY 18/19 | FY 19/20 | FY 20/21 |
|--------------------------------------|------------|------------|------------|--------------|------------|
| 2nd Quarter Actual Revenues | \$ 197,065 | \$ 284,009 | \$ 422,729 | \$ 482,517 | \$ 343,813 |
| Fiscal Year Total Actual Revenues | \$ 401,961 | \$ 603,017 | \$ 801,729 | \$ 1,145,538 | |
| Fiscal Year Total Estimated Revenues | | | | | \$ 736,409 |
| Fiscal Year Budgeted Revenues | | | | | \$ 736,409 |
| 2nd Quarter Revenue Percent of Total | 49% | 47% | 53% | 42% | 47% |

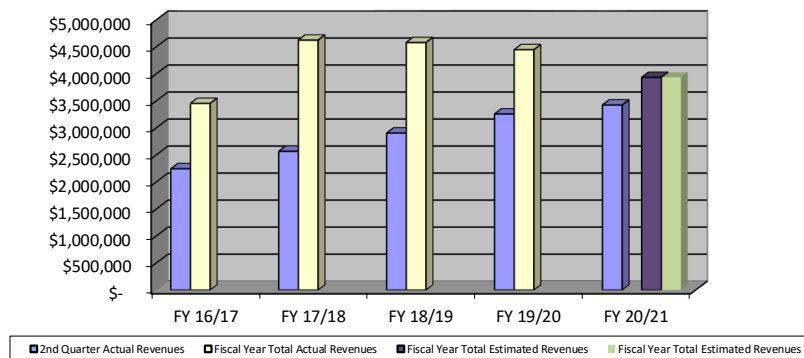
Recommended Budget Revision

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 school resource officer and crossing guards' 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 87% 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 \$158,073 budget decrease consisting of lower revenues from the school districts for School Resource Officer services (-\$140,444), decreased crossing guard services (-\$65,954) offset by increases to this revenue related to engineering service work funded from the General Plan Update deposit account estimated at \$48,325.

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



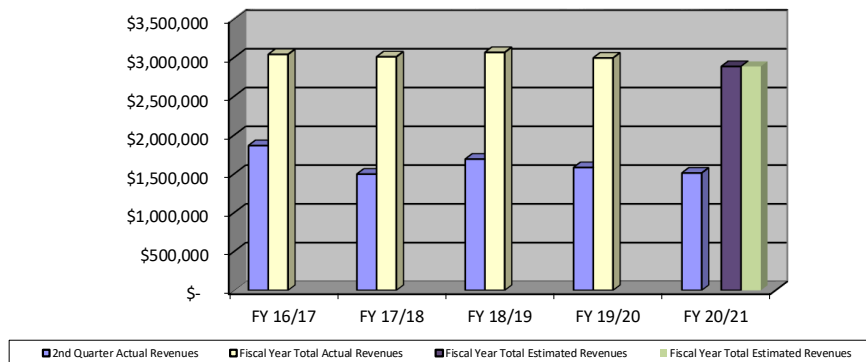
| | <u>FY 16/17</u> | <u>FY 17/18</u> | <u>FY 18/19</u> | <u>FY 19/20</u> | <u>FY 20/21</u> |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|---------------------|
| 2nd Quarter Actual Revenues | \$ 2,244,464 | \$ 2,567,814 | \$ 2,905,238 | \$ 3,258,027 | \$ 3,424,216 |
| Fiscal Year Total Actual Revenues | \$ 3,454,666 | \$ 4,625,136 | \$ 4,580,511 | \$ 4,447,213 | |
| Fiscal Year Total Estimated Revenues | | | | | \$ 3,935,178 |
| Fiscal Year Budgeted Revenues | | | | | \$ 4,179,712 |
| 2nd Quarter Revenue Percent of Total | 65% | 56% | 63% | 73% | 87% |
| Recommended Budget Revision | | | | | \$ (158,073) |

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 2019/20 in anticipation of slower development activity.

Second quarter License and Permit revenue is trending 51% of budgeted revenue slightly lower than second quarter results from the previous fiscal year. Staff recommends no budget adjustment to this revenue source.

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



| | <u>FY 16/17</u> | <u>FY 17/18</u> | <u>FY 18/19</u> | <u>FY 19/20</u> | <u>FY 20/21</u> |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 2nd Quarter Actual Revenues | \$ 1,867,300 | \$ 1,498,864 | \$ 1,692,252 | \$ 1,584,098 | \$ 1,513,500 |
| Fiscal Year Total Actual Revenues | \$ 3,042,166 | \$ 3,011,309 | \$ 3,067,994 | \$ 2,996,457 | |
| Fiscal Year Total Estimated Revenues | | | | | \$ 2,886,708 |
| Fiscal Year Budgeted Revenues | | | | | \$ 2,996,898 |
| 2nd Quarter Revenue Percent of Total | 61% | 50% | 55% | 53% | 51% |

Recommended Budget Revision

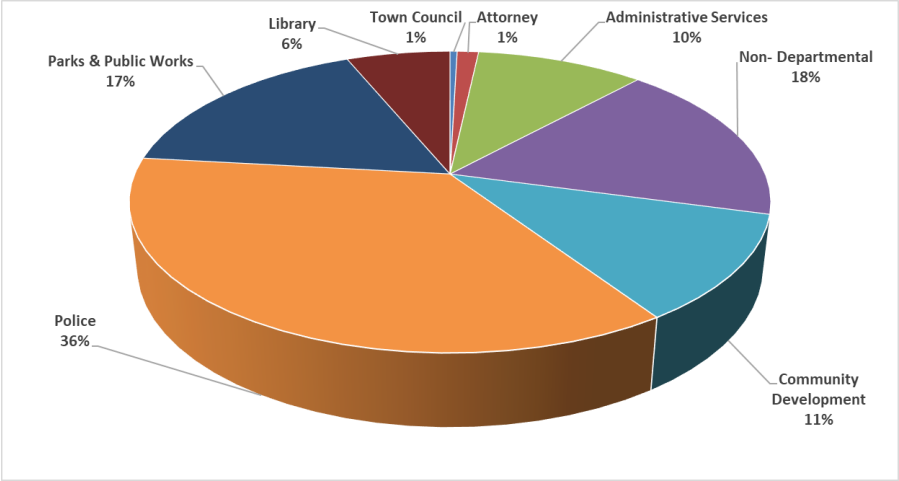
GENERAL FUND – EXPENDITURE ANALYSIS

For FY 2020/21, General Fund Operating expenditures (not including debt payment and transfers out) were programmed at \$47.9 million. The delivery of Town services is highly dependent on labor which comprises 59.5% of budgeted General Fund expenditures for FY 2020/21. General Fund expenditure totals are trending in accordance with the Adopted Budget, with total operational expenditures at the end of the second quarter at or about 51% of the Adopted Budget. With six months of data now available, staff expects that the next six months of expenditures will be within the Adopted 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 49% of budgeted salaries, while benefits are trending at 69% of the Adopted Budget. Benefits are trending higher than 50% because the Town submits its entire annual amortization of the Town's unfunded liability upfront in July 2020 as a lump sum pension payment as a cost savings measure, saving approximately \$80,000 in interest expense. While actual vacancies vary during the course of the fiscal year, there were five vacant positions as of 2/8/2021.

