



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 02/20/2024

ITEM NO: 13

DATE: February 13, 2024
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Mid-Year Budget Report - July 1 - December 31, 2023:
a. Receive the FY 2023/24 Mid-Year Budget Report; and
b. Authorize Budget Adjustments as Recommended in the Mid-Year Budget Report

RECOMMENDATION:

Staff recommends that the Town Council take the following actions regarding the Mid-Year Budget Performance Report - July 1 - December 31, 2023:

- a. Receive the FY 2023/24 Mid-Year Budget Report (Attachment 1); and
- b. Authorize budget adjustments as recommended in the Mid-Year Budget Report.

BACKGROUND:

The purposes of the Mid-Year Report (Attachment 1) are to provide the Town Council with a status of the adopted Fiscal Year (FY) 2023/24 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 Mid-Year Report dated February 13, 2024 (Attachment 1) contains a few modifications from the February 6, 2024 Report provided to the Finance Commission. The revised Report updates the Police Services discussion, adds the Program numbers to the Recommended Budget Adjustments, describes the Recommended Budget Adjustments in the Equipment Replacement Fund, and makes other minor edits.

PREPARED BY: Gitta Ungvari
Finance Director

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

BACKGROUND (continued):

Finance Commission Review

On February 12, 2024, the Finance Commission received the Mid-Year Report. The Commission did not discuss the report in detail due to time constraints and the fact that a majority of the Commissioners indicated that they did not get a chance to read the report. The Chairperson commented that his year-end estimates predict higher surpluses than indicated in the staff presentation.

DISCUSSION:

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 2023/24 reflect an anticipated \$1.7 million surplus of operating revenues and planned use of reserves over expenditures after reserving 30% of Education Revenue Augmentation Fund (ERAF) and the required allocation to the Pension Trust Fund.

The primary drivers of the projected surplus are the increased revenue projection for property tax and the restoration of the garbage franchise fee to prior year levels.

General Fund Revenue Analysis

The current year-end projections expect increases in economically sensitive revenues such as property tax, and franchise fees; however, sales tax revenues, business license tax, and transient occupancy tax are trending lower than the Adopted Budget. Current year-end estimates project increases in interest, parking citation, engineering review, engineering permit collections. Pass-Through Revenue increases have matching expenditure increases in the Town's affordable housing program. The combined recommended mid-year revenue adjustments total a net increase of approximately \$2.1 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 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, assuming that Town Council approves the

DISCUSSION (continued):

recommended budget adjustments. The analysis examines all expenditure line items; however, budget adjustments are only recommended in certain instances as outlined in the Report. The recommended General Fund mid-year expenditure adjustments total just over \$0.8 million.

The FY 2023/24 Adjusted Budget includes a 4.6% vacancy factor. Staff continues to monitor each Department's budget because while an overall Town-wide surplus is predicted due to higher projected revenues, the individual Departments' current expenditure budgets may not be sufficient for the remainder of the year. If additional adjustments are needed during the current fiscal year, the Council would be asked to consider these future actions.

FY 2023/24 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 2023/24 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 2024/25. Should any additional budget adjustments be necessary to balance operating revenue and expenditures prior to the FY 2023/24 close, Council would be asked to consider appropriate actions. The Draft FY 2024/25

CONCLUSION AND NEXT STEPS (continued):

Operating and Capital Budgets will be available on April 22, 2024 with the Council's budget hearing tentatively scheduled for May 21, 2024.

Staff recommends that the Town Council approve the proposed revenue and expenditure budget adjustments as described in Attachment 1. 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, 2023
2. Public Comments Received before 11:00 a.m. on February 15, 2024