



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

INTRODUCTION

Purpose

This is the second quarterly budget performance report for the Fiscal Year (FY) 2016/17, for the six month period ending December 31, 2016. The purpose of this quarterly public reporting is twofold. First, it ensures that the Town is consistently monitoring its revenues and expenditures so that it can proactively respond to unanticipated changes or emerging trends. Second, and equally important, these reports increase the transparency of the Town’s finances. The Town is ultimately accountable to its residents to use the revenue it brings in efficiently and effectively to provide the highest quality services, and quarterly public reporting provides taxpayers with information that demonstrates the Town is meeting this standard.

Content

This quarterly report presents an overview of the Town’s operating revenues and expenditures for the quarter ending December 31, 2016, as compared to previous years, and explains any notable changes or trends in these numbers. This report also provides information on any recommended budget adjustments.

Timeframe and Limitations

The information in this report is the most accurate and up-to-date information available at the time of publication. However, this report is not an audited financial statement and the numbers provided herein are preliminary and subject to change as the year progresses. No data on revenues and expenditures is final until the Town has completed its annual comprehensive audit and finalized its Comprehensive Annual Financial Report (CAFR), which is released in the winter of each year for the prior fiscal year.

With respect to revenues: The Town regularly monitors and adjusts its year-end revenue projections based on revenue performance and

other developments that may affect Town revenues in order to develop a more accurate picture of the Town’s anticipated year-end financial position.

With respect to expenditures: The expenditure information in this report is extracted directly from the Town’s financial management system, and adjustments are made to account for certain known payments, reimbursements, or transfers between Town Departments and funds that have not yet been processed in the system at the time of publication. It represents a snapshot of Town expenditures at a certain point in time and does not reflect final adjustments made to prepare the Town’s CAFR.

Table of Contents

Introduction.....	1
Executive Summary	2
Status of FY 2016/17 Adopted Budget	2
General Fund Reserve Status	2
Greater Economic Outlook.....	3
State Budget Update	3
General Fund – Key Revenue Analysis.....	4
Property Tax	5
Sales Tax	6
Franchise Fees	7
Business License Tax.....	8
Transient Occupancy Tax.....	9
Interest Income	10
Charges for Services	11
Licenses & Permits	12
FY 2016/17 Recommended Budget Adjustments...	12
Summary of Key Recommended Adjustments	15
Financial Summaries and Projections	19
General Fund	19
Special Revenue Fund	20
Capital projects Funds	21
Internal Service Funds	22
Trust and Agency Funds	23
Redevelopment Agency	23
Conclusion	23



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

EXECUTIVE SUMMARY

Status of FY 2016/17 Adopted Budget

Overall, second quarter General Fund revenues are trending favorably when compared to the second quarter of Fiscal Year 2015/16. Due to some projected revenue increases, staff is recommending a net General Fund revenue increase of \$1.2 million from adopted budgeted estimates, offset by expenditure increases (see below). The current forecast expects a substantial increase in property tax, motor vehicle in lieu, transient occupancy tax (TOT), and business license tax due to the continued surge in the local economy as well as tourism within the Bay Area. It should be noted that while the second quarter FY 2016/17 sales tax proceeds indicate a significant increase, the overall sales tax revenue is declining. The mid-year FY 2016/17 sales tax proceeds include a one-time “triple flip” true-up adjustment of sales tax from prior fiscal years. Revenues such as licenses and permits, and franchise fees are all trending favorably, a strong indication that the economy continues to rebound (see summary detail on page 13).

General Fund expenditure totals for the second quarter are trending in accordance with forecasts, with total operational expenditures at the end of the second quarter at about 46% of the adopted budget. With six months of data now available, staff can better predict the next six months of expenditure trends, although unexpected costs can occur. Should any budget adjustments be necessary to balance operating revenue and expenditures, staff will advise the Council accordingly.

Expenditure additions at this time include increased water utility expenses, mandatory well testing expenses, increased waste management service costs, sales tax recovery services, funding to provide additional emergency tree services, medical examinations, recruitment expenses, and labor negotiation expenses (see page 13 for details).

Providing services to the community in this and future fiscal years will continue to require strong

performance by economically sensitive revenues to offset benefit and other cost increases. The FY 2016/17 budget is the third budget in five years that is not projected to be a deficit budget where cuts are needed to balance. FY 2017/18 budget will continue to fund essential public services to ensure a status quo budget. Contractual obligations and unfunded mandates will be incorporated into the proposed budget.

General Fund Reserve Status - 6/30/16

General Fund Reserves are classified into categories – Restricted, Committed, Assigned, and Unassigned. Restricted reserves are those which are restricted in use by accounting standards or legal agreements and are not considered as available for use for another purpose. Committed reserves are established by Council Policy for an intended purpose. Assigned fund balance describes a portion of fund balance that reflects a government’s intended use of resources. Unassigned fund balance is available for appropriation.