| General Fund Salaries & Benefits | | | | | | |
|---|-----------------------|------------------|---------------------------------|-----------------------------------|------------------|-------------------------|
| | FY 2019/20 Actuals | FY 2019/20 2Q | Q2% of FY 2019/20 Actuals | Q2% of FY 2020/21 Estimated | FY 2020/21 2Q | FY 2020/21 Estimated |
| Salaries | \$ 19,254,973 | \$ 8,999,620 | 47% | 49% | \$ 9,977,252 | \$ 20,298,287 |
| Benefits | \$ 9,678,594 | \$ 6,556,546 | 68% | 69% | \$ 6,981,902 | \$ 10,123,224 |
| Total Salary & Benefit | \$ 28,933,567 | \$ 15,556,166 | 54% | 56% | \$ 16,959,154 | \$ 30,421,511 |
| FY 2019/20 Upfront Annual Payment to CalPERS in July 2019 \$3,689,063 | | | | | | |
| FY 2020/21 Upfront Annual Payment to CalPERS in July 2020 \$3,954,819 (not including ADP) | | | | | | |

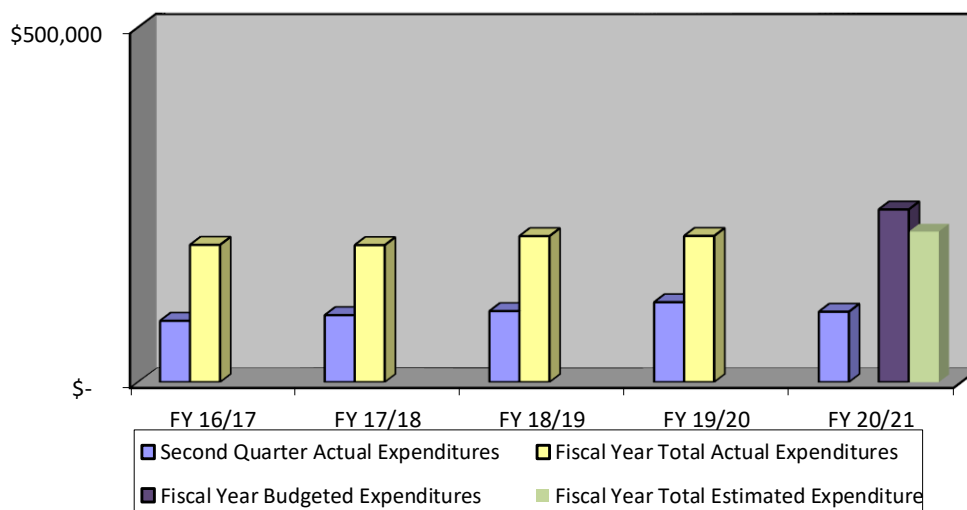
The graph below represents the Town General Fund estimated operating expenditures. Program expenditures are reviewed and anticipated savings are provided for each program. Also provided are historical program costs, year over year (YOY) percentage changes in actual expenditures and five-year average 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.



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 same quarter in prior year. This program did not have staff vacancy as of 12/31/2021; however, one Council seat was vacant during the first two quarters of the fiscal year. Staff anticipates approximately \$30,000 expenditures savings in this program. Savings is anticipated in travel and training, 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**



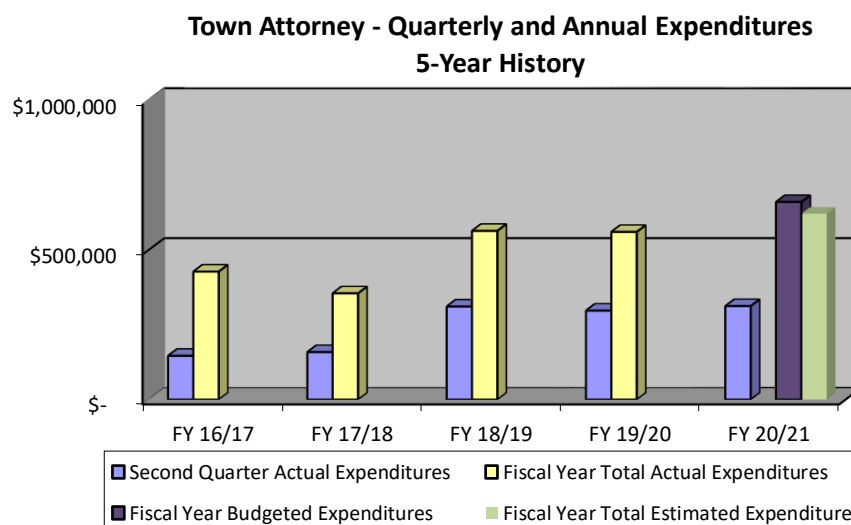
| | <u>FY 16/17</u> | <u>FY 17/18</u> | <u>FY 18/19</u> | <u>FY 19/20</u> | <u>FY 20/21</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Second Quarter Actual Expenditures | \$ 86,480 | \$ 94,520 | \$ 100,209 | \$ 112,711 | \$ 99,310 |
| Fiscal Year Total Actual Expenditures | \$ 193,584 | \$ 193,183 | \$ 205,903 | \$ 206,163 | |
| Fiscal Year Total Estimated Expenditure | | | | | \$ 212,263 |
| Fiscal Year Budgeted Expenditures | | | | | \$ 243,486 |
| Second Quarter Percentage of Total | 45% | 49% | 49% | 55% | 41% |

Recommended Budget Revision

| | | | | | |
|----------------------------------|--------|--------|-------|-------|-------|
| YOY Percentage Changes | 12.86% | -0.21% | 6.58% | 0.13% | 2.96% |
| 5-year Average Percentage Change | | | | | 4.46% |

