



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/21/2023

ITEM NO: 14

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DATE: February 15, 2023  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Mid-Year Budget Report - July 1 - December 31, 2022:  
a. Receive FY 2022/23 Mid-Year Budget Report;  
b. Authorize Budget Adjustments as Recommended in the Mid-Year Budget Report; and  
c. Provide Direction of the Order of Authorized Funding Source to Balance the FY 2022/23 Operating Budget, if Necessary, at the Final Close of the Fiscal Year.

**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. Provide direction of the order of authorized funding sources to balance the FY 2022/23 Operating Budget, if necessary, at the close of the Fiscal Year.

**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.

On February 13, 2023, the Finance Commission discussed the Mid-Year Report. The Commission's comments are included in this report to Town Council.

**PREPARED BY:** Gitta Ungvari  
Finance Director

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Reviewed by: Town Manager and Town Attorney

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REMARKS (continued):

Highlights of the Mid-Year Budget Report include:

*Financial Overview and Executive Summary*

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

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

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

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

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

REMARKS (continued):

*General Fund Revenue Analysis*

The current forecast expects increases in economically sensitive revenues such as property tax, business license tax, transient occupancy tax, and franchise fee; however, sales tax revenues trending lower than the adopted budget. Pass Through Revenue increase with matching expenditure increases also recognized for development activity, recognizing loan repayment and grant proceeds. The combined recommended mid-year revenue adjustments total a net increase of \$2.8 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 40% 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 including pas through items with matching revenues total a net increase of \$1.4 million.

*FY 2022/23 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 2022/23 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

REMARKS (continued):

current year revenues, and subtracts current year expenditures, resulting in an ending fund balance.

*Finance Commission Review*

On February 13, 2023, the Finance Commission received the FY 2022/23 Mid-Year Budget Report. After staff presentation, the Commission asked questions and provided input regarding the FY 2022/23 Mid-Year Budget Report. Commissioners commented on the big uncertainty of the ERAF proceeds and the probability of a higher year end surpluses. As mentioned above, the Finance Commission did not recommend using ARPA first as one of the three budget balancing options.

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 2023/24. Should any additional budget adjustments be necessary to balance operating revenue and expenditures prior to the FY 2022/23 close, staff will advise the Council accordingly. The Draft FY 2023/24 Operating and Capital Budgets will be available in May with the budget hearing tentatively scheduled for May 16, 2023.

Staff recommends that the Town Council approve the proposed revenue and expenditure budget adjustments as described in Attachment 1 and provide direction on the order of the use of the approved funding sources to balance the FY 2022/23 Operating Budget, if necessary, at the close of the Fiscal Year. 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.

Attachments:

1. Mid-Year Budget Report - July 1 - December 31, 2022 as Presented at the Finance Commission February 13, 2023 Meeting.
2. Public Comments Received before Posting the Staff Report