General Fund Reserves, exclusive of the Compensated Absences Fund, closed on June 30, 2016 with a balance of approximately \$27.5 million in committed and assigned reserves which is in accordance with Town financial policies and operating and capital budget requirements.

	6/30/2016 Amount (millions)
General Fund Reserves	
Committed	
Budget Stabilization Reserve	\$6.6
Catastrophic Reserve	\$4.6
CalPERS Reserve	\$0.3
Almond Grove Reserve	\$8.5
Assigned	
Carryforward Appropriation	\$0.1
Strategic Planning	\$2.6
Capital Improvements	\$4.0
Open Space	\$0.6
Sustainability Reserve	\$0.1
FY 2016/17 Commitments	\$0.1
Total General Fund Reserves	\$27.5



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

The Budget Stabilization Reserve was established to serve as a transitional “bridge” funding source to mitigate or smooth out cyclical ups and downs in locally generated revenues due to fluctuations in the local economy or “one-time” revenue losses where the revenue base is likely to be restored in the near future. The Catastrophic Reserve was established to mitigate costs associated with unforeseen emergencies, such as a disaster or catastrophic event. Per the Town Council General Fund Reserve Policy, the combined total of these two reserves is 25% of the General Fund operating expenditures.

The CalPERS Reserve was established in an initial amount of \$300,000 to mitigate the Town’s unfunded pension liabilities in June 2016. According to the June action, an annual payment of \$300,000 is deposited from available year-end savings.

The reserve for Capital and Special Projects, funded from annual available General Fund budget savings, serves as the primary source for replenishment to the Town’s General Fund Appropriated Reserves (GFAR), which is the Town’s Capital Improvement Fund. This Reserve functions as a potential funding source for new capital projects or augmentations to authorized projects funded through the Town’s Five Year Capital Improvement Program (CIP). Out of the \$4 million available in Capital Improvement Reserve, \$1.4 million is already committed for capital projects in FY 2016/17.

The availability of approximately \$27.5 million in committed, assigned, and currently unassigned General Fund Reserves provides the Town with resources to manage through current and/or future fiscal challenges and opportunities. The \$2.6 million Strategic Planning balance will be incorporated into the FY 2017/18 budget process based on the Council January 31, 2017 budget priority direction.

Federal Economic Outlook

The Congressional Budget Office (CBO) anticipates that the economy will expand at a solid pace over the next few years. Real Gross Domestic Product (GDP) is anticipated to grow by about 2.3% in 2017. By the CBO’s projections, increased hiring will

reduce the national unemployment rate and it will reach 4.4% by the end of 2018. The increased hiring will also encourage more people to enter or stay in the labor force. The CBO also estimates that the rate of inflation will rise to 1.9% in 2017 and to 2.0% in 2018.

The CBO expects that the interest rates on Treasury securities, which have been exceptionally low since the recession, will reach 1.1% in the fourth quarter of 2017, 1.6% in the fourth quarter of 2018. In addition, federal lawmakers still face the longer-term issues posed by the large projected national debt and the implementation of rising health care costs for an aging population.

The US Department of Commerce reported that home construction rose 4.4% since last year.

State Budget Update

Since 2011, the State of California’s fiscal situation has dramatically turned around. As the State’s economy has recovered, the past three budgets have restored some previous budget cuts and expanded services, such as extending health care coverage to millions of Californians. In addition, the State has paid down its budgetary borrowing and addressed some long standing problems - such as implementing a plan to restore fiscal health to teacher pensions, and making some improvements to the State’s water system. A strengthening State economy is continuing to push revenues higher. The State’s unemployment rate is below 6% for the first time since 2007.

In 2015, capital gains - the state’s most volatile revenue source - reached an all time high. The economy is finishing its seventh year of expansion, already two years longer than the average recovery. While the timing is uncertain, the next recession is getting closer, and the state must begin to plan for it. The Governor’s Proposed Budget is more conservative, anticipating reductions in revenues and associated reductions in expenditures.



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

GENERAL FUND – KEY REVENUE ANALYSIS

The following discussion provides a status of significant General Fund revenue sources as of the second quarter, ending December 31, 2016.

Staff monitors each revenue source closely and may recommend certain revenue adjustments based on revenue actuals or state budget action.