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 same quarter in prior year. This program has a part time Deputy Town Attorney vacancy as of 12/31/2020. The office eliminated the Deputy Attorney position and replaced with the Legal Administrative Assistant. It is anticipated that the position will be filled either the third or fourth quarter of this fiscal year. Staff anticipates approximately \$40,000 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.



| | FY 16/17 | FY 17/18 | FY 18/19 | FY 19/20 | FY 20/21 |
|---|------------|------------|------------|------------|------------|
| Second Quarter Actual Expenditures | \$ 145,707 | \$ 158,095 | \$ 310,219 | \$ 296,424 | \$ 311,592 |
| Fiscal Year Total Actual Expenditures | \$ 426,548 | \$ 354,205 | \$ 562,542 | \$ 559,010 | |
| Fiscal Year Total Estimated Expenditure | | | | | \$ 619,766 |
| Fiscal Year Budgeted Expenditures | | | | | \$ 658,831 |
| Second Quarter Percentage of Total | 34% | 45% | 55% | 53% | 47% |

Recommended Budget Revision

| | | | | | |
|----------------------------------|--------|---------|--------|--------|--------|
| YOY Percentage Changes | 75.95% | -16.96% | 58.82% | -0.63% | 10.87% |
| 5-year Average Percentage Change | | | | | 25.61% |

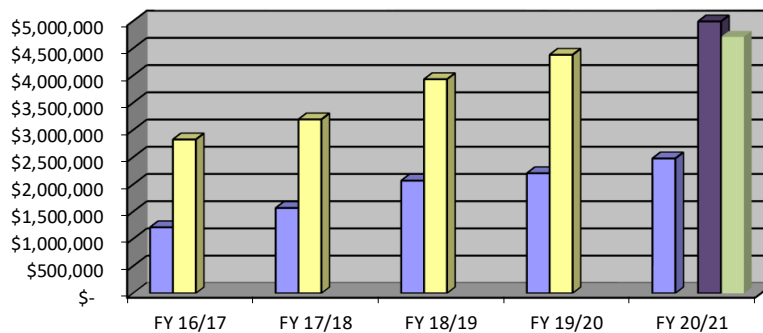
FY 2016/17 the Town had a significant legal expense related to the North 40 lawsuit. In addition, beginning in FY 2018/19 all personnel costs that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs 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 six 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. This program does not have any vacancy as of December 31, 2020. Staff anticipates approximately \$280,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, expenditures related special events, travel and training, and office supplies. Staff does not recommend any expenditure budget adjustment in the Administrative Services.

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



| | FY 16/17 | FY 17/18 | FY 18/19 | FY 19/20 | FY 20/21 |
|---|--------------|--------------|--------------|--------------|--------------|
| Second Quarter Actual Expenditures | \$ 1,212,612 | \$ 1,567,002 | \$ 2,069,839 | \$ 2,204,552 | \$ 2,476,978 |
| Fiscal Year Total Actual Expenditures | \$ 2,825,082 | \$ 3,193,995 | \$ 3,931,807 | \$ 4,380,504 | |
| Fiscal Year Total Estimated Expenditure | | | | | \$ 4,709,166 |
| Fiscal Year Budgeted Expenditures | | | | | \$ 4,993,047 |
| Second Quarter Percentage of Total | 43% | 49% | 53% | 50% | 50% |

Recommended Budget Revision

| | | | | | |
|----------------------------------|--------|--------|--------|--------|--------|
| YOY Percentage Changes | -2.06% | 13.06% | 23.10% | 11.41% | 7.50% |
| 5-year Average Percentage Change | | | | | 10.60% |

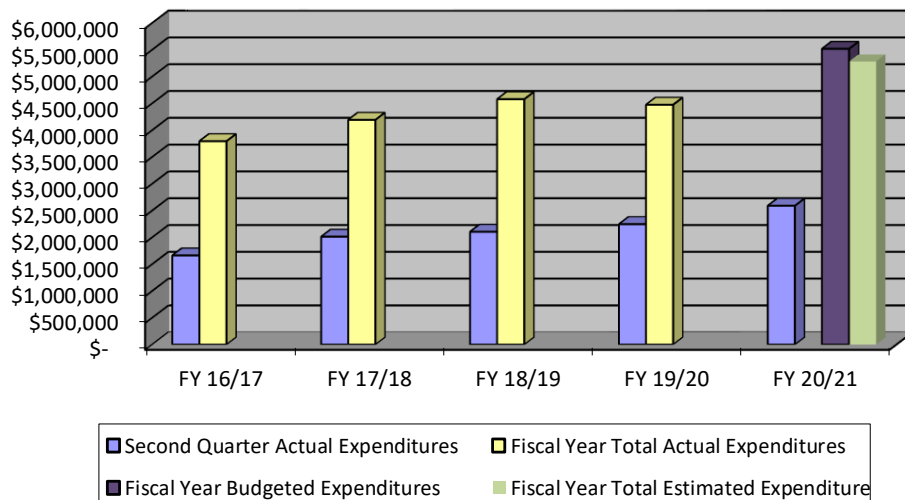
Beginning in FY 2018/19, all personnel that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a General Fund expense. Both FY 2019/20 and FY 2020/21 include a limited two-year temporary position to assist the Town with its emergency preparedness and response operations.

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 same quarter expenditures in prior year. This program does not have any vacancy as of December 31, 2020; however, there was an Executive Assistant position that was vacant and was filled beginning the second quarter of the fiscal year. Staff anticipates approximately \$190,000 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**



| | <u>FY 16/17</u> | <u>FY 17/18</u> | <u>FY 18/19</u> | <u>FY 19/20</u> | <u>FY 20/21</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Second Quarter Actual Expenditures | \$ 1,662,604 | \$ 2,012,335 | \$ 2,104,258 | \$ 2,245,767 | \$ 2,589,502 |
| Fiscal Year Total Actual Expenditures | \$ 3,793,929 | \$ 4,192,165 | \$ 4,577,495 | \$ 4,473,790 | |
| Fiscal Year Total Estimated Expenditure | | | | | \$ 5,280,003 |
| Fiscal Year Budgeted Expenditures | | | | | \$ 5,517,030 |
| Second Quarter Percentage of Total | 44% | 48% | 46% | 50% | 47% |

Recommended Budget Revision

| | | | | | |
|----------------------------------|--------|--------|-------|--------|--------|
| YOY Percentage Changes | -6.28% | 10.50% | 9.19% | -2.27% | 18.02% |
| 5-year Average Percentage Change | | | | | 5.83% |

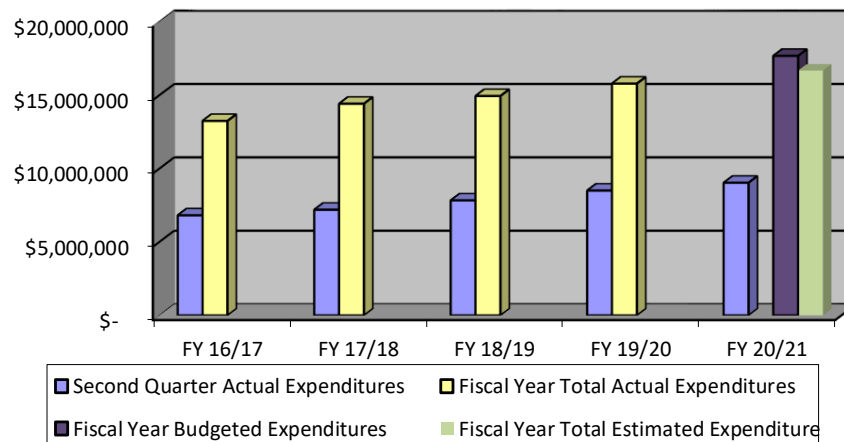
Community Development Department expenditures varies year to year based on the development activity and pass through services. FY 2020/21 includes one-time special project related services to the General Plan update.

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.

Police services program expenditures are trending lower than the same quarter prior year expenditures. This program had a couple of vacancies in Police Officer and Dispatcher positions during the first two quarters of the fiscal year due to retirements. Open Police Officer positions are filled with trainees and temporary employees are presently filling in for the vacant Dispatcher position. There were two vacant Communication Dispatchers and one vacant Police Officer position as of December 31, 2020. Staff anticipates approximately \$846,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, crossing guards' services, parking management administration services, travel and training, and office supplies. Staff recommends \$235,236 expenditure budget decreases related to crossing guard services and parking management as explained in the next section of this Report.

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



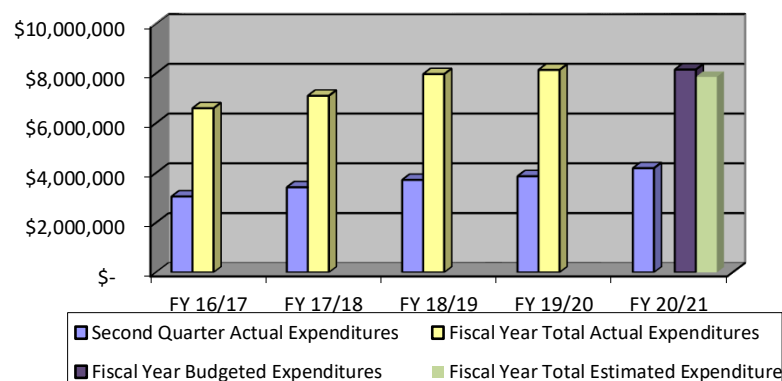
| | <u>FY 16/17</u> | <u>FY 17/18</u> | <u>FY 18/19</u> | <u>FY 19/20</u> | <u>FY 20/21</u> |
|---|-----------------|-----------------|-----------------|-----------------|---------------------|
| Second Quarter Actual Expenditures | \$ 6,816,759 | \$ 7,197,220 | \$ 7,832,251 | \$ 8,504,636 | \$ 9,037,569 |
| Fiscal Year Total Actual Expenditures | \$13,251,291 | \$14,423,554 | \$14,948,952 | \$15,793,815 | |
| Fiscal Year Total Estimated Expenditure | | | | | \$16,684,133 |
| Fiscal Year Budgeted Expenditures | | | | | \$17,687,825 |
| Second Quarter Percentage of Total | 51% | 50% | 52% | 54% | 51% |
| Recommended Budget Revision | | | | | \$ (235,236) |
| YOY Percentage Changes | -4.48% | 8.85% | 3.64% | 5.65% | 5.64% |
| 5-year Average Percentage Change | | | | | 3.86% |

Parks and Public Works Services

Parks and Public Works Department constructs and maintains the Town's public parks, facilities, roadways, right -of -ways, 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.

Parks and Public Works services program expenditures are trending lower than prior year same quarter expenditures. This program had a couple of vacancies during the first two quarters of the fiscal year; however, the Department hired temporary replacement in order to deliver services until vacancies are filled. There was one vacant Maintenance Worker position as of December 31, 2020. Staff anticipates approximately \$300,000 expenditures savings in this program. Savings are anticipated in fuel cost, travel and training, and office supplies. Staff recommends \$48,325 expenditure budget increase related to General Plan Update engineering services from the available General Plan Update deposit fund.

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



| | <u>FY 16/17</u> | <u>FY 17/18</u> | <u>FY 18/19</u> | <u>FY 19/20</u> | <u>FY 20/21</u> |
|---|-----------------|-----------------|-----------------|-----------------|------------------|
| Second Quarter Actual Expenditures | \$ 3,051,952 | \$ 3,422,553 | \$ 3,717,900 | \$ 3,864,874 | \$ 4,189,004 |
| Fiscal Year Total Actual Expenditures | \$ 6,597,744 | \$ 7,099,527 | \$ 7,969,631 | \$ 8,139,106 | |
| Fiscal Year Total Estimated Expenditure | | | | | \$ 7,858,200 |
| Fiscal Year Budgeted Expenditures | | | | | \$ 8,152,045 |
| Second Quarter Percentage of Total | 46% | 48% | 47% | 47% | 51% |
| Recommended Budget Revision | | | | | \$ 48,325 |
| YOY Percentage Changes | 5.63% | 7.61% | 12.26% | 2.13% | -3.45% |
| 5-year Average Percentage Change | | | | | 4.83% |

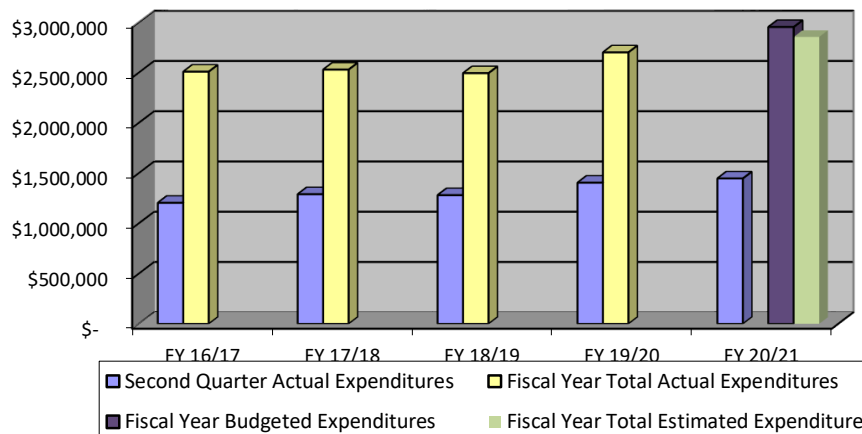
Beginning in FY 2018/19, all personnel that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a 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 does not have any vacancies as of as of December 31, 2020. Staff anticipates approximately \$100,000 expenditures savings in this program. Savings are anticipated in temporary employee salaries, travel and training, and office supplies. Staff does not recommend any expenditure budget adjustment to this program.