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

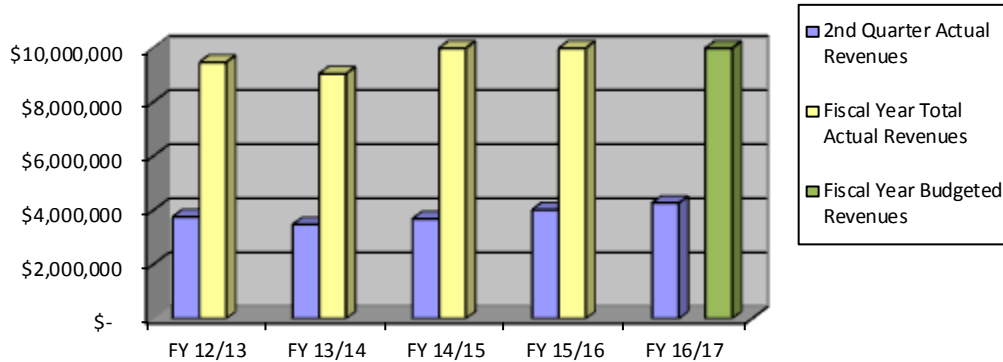
Property Tax

Property tax is the largest revenue source for the Town’s General Fund, accounting for 27.6% of budgeted General Fund revenues in FY 2016/17. 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 2% inflation factor thereafter. However, when property changes hands or new construction occurs, property is reassessed at its current market value. Real property values critically impact revenues. With the passage of Proposition 13, voters limited the tax rate that can be imposed by the Town on property. With the limitation on rates, therefore, higher revenues are generated by a higher aggregate property value.

Analysis – Property Tax distributions are largely received in the third and fourth quarters. Property tax budget projections are based on valuation projected by the Santa Clara County Assessor’s Office, given increased home sales, coupled with anticipated adjustments in property tax distribution due to the dissolution of California Redevelopment Agencies. Second quarter receipts are trending higher than those received during the second quarter of the previous fiscal year and are at 41% of budgeted totals. Based on these trends and the County projections, staff recommends a \$593,303 increase in General Property Tax.

PROPERTY TAX

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



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
2nd Quarter Actual Revenues	\$ 3,768,794	\$ 3,475,492	\$ 3,690,329	\$ 4,030,272	\$ 4,274,774
Fiscal Year Total Actual Revenues	\$ 9,477,043	\$ 9,054,908	\$ 10,113,287	\$ 10,791,743	
Fiscal Year Budgeted Revenues					\$ 10,458,633
2nd Quarter Percent of Total	40%	38%	36%	37%	41%
Recommended Budget Revision					\$ 593,303



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

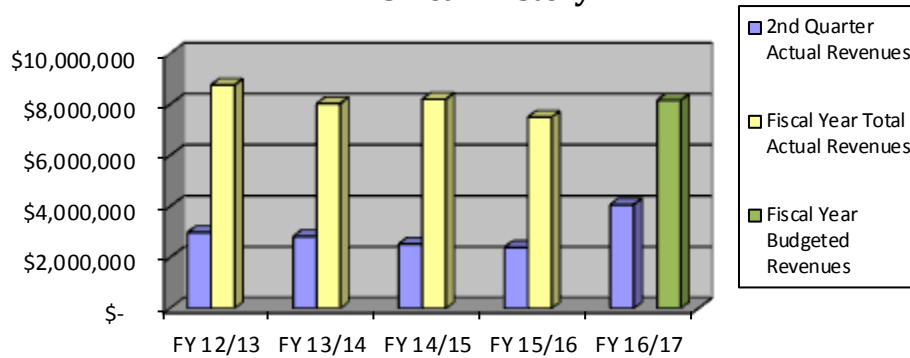
Sales Tax

Sales tax is the second largest revenue source for the Town’s General Fund, accounting for 21.6% of budgeted General Fund revenues for FY 2016/17. The Town currently receives 1 cent for every 8.50 cents of sales tax paid per dollar on retail sales and taxable services transacted within Los Gatos. A half-cent County-wide sales tax was approved by the voters in November 2016 and will be effective April 1st bringing the sales tax rate to 9.00%. Since the implementation of the mechanism commonly known as the “triple flip,” the State Board of Equalization retains 0.25 cents of the Town’s 1-cent share and requires the Santa Clara County Assessor to replace it with an equal amount of property tax revenue. Revenues are remitted from the State to the Town on a monthly basis, and from the County to the Town on a biannual basis. FY 2016/17 marks the final “triple flip” true-up payment. From FY 2016/17 the State Board of Equalization will distribute the full 1 percent sales tax share to the Town. These revenues are placed in the General Fund for unrestricted uses.

Analysis – The most recent sales tax and economic review update from MuniServices, the Town’s sales tax analysis consultant, states that while sales tax receipts statewide grew by 1.9%, Town of Los Gatos Sales Tax revenues decreased by 2% over the same period. Second quarter receipts are trending behind those in the same period last fiscal year. First quarter actual proceeds include a \$900,000 final “triple-flip” true-up payment from previous fiscal years including FY 2015/16; as demonstrated in the graph below the FY 2015/16 proceeds were less since the final triple-flip payment was distributed in FY 2016/17. The negative impact associated with the Netflix change in business model continues to impact the Town as is the trend of increased on-line retail versus local brick and mortar shopping compounded by lower gasoline prices. Staff recommends a \$650,553 budget increase to reflect the combined effect of one-time revenue and declining sales tax projection.