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



| | <u>FY 16/17</u> | <u>FY 17/18</u> | <u>FY 18/19</u> | <u>FY 19/20</u> | <u>FY 20/21</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Second Quarter Actual Expenditures | \$ 1,204,043 | \$ 1,289,625 | \$ 1,280,179 | \$ 1,404,285 | \$ 1,446,308 |
| Fiscal Year Total Actual Expenditures | \$ 2,508,678 | \$ 2,529,017 | \$ 2,493,617 | \$ 2,700,802 | |
| Fiscal Year Total Estimated Expenditure | | | | | \$ 2,854,192 |
| Fiscal Year Budgeted Expenditures | | | | | \$ 2,952,802 |
| Second Quarter Percentage of Total | 48% | 51% | 51% | 52% | 49% |

Recommended Budget Revision

| | | | | | |
|----------------------------------|--------|-------|--------|-------|-------|
| YOY Percentage Changes | -2.74% | 0.81% | -1.40% | 8.31% | 5.68% |
| 5-year Average Percentage Change | | | | | 2.13% |

FY 2020/21 RECOMMENDED BUDGET ADJUSTMENTS

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

| FY 2020/21 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUNDS | | | | |
|--|---------|---------|---|-----------------------|
| Fund | Program | Account | General Fund Revenues | |
| 111 | | 36222 | Use of Pension/OPEB Reserve | 300,000 |
| 111 | 1201 | 411XX | Property Tax | \$ (729,196) |
| 111 | 1201 | 41141 | Motor Vehicle In Lieu Fee | 79,280 |
| 111 | 1201 | 41211 | Sales & Use Tax | (374,664) |
| 111 | 1201 | 41214 | Measure G - District Sales Tax | 50,317 |
| 111 | 1201 | 41311 | Transient Occupancy Tax | (1,579,948) |
| 111 | 1201 | 43216 | Corona Virus Relief Fund | 388,181 |
| 111 | 1201 | 45921 | Sales Of Winchester Property | 1,200,000 |
| 111 | 2301 | 41411 | Business License Tax | (200,000) |
| 111 | 2301 | 42321 | Business License Processing Fee | (15,000) |
| 111 | 4302 | 44512 | Crossing Guards' Services | (65,954) |
| 111 | 4303 | 44515 | School Resource Officer Services | (140,444) |
| 111 | 4304 | 45126 | Electronic Parking Ticket | (280,000) |
| 111 | 4303 | 45127 | SCC Park bail Tickets | (60,000) |
| 111 | 5201 | 44417 | General Plan Update - Engineering Services | 48,325 |
| 111 | 5391 | 42511 | OMP Parking Reservation Fee | (70,000) |
| 111 | 5301 | 42512 | OMP- Parking Fee | (15,000) |
| TOTAL GENERAL FUND REVENUES | | | | \$ (1,464,103) |
| Fund | Program | Account | General Fund Expenditures | |
| 111 | 1201 | 62119 | CalPERS Discretionary Payment | \$ 300,000 |
| 111 | 4302 | 63342 | Crossing Guards' Services | (82,786) |
| 111 | 4304 | 62223 | Parking Administration - SCC Court and Jail Constructions | (108,000) |
| 111 | 4304 | 63116 | Parking Administration CA- DMV Admin Fee | (6,000) |
| 111 | 4304 | 63344 | Parking Administration - Citation Services | (15,000) |
| 111 | 4304 | 63345 | Valet Parking Services | (23,500) |
| 111 | 5201 | 68422 | General Plan Update - Engineering Services | 48,325 |
| TOTAL GENERAL FUND EXPENDITURES | | | | \$ 113,039 |

FY 2020/21 MID-YEAR BUDGET ADJUSTMENT REQUESTS - OTHER FUNDS

| Fund | Program | Account | Other Fund Revenues | |
|---------------------------------------|----------------|----------------|--|---------------------|
| 222 | | | Non-Point Source | |
| 222 | 5203 | 44613 | Non-Point Source Management - Not in Town | (353,000) |
| | | | | \$ (353,000) |
| 421 | | | Grants | |
| 421 | 421-813-0227 | 43407 | Traffic Signal Modernization Project | (306,738) |
| 421 | 421-813-0803 | 43405 | Highway 17 Bicycle and Pedestrian Bridge | (456) |
| | | | | \$ (307,194) |
| 633 | | | Facilities Maintenance | |
| 633 | 5404 | 49631 | Police Operation Building Camera Update - From Equipment's | 33,000 |
| | | | | \$ 33,000 |
| 711 | | | Library Trust | |
| 711 | 7301 | 45452 | Anticipated Donation Not Received | (44,500) |
| | | | | \$ (44,500) |
| TOTAL OTHER FUNDS REVENUES | | | | \$ (605,694) |
| Fund | Program | Account | Other Fund Expenditures | |
| 222 | | | Non Point Sources | |
| 222 | 5203 | 62369 | Non-Point Source Management - Not in Town | (353,000) |
| | | | | \$ (353,000) |
| 411 | | | GFAR | |
| 411 | 411-832-4508 | 82405 | From Vegetation Management | (250,000) |
| 411 | 411-812-0130 | 82405 | To Roadside Fire Fuel Reduction | 250,000 |
| 411 | 411-811-6004 | 82405 | From Fire Suppression for Server Room | (50,000) |
| 411 | 411-821-2118 | 82405 | To Police Headquarters Roof Repair | 50,000 |
| | | | | \$ - |
| 421 | | | Grants | |
| 421 | 421-813-0227 | 82405 | Traffic Signal Modernization Project | (306,738) |
| 421 | 421-813-0803 | 82405 | Highway 17 Bicycle and Pedestrian Bridge | (456) |
| | | | | \$ (307,194) |
| 612 | | | Workers Compensation | |
| | 2202 | 63323 | COVID 19 Testing | 65,000 |
| | | | | \$ 65,000 |
| 631 | | | Equipment Replacement | |
| | 5402 | 99633 | Police Operation Building Camera Update - To Facilities | 33,000 |
| | | | | \$ 33,000 |
| 633 | | | Facilities Maintenance | |
| 633 | 5404 | 82025 | HVAC Cooling System | 58,970 |
| | 5404 | 62379 | Police Operation Building Camera Update | 33,000 |
| | | | | \$ 91,970 |
| 711 | | | Library Trust Fund | |
| 711 | 7301 | 62424 | Anticipated Donation Not Received | (65,500) |
| | | | | \$ (65,500) |
| TOTAL OTHER FUNDS EXPENDITURES | | | | \$ (535,724) |

SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

General Fund Revenues and Expenditures

- Use of Pension/OPEB Reserve: Staff recommends use of the available Pension/OPEB Reserve in the amount of \$300,000 be transferred to the CalPERS California Employees' Pension Prefunding Trust (CEPPT) to make additional discretionary payments (ADPs) per direction from the Town Pension/OPEB Oversight Committee. The additional \$300,000 was put in the Pension/OPEB Reserve per policy at the close at the FY 2019/20 and was not available at the time of the FY 2020/21 budget adoption.
- General Property Tax and Motor Vehicle in Lieu Fee: Staff recommends a decrease in projected revenues of approximately \$729,196 in General Property Tax and an increase of \$79,280 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 \$374,664 budget decrease to reflect current trends sales tax based on MuniServices conservative projections.
- Measure G – District Sales Tax: Staff recommends a \$50,317 budget increase to reflect the current trends of the one-eight cent sales tax based on MuniServices conservative projections.
- Transient Occupancy Tax (TOT): Staff recommends a \$1,579,948 budget decrease based on the current trends.
- Corona Virus Relief Fund: Staff recommends a \$388,181 budget increase to recognize the receipt of the Corona Virus Relief Fund.
- Sale of Winchester Property: Staff recommends a revenue budget increase in the amount of \$1,200,000 for the Winchester property sale. The proceeds will be placed into the Surplus Property Reserve that was previously identified by the Town Council to address potential COVID-19 economic impacts.
- Business License Tax and Business License Processing Fee: Staff recommends a decrease in projected revenues of approximately \$200,000 in Business License Tax and a decrease of \$15,000 Business License Processing Fee based on current activities and trends.
- Crossing Guards' Services: The Town contracts 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 of Los Gatos manages the accounting of the service contract and oversees Crossing Guard staff in coordination with a local ACMS manager. 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.

Effective March 16, 2020, Santa Clara County Health Orders required remote learning instruction at all schools, thus impacting any Crossing Guard service delivery. The expenditure has decreased and corresponding revenue received from both school districts has also declined. In early February the Town received information that elementary students from both school districts would transition back to the campus environment, thus partial Crossing Guard services will resume. Expenditures are reduced by \$82,786. Combined revenue received from both school districts is reduced by \$65,974. Given the nature of the pandemic, staff notes service delivery using Crossing Guards for the remainder of the fiscal year is subject to swift variations. Staff recommends a 50% decrease both the crossing guard related revenue and expenditure budget.

- School Resource Officer Services: The School Resource Officer (SRO) agreement was amended as a result of the State and Santa Clara County Health Orders which required remote instruction, thus impacting SRO service delivery. Staff recommends a revenue budget decrease of \$140,444.
- The Parking Management Program: The COVID-19 pandemic has significantly impacted the visitation and parking patterns to parking enforcement areas. Residential, visitation and parking in areas with ticketing enforcement were reduced by exponential levels. The Parking Management Program is estimated to have a revenue shortfall of \$340,000. Due to the revenue decrease, there is a corresponding reduction in expenditure forecasted at \$152,500. The reduction in expenditure includes \$23,500 usually paid for Holiday Valet Parking Services. This fiscal year, the Town did not implement the annual Holiday Valet Parking Program to reduce potential health impacts. Staff recommends a revenue budget decrease of \$340,000 and the expenditure budget decrease of \$152,500.
- General Plan Update Engineering: Staff recommends an expenditure and revenues budget increase in the amount of \$48,325 to recognize engineering General Plan update work that carried forward from FY 2019/20 into FY 2020/21 from available General Plan Update deposits.
- Oak Meadow Park Reservation Fee: Staff recommends \$70,000 decreases in the Oak Meadow Park Reservation Fee revenue budget to recognize lower activity. Santa Clara County Health Department orders have limited groups gathering in parks town wide.
- Oak Meadow Park Parking Fee: Staff recommends a decrease the Oak Meadow Park Parking Fee revenue budget in the amount of \$15,000 to recognize lower activity and the inability to fill a booth attendant position. Staff is in the process of procuring a parking pay station that will integrate with the Town's current parking enforcement efforts.

Other Fund Revenues and Expenditures

- West Valley Clean Water Program Administration: Staff recommends revenue and expenditure budget decrease in the amount of \$353,000 for the Town's participation in the West Valley Clean Water Program. Upon creation of the West Valley Clean Water Program Authority, management of the program fees and expenditures was shifted to the Authority.
- COVID Testing: Staff recommends a \$65,000 expenditure budget increase from the available Workers Compensation Fund balance to provide regular testing for Town's essential workers.
- HVAC Cooling System: Staff recommends a \$58,970 expenditure budget increase from available Facilities Maintenance Fund balance.
- Police Headquarters Roof Replacement: Staff recommends \$50,000 expenditure budget transfer from the Fire Suppression for Server Room project to the Police Headquarters Roof Replacement project. This action increases the Police Headquarters Roof Repair budget for structural and permanent mounting of the microwave radio antenna prior to the roof replacement. This is critical for public safety communications.
- Transfer from Vegetation Management to Roadside Fire Fuel Reduction Project: Staff recommends \$250,000 expenditure budget transfer from the Vegetation Management Project to the Roadside Fire Fuel Reduction project. The Town Council approved an agreement with West Coast Arborist for this project which is partially funded by a transfer from the Vegetation Management – Town-wide project. This action recognizes the transfer. This action increases the Roadside Fire Fuel Reduction project by \$250,000 and decreases the Vegetation Management – Town-wide project by the same amount.
- Traffic Signal Modernization Project: Staff recommends revenue and expenditure budget decrease in the amount of \$306,738 in the Traffic Signal Modernization project. This reduction recognizes an erroneous double counting of a grant, as well as a change in the federal grant amount.
- Highway 17 Bicycle & Pedestrian Bridge: Staff recommends a revenue and budget increase in the amount of \$456 in the Highway 17 Bicycle & Pedestrian Bridge Project as a technical adjustment. The grant was rounded during the annual budget process and should reflect the true grant award. Increase
- Police Operation Building Surveillance Camera and Video System Update: Staff recommend an expenditure budget transfers in the amount of \$33,000 from the Equipment Replacement Fund to the Facilities Maintenance Fund for the replacement of the surveillance camera and video system at the Police Operations Building (POB). The Facilities Maintenance Fund currently has \$20,000 budgeted, and this transfer will fund the remainder of the project. This is a critical security measure for a Law Enforcement Facility. The current system is over 11 years old and several cameras are no longer functional. These cameras are located in the interrogation rooms and on the perimeter

of the POB. Cameras are currently monitored by PD Dispatch and the control room at POB. The new system software would allow multiple viewing locations (on PCs) making viewing more accessible and convenient. The system would also accommodate future expansion and be able to tie in cameras at additional Town facility locations.