SALES TAX

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



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
2nd Quarter Actual Revenues	\$ 2,975,082	\$ 2,825,414	\$ 2,532,086	\$ 2,397,533	\$ 4,069,524
Fiscal Year Total Actual Revenue	\$ 8,757,428	\$ 8,029,571	\$ 8,202,678	\$ 7,501,175	
Fiscal Year Budgeted Revenues					\$ 8,164,403
2nd Quarter Percent of Total	34%	35%	31%	32%	50%
Recommended Budget Revision					\$ 650,553



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

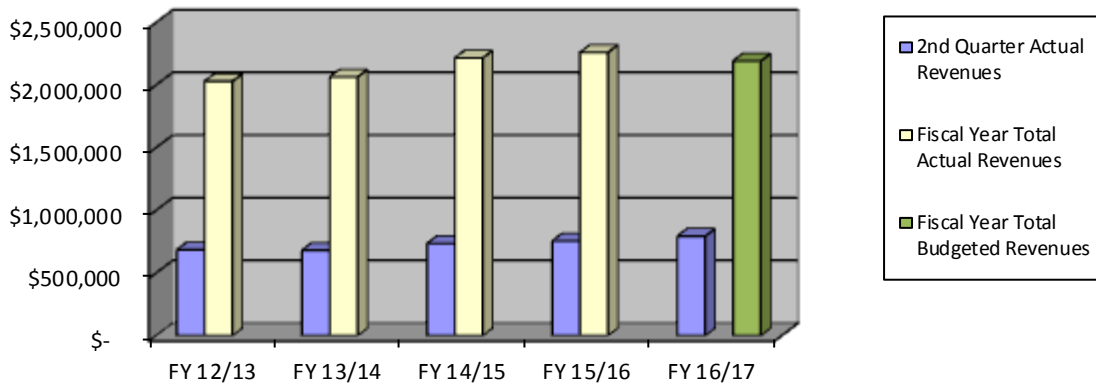
Franchise Fees

Franchise fees are collected by the Town for the privilege of operating a utility service within Los Gatos, and as a fee in lieu of a business license tax. Franchise fees are currently received from Comcast for cable television, PG&E for gas and electric services, West Valley Collection and Recycling for solid waste collection services, and AT&T and Comcast for video services. Franchise fees represent 5.8% of budgeted General Fund revenues in FY 2016/17.

Analysis – Historically, franchise payments are not remitted equally throughout the fiscal year; therefore second quarter receipts are not necessarily predictive. Total franchise fee revenues are trending slightly higher than those of the second quarter in FY 2015/16. Staff recommends a \$30,000 budget increase to this revenue source.

Franchise Fees

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



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
2nd Quarter Actual Revenues	\$ 685,308	\$ 681,431	\$ 735,550	\$ 755,451	\$ 794,077
Fiscal Year Total Actual Revenues	\$ 2,028,903	\$ 2,063,756	\$ 2,215,430	\$ 2,258,892	
Fiscal Year Total Budgeted Revenues					\$ 2,191,120
2nd Quarter Revenue Percent of Total	34%	33%	33%	33%	36%

Recommended Budget Revision	\$ 30,000
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BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

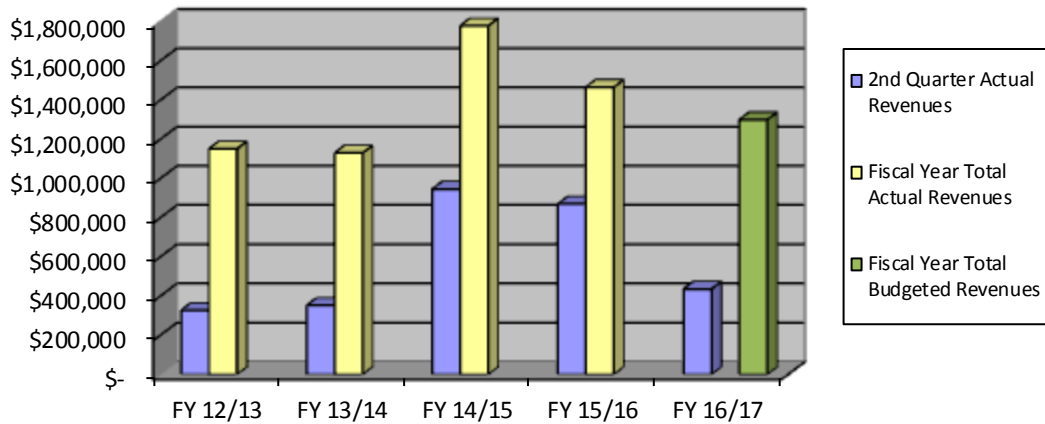
Business License Tax

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, but retail is capped at \$975. These 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.

Analysis – As a result of the projected increase in economic activity, business license tax revenue for the current fiscal year was budgeted slightly higher than the prior year budgeted number. Second quarter revenues are significantly lower compared to prior year second quarter revenue; however, first quarter revenue is trending higher when compared to revenues prior to FY 2014/15. FY 2014/15 actual revenues reflected below include a one-time prior year adjustment for business license tax collection from Netflix. This adjustment was due to a reclassification that happened in the first quarter of FY 2014/15. Current year second quarter revenues are trending in line with prior year result consistent with the improved economic outlook. Therefore, staff recommends a budget increase of \$150,000.

Business License Tax

Quarterly and Annual Revenues 5-Year History



	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17
2nd Quarter Actual Revenues	\$ 327,237	\$ 352,049	\$ 945,846*	\$ 870,249**	\$ 745,633
Fiscal Year Total Actual Revenues	\$ 1,151,579	\$ 1,130,020	\$ 1,779,307	\$ 1,465,547	
Fiscal Year Total Budgeted Revenues					\$ 1,300,000
2nd Quarter Revenue Percent of Total	28%	31%	53%	59%	57%

Recommended Budget Revision **\$ 150,000**

* Includes "one-time" prior years adjustments due to Netflix recalsification to E-Commerce business

** Includes 2014 actual gross receipt adjustment for Netflix at the first time



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

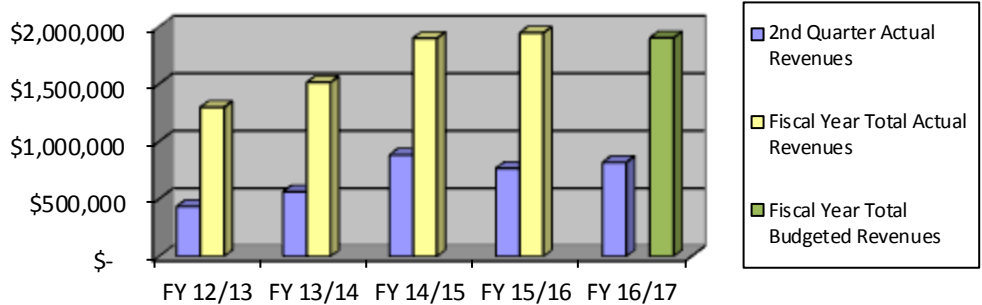
Transient Occupancy Tax

The Town levies a 12% transient occupancy tax (TOT) on all hotel and motel rooms within the municipal limits of Los Gatos. This tax helps to fund Town services provided to visitors to Los Gatos. At the November 8, 2016 election the Town of Los Gatos residents approved a ballot measure increase the TOT from 10% to 12%. The 12% rate is effective from January 1, 2017.

Analysis – Visit California, formerly the California Travel and Tourism Commission, reports that the total number of visitors to California grew 3.4% in 2015. The forecast for California visitation is increasing by 2.2% in 2016. Personal and business related travel is gaining strength. Second quarter TOT revenues are trending higher than those of the second quarter of 2015/16. Based on the recent trend and the combined effect of increased TOT rate, staff is recommending a budget increase of \$100,000.

Transient Occupancy Tax

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



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
2nd Quarter Actual Revenues	\$ 434,419	\$ 562,906	\$ 882,406	\$ 766,651	\$ 817,061
Fiscal Year Total Actual Revenues	\$ 1,295,887	\$ 1,512,846	\$ 1,896,721	\$ 1,943,166	
Fiscal Year Total Budgeted Revenues					\$ 1,900,000
2nd Quarter Revenue Percent of Total	34%	37%	47%	39%	43%
Recommended Budget Revision					\$ 100,000



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

Interest Income

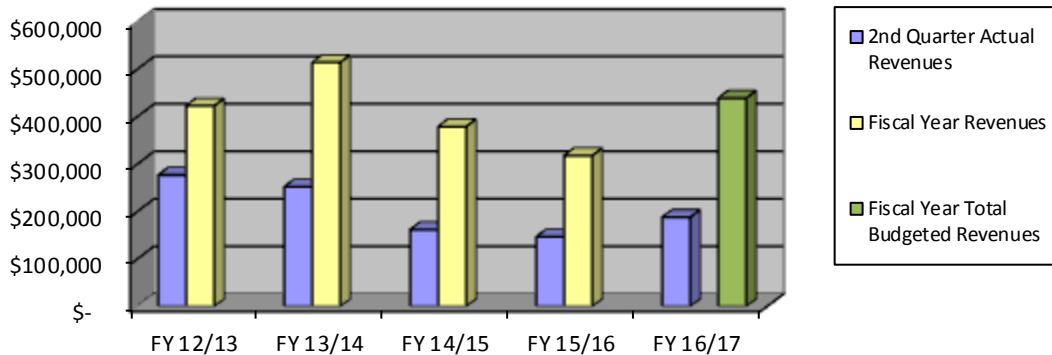
The Town earns interest income by investing monies not immediately required for daily operations in a number of money market instruments. These investments are made within the parameters stated in the Town Council’s Investment Policy. The Town’s investment goal is to achieve a competitive rate of return 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.