- 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 a donated amount far less than received in previous years. This is also factored into the loss of revenue for this line item. Expenditures have been reduced to offset revenue shortfalls by cutting back on Library hosted community programming.

FINANCIAL SUMMARIES AND ESTIMATES

General Fund

The following table is the *Schedule of General Fund Operating Revenues Versus Operating Expenditures* for the second quarter of FY 2020/21 which includes comparison information from the prior year.

The FY 2020/21 Adjusted Budget column includes the adopted budget and items that Council approved during the course of the first two quarters of fiscal year, such as additional funding for Police use of SLESF funds, salary adjustments for Council appointed employees, and miscellaneous carry over grants from prior fiscal year.

The FY 2020/21 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 2020/21 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 2020/21 year-end estimated revenue and expenditure numbers and an update will be provided with the presentation of the Proposed Fiscal Year 2021/22 Operating Budget.

SUMMARY OF REVENUES AND EXPENDITURES

| | FY 2019/20 Actuals | FY 2019/20 Q2 | Q2% of FY 2019/20 Actuals | Q2% of FY 2020/21 Adjusted Budget | FY 2020/21 Q2 | FY 2020/21 Adjusted | FY 2020/21 Estimated YE Including Mid-Year Proposed |
|--|-----------------------|-------------------------|---------------------------------|--|-------------------------|------------------------|---|
| Revenues | | | | | | | |
| Property Tax | \$ 14,454,513 | \$ 5,017,946 | 34.7% | 37.3% | \$ 5,481,928 | \$ 14,678,319 | \$ 13,949,123 |
| Sales & Use Tax | 7,531,425 | 2,755,208 | 36.6% | 35.2% | 2,813,652 | 7,987,247 | 7,662,900 |
| VLF Backfill Property Tax | 3,875,914 | - | 0.0% | 0.0% | - | 3,973,720 | 4,053,000 |
| Franchise Fees | 2,495,792 | 864,849 | 34.7% | 31.9% | 807,883 | 2,532,289 | 2,521,970 |
| Transient Occupancy Tax | 1,869,685 | 910,806 | 48.7% | 17.5% | 399,620 | 2,287,671 | 707,723 |
| Business License Tax | 1,357,080 | 60,500 | 4.5% | 14.7% | 190,656 | 1,300,000 | 1,100,000 |
| Licenses & Permits | 2,696,457 | 1,584,098 | 58.7% | 50.5% | 1,513,500 | 2,996,898 | 2,886,708 |
| Intergovernmental | 1,104,075 | 410,882 | 37.2% | 84.4% | 818,352 | 969,385 | 1,272,328 |
| Town Services | 4,447,213 | 3,258,027 | 73.3% | 81.9% | 3,424,216 | 4,179,712 | 3,935,178 |
| Fines & Forfeitures | 271,117 | 134,707 | 49.7% | 5.9% | 25,587 | 434,950 | 99,207 |
| Interest | 1,145,538 | (183,415) | -16.0% | -114.3% | (841,366) | 736,409 | 736,409 |
| GASB 31 to Market | 1,092,564 | 517,744 | 47.4% | 114.7% | (126,168) | (110,000) | (110,000) |
| Use of Property | 31,039 | - | 0.0% | - | - | - | - |
| Miscellaneous Other | 680,439 | 134,336 | 19.7% | 57.6% | 167,206 | 290,144 | 338,409 |
| Park Construction Tax | 7,653 | - | - | - | - | 7,000 | 7,000 |
| Debt Service - <i>Entry Eliminated for CAFR</i> | 1,905,024 | - | 0.0% | 0.0% | - | 1,908,494 | 1,908,494 |
| Proceeds for Sales of Assets | 656 | - | 0.0% | - | 1,200,000 | - | 1,200,000 |
| Fund Transfer In | 599,669 | 102,000 | 17.0% | 17.0% | 104,659 | 616,834 | 616,834 |
| Total Revenues & Transfers In | \$ 45,565,853 | \$ 15,567,688 | 34% | 36% | \$ 15,979,725 | \$ 44,789,072 | \$ 42,885,283 |
| Use of Other Funding Sources: | | | | | | | |
| Use of Reserves - Capital/Special Projects - Capital | \$ 8,053,847 | \$ - | 0.0% | 0.0% | \$ - | \$ 3,401,479 | \$ 3,401,479 |
| Use of Reserve - Pension/OPEB | - | - | - | - | - | 4,232,500 | 4,532,500 |
| Use of Reserves - Capital/Special Projects - One-Time | - | - | - | - | - | 901,267 | 901,267 |
| Total Other Funding Sources | \$ 8,053,847 | \$ - | 0% | 0% | \$ - | \$ 8,535,246 | \$ 8,835,246 |
| Total Revenues and Use of Reserves | \$ 53,619,700 | \$ 15,567,688 | 29% | 30% | \$ 15,979,725 | \$ 53,324,318 | \$ 51,720,529 |
| Expenditures | | | | | | | |
| Town Council | \$ 206,163 | \$ 112,711 | 54.7% | 40.8% | \$ 99,310 | \$ 243,486 | \$ 212,263 |
| Attorney | 559,010 | 296,424 | 53.0% | 47.3% | 311,592 | 658,831 | 619,766 |
| Administrative Services | 4,380,504 | 2,204,552 | 50.3% | 49.6% | 2,476,978 | 4,993,047 | 4,709,166 |
| Non- Departmental | 3,505,098 | 1,166,054 | 33.3% | 55.6% | 4,339,030 | 7,803,668 | 8,068,199 |
| Community Development | 4,473,790 | 2,245,767 | 50.2% | 46.9% | 2,589,502 | 5,517,030 | 5,280,003 |
| Police | 15,793,815 | 8,504,636 | 53.8% | 51.1% | 9,037,569 | 17,687,825 | 16,841,333 |
| Parks & Public Works | 8,139,106 | 3,864,874 | 47.5% | 51.4% | 4,189,004 | 8,152,045 | 7,858,200 |
| Library | 2,700,802 | 1,404,285 | 52.0% | 49.0% | 1,446,308 | 2,952,802 | 2,854,192 |
| Capital Outlay | 138,384 | - | - | - | - | - | - |
| Total Department Expenditures | \$ 39,896,672 | \$ 19,799,303 | 50% | 51% | \$ 24,489,293 | \$ 48,008,734 | \$ 46,443,122 |
| Debt Service - <i>Entry Eliminated for CAFR</i> | \$ 1,905,024 | \$ - | 0.0% | 0.0% | \$ - | \$ 1,908,494 | \$ 1,908,494 |
| Transfers Out | 8,053,847 | - | 0.0% | 0.0% | - | 3,401,479 | 3,401,479 |
| Total Non-Departmental Expenditures | \$ 9,958,871 | \$ - | 0% | 0% | \$ - | \$ 5,309,973 | \$ 5,309,973 |
| Total Operating Expenditures | \$ 49,855,543 | \$ 19,799,303 | 40% | 46% | \$ 24,489,293 | \$ 53,318,707 | \$ 51,753,095 |
| Allocate to Surplus Property Reserve | | | | | | | (1,200,000) |
| Excess (Deficiency) of Revenues Over Expenditures | \$ 3,764,157 | \$ (4,231,615) * | | | \$ (8,509,568) * | \$ 5,611 | \$ (1,232,566) |