Analysis – Second quarter receipts are trending above those in the same period in the prior fiscal year. Financial indicators throughout the market are predicting a slight increase. The increase of the interest earnings experienced this fiscal year are reflective of the Town’s total portfolio yield increasing from 0.76% as of December 31, 2015 to the current yield of 0.86% as of December 31, 2016.

The strategy for the foreseeable future continues to be to remain fairly short-term and to invest in callable agency bonds in order to attempt to pick up a few basis points over non-callable agencies and treasuries. Because of the rising interest forecast, staff is continuing to focus on the purchase of new short-term (two years or less in maturity) investments as the rewards for longer term investments in the three to five year maturity do not have adequate spreads to justify the risk of holding longer term maturities. The Town also attempts to find good solid corporate bonds when possible. Staff recommends a \$60,000 budget decrease to better match current year-end estimates with budget.

Interest Income

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



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
2nd Quarter Actual Revenues	\$ 276,974	\$ 251,835	\$ 161,825	\$ 146,500	\$ 187,954
Fiscal Year Revenues	\$ 422,840	\$ 514,380	\$ 379,154	\$ 317,766	
Fiscal Year Total Budgeted Revenues					\$ 438,880
2nd Quarter Revenue Percent of Total	66%	49%	43%	46%	43%
Recommended Budget Revision					\$ (60,000)



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

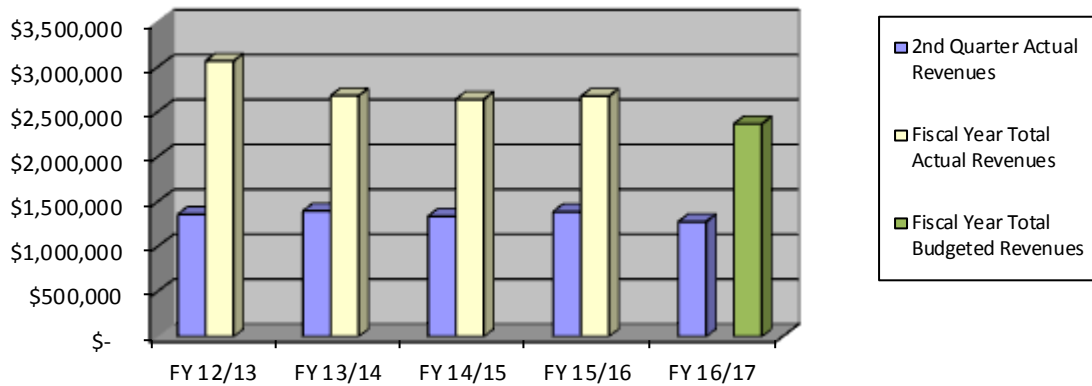
Charges for Services

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 recovery formulas, which reflect approximate costs of providing these regulatory services.

Analysis – Second quarter Town service revenues, specifically Charges for Services, are trending in line in the second quarter compared to the previous fiscal year, with 54% 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 \$100,000 budget increase.

Charges for Services

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



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
2nd Quarter Actual Revenues	\$ 1,362,841	\$ 1,398,426	\$ 1,341,401	\$ 1,391,766	\$ 1,280,107
Fiscal Year Total Actual Revenues	\$ 3,070,127	\$ 2,684,126	\$ 2,643,276	\$ 2,677,944	
Fiscal Year Total Budgeted Revenues					\$ 2,370,070
2nd Quarter Revenue Percent of Total	44%	52%	51%	52%	54%

Recommended Budget Revision	\$ 100,000
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BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