*FY 2019/20 and FY 2020/21 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.

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 and Lighting District (LLD) Funds. Staff recommends revenue and expenditure budget decrease in the amount of 353,000 for the Town's participation in the West Valley Clean Water Program. Upon creation of the West Valley Clean Water Program Authority, management of the program fees and expenditures was shifted to the Authority.

Special Revenue Funds Budget to Actuals Comparisons

| | CDBG Grants | Non-Point Source | LLD's |
|--|------------------------|-----------------------------|-------------------|
| Beginning Fund Balance | \$ 166,653 | \$ 237,936 | \$ 190,250 |
| Budgeted Revenues | - | 584,394 | 39,680 |
| Total Actual Revenues - 2nd Qtr | \$ - | \$ 125,912 | \$ - |
| Budgeted Expenditures | - | 559,077 | 37,737 |
| Total Actual Expenditures - 2nd Qtr | - | 88,634 | 15,810 |
| 2nd Quarter Ending Fund Balance | \$ 166,653 | \$ 275,214 | \$ 174,440 |

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 transfer between capital projects and reducing both grant fund revenue and expenditure by \$307,194 to match funds received and awarded. 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 | \$ 13,861,073 | \$ 2,636,215 | \$ (343,705) | \$ 2,760,276 | \$ 3,118,174 | \$ 290,370 |
| Budgeted Revenues | 8,648,481 | 1,795,438 | 6,930,235 | 104,340 | 3,863,048 | 1,233,317 |
| Total Actual Revenues - 2nd Qtr | 2,494,888 | - | 140,352 | 83,384 | 33,228 | 578,206 |
| Budgeted Expenditures | 17,892,744 | 1,795,438 | 7,256,019 | 485,058 | 6,836,204 | 1,397,952 |
| Total Actual Expenditures - 2nd Qtr | 1,644,955 | 126,848 | 169,170 | - | - | - |
| 2nd Quarter Ending Fund Balance | \$ 14,711,006 | \$ 2,509,367 | \$ (372,523) | \$ 2,843,660 | \$ 3,151,402 | \$ 868,576 |

** GFAR, Traffic Mitigation, and Grant Funds balances are combined in the CAFR. The combined balance of \$13,866,028 is presented as an Appropriated Reserve. The Traffic Mitigation Fund balance includes \$2,287,555 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 \$58,970 expenditure budget adjustment to cover the Civic Center HVAC Cooling System repair, and \$33,000 transfer from the Equipment Replacement Fund for the Police Headquarter Surveillance Camera Update project. In addition, staff recommends expenditure adjustments in amount of \$65,000 from the available Workers' Compensation Fund to provide COVID 19 Testing for essential Town employees. Staff will continue to monitor expenditures and propose a revised cost allocation if needed during the FY 2021/22 budget preparation.

| Internal Service Funds Budget to Actuals Comparisons | | | | | |
|---|-----------------------|-------------------------|-------------------|---------------------------|--------------------|
| | Equipment Replacem | Workers Compensation | Self Insurance | Information Technology | Facility Maint. |
| Beginning Fund Balance | \$ 1,925,054 | \$ 1,808,740 | \$ 1,290,614 | \$ 2,604,203 | \$ 102,469 |
| Budgeted Revenues | 297,546 | 1,185,906 | 418,135 | 917,219 | 1,148,757 |
| Total Actual Revenues - 2nd Qtr | 191,768 | 698,452 | 205,763 | 484,004 | 456,916 |
| Budgeted Expenditures | 1,523,121 | 1,835,050 | 668,059 | 1,070,891 | 1,169,722 |
| Total Actual Expenditures - 2nd Qtr | 87,134 | 576,940 | 501,245 | 212,915 | 517,241 |
| 2nd Quarter Ending Fund Balance | \$ 2,029,688 | \$ 1,930,252 | \$ 995,132 | \$ 2,875,292 | \$ 42,144 |

Trust and Agency Funds (Fiduciary Fund Type)

Town Trust and Agency Funds have estimated fund balances as of December 31, 2020 of \$525,815 for the Library Trust Funds and \$229,795 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 \$44,500 revenue budget decrease and a \$65,500 expenditure budget decrease in the Library Trust since an expected donation was never received.

Trust & Agency Funds Budget to Actuals Comparisons

| | Library Trust | SA Trust |
|--|--------------------------|---------------------|
| Beginning Fund Balance | \$ 526,815 | \$ 229,905 |
| Budgeted Revenues | 74,100 | 12,500 |
| Total Actual Revenues - 2nd Qtr | 3,236 | - |
| Budgeted Expenditures | 74,100 | 11,803 |
| Total Actual Expenditures - 2nd Qtr | 5,030 | 110 |
| 2nd Quarter Ending Fund Balance | \$ 525,021 | \$ 229,795 |

This page is intentionally blank