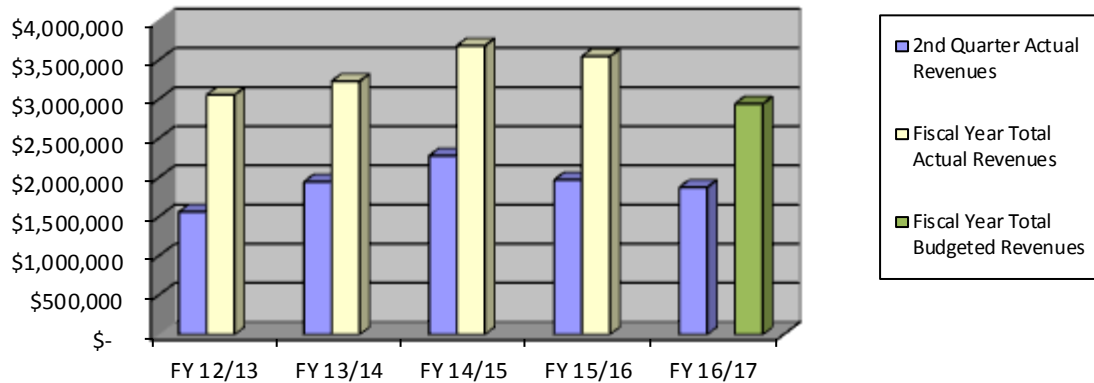
Licenses and Permits

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 Permit revenue was budgeted slightly lower than FY 2015/16 in anticipation of decreased development activity.

Analysis – Second quarter License and Permit revenue is trending well ahead of second quarter results from the previous fiscal year. Second quarter revenues include approximately \$400,000 deferred revenues from FY 2015/16 as some of the big-scale development projects started last year were not completed in FY 2015/16. Therefore, staff recommends a budget revenue increase of \$50,000.

Licenses & Permits

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



	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>
2nd Quarter Actual Revenues	\$ 1,566,216	\$ 1,950,393	\$ 2,282,444	\$ 1,975,156	\$ 1,879,951
Fiscal Year Total Actual Revenues	\$ 3,060,948	\$ 3,235,122	\$ 3,687,393	\$ 3,552,935	
Fiscal Year Total Budgeted Revenues					\$ 2,946,583

2nd Quarter Revenue Percent of Total	51%	60%	62%	56%	64%
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Recommended Budget Revision	\$ 50,000
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BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

FY 2016/17 Recommended Budget Adjustments

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

FY 2016/17 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUND

Fund	Program	Account	General Fund Revenues		
111	1201	411XX	Property Tax	\$	593,303
111	1201	43311	Motor Vehicle In Lieu Fee		223,160
111	1201	41211	Sales & Use Tax		650,553
111	1201	41311	Transient Occupancy Tax		100,000
111	1201	41613	Garbage Franchise Fee		30,000
111	1201	45912	Albright Settlement		(244,333)
111	1201	45927	Medicare Part D Subsidy		(45,550)
111	2301	41411	Business License Tax		150,000
111	2301	4521X	Interest		(60,000)
111	2999	48623	Humane Society - Dog Project		3,002
111	3201	42413	Planning Permits		50,000
111	3201	44421	Plan Check Building		100,000
111	4303	44512	Crossing Guard Services		16,651
111	4810	43208	EMPG Grant - Laptops		11,000
111	4811	43213	Bulletproof Vest Partnership (BVP) Grant		4,076
111	7204	44529	CA Research and Education Network		11,900
TOTAL GENERAL FUND REVENUES				\$	1,593,762

Fund	Program	Account	General Fund Expenditures		
111	1201	63211	Muniservices Sales Tax Discovery		28,000
111	1201	63213	ATM Recruitment Services		24,000
111	2201	63214	Labor Services		47,000
111	2999	68623	Humane Society - Dog Project		3,002
111	3301	61117	Reference Material		5,500
111	4302	63342	Crossing Guard Services		20,946
111	4810	61133	EMPG Grant - Laptops		11,000
111	4811	61145	Bulletproof Vest Partnership (BVP) Grant		4,076
111	5101	61241	PPW Office Furniture		19,880
111	5101	64292	Educational Reimbursement		1,500
111	5202	63356	Underground Utility Locator - Increased Cost		5,800
111	5301	62379	Increased TurfPro Contract		2,600
111	5301	62613	Water - Increased Cost in Parks Program		75,000
111	5302	61258	EV Charging Station		1,543
111	5302	62167	Outside the Box - Phase 2		17,112
111	5302	63219	Groundwater Monitoring Services		17,628
111	5302	63367	Increase Recycling Contract Cost		6,026
111	5401	62364	Additional Tree Services		75,000
111	7204	63362	CA Research and Education Network		17,000
TOTAL GENERAL FUND EXPENDITURES				\$	382,613



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

FY 2016/17 MID-YEAR BUDGET ADJUSTMENT REQUESTS - OTHER FUNDS

Fund	Program	Account	Other Fund Revenues	
411			GFAR	-
411	411-832-4507	45411	Forbes Mill Footbridge Project - Donation	9,781
411	411-813-0226	49426	Bicycle & Pedestrian Master Plan - Community Health Grant	15,000
				\$ 24,781
481			Gas Tax	
481	481-811-9901	82405	Decreased Gas Tax Revenue Projections for Street Repair	(26,599)
				\$ (26,599)
621			Management Information Systems	
621	2501	49711	From Library Trust - Laptops Anytime	10,000
				\$ 10,000
711			Library Trust Fund	
711	7301	45451	Donation from TIAA for Teens Program	500
711	7301	45452	Friends Contribution - Laptops Anytime Project	10,000
				\$ 10,000
TOTAL OTHER FUNDS REVENUES				\$ 18,182

Fund	Program	Account	Other Fund Expenditures	
411			GFAR	
411	411-832-4507	82405	Forbes Mill Footbridge Project - Donation	9,781
411	411-813-0226	82303	Bicycle & Pedestrian Master Plan - Community Health Grant	15,000
411	411-813-0219	82405	Stonybrook and Kennedy Roads Sidewalk Improvements	150,000
411	411-821-2115	82405	HVAC - Chiller Repairs	125,000
				\$ 299,781
463			Storm Drain 3	
463	463-816-0410	82405	Bicknall Storm Drain Design	21,500
				\$ 21,500
481			Gas Tax	
481	481-811-9901	82405	Decreased Gas Tax Revenue Projections for Street Repair	(26,599)
				\$ (26,599)
612			Workers Compensation	
	2202	62332	Ergonomic Evaluation	10,500
				\$ 10,500
621			Management Information Systems	
	2501	61133	Laptops	10,000
				\$ 10,000
631			Equipment Replacement	
633	5402	81102	Vehicle Replacements - Detective Vehicles	6,521
				\$ 6,521
633			Facilities Maintenance	
633	5404	61222	Fire Protection Services - Repair NUMU Leaks	34,607
	5404	62371	Building Maintenance & Repairs	40,000
	5404	62379	Window Films for Privacy at PD Facilities	15,000
	5404	62613	Water - Increased Cost in Facilities Program	18,000
				\$ 107,607
711			Library Trust Fund	
711	7301	62420	Donation from TIAA for Teens Program	500
711	7301	99621	To MIS Cover Portion of the Laptop Anytime	10,000
				\$ 10,500
TOTAL OTHER FUNDS EXPENDITURES				\$ 439,810



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

General Fund Revenues

- General Property Tax and Motor Vehicle in Lieu Fee: Staff recommends an increase in projected revenues of approximately \$593,303 in General Property Tax and \$223,160 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 \$650,553 budget increase to reflect the combined effect of one-time revenue and declining sales tax projection provided by MuniServices, the Town Sales Tax advisor.
- Business License: Staff recommends a revenue increase of \$150,000 as a result of an increase in business license activity received during the period.
- Transient Occupancy Tax: Actual receipts and Visit California forecasts indicate a steady growth in travel. In addition the Transient Occupancy Tax rate increased from 10% to 12% effective January 1, 2017 therefore, staff recommends recognizing a revenue increase of \$100,000.
- Plan Check Building Service: Staff recommends \$100,000 increase in revenues due to increased building activities.
- Planning Permits: Staff recommends \$50,000 increase in permit revenues due to increased planning activities.
- Garbage Franchise Fees: Staff recommends \$30,000 increase in revenues due to increased garbage franchisee fee collections.
- Staff recommends a budget adjustment of \$16,651 to align the budget to the revenue Town receives from participating schools for cross guard services.
- California Research and Education Network (CALREN) rebates: Staff recommends a budget increase of \$11,900 to recognize rebates the Town will receive as part of the California statewide state-funded initiative to connect libraries to the CALREN.
- Emergency Management Performance Grant (EMPG): The Town received \$11,000 grant to fund laptop purchasing for the Emergency Operation Center (EOC). Staff recommends a budget increase of \$11,000.
- Bulletproof Vest Partnership (BVP) Grant: Staff recommends a budget adjustment of \$4,076 to recognize grant funds for the purchase of bulletproof vests.
- Silicon Valley Humane Society – Dog Project: Staff recommend \$3,002 increase to recognize funding that received from Silicon Valley Humane Society dedicated for a infrastructure project that provides a benefit to dogs within the Town of Los Gatos.
- Medicare Part D Subsidy: Staff recommends a budget decrease of \$45,550 since CalPERS discontinued the refund due to the implementation of a Medicare waiver plan.
- Interest Income: Staff recommends a \$60,000 decrease to better match current year-end projection with the budget.



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

- Albright Settlement: Staff recommends a budget decrease of \$244,333 for the Albright settlement for the second building occupancy. The Albright settlement amount was received and moved to a deposit account until further Council direction.

General Fund Expenditures

- Water Utility: Staff recommends a \$75,000 budget increase due to increased water utility cost for parks. Water expenditures are tracking high while use remains similar to last year.
- Tree Services: Staff recommends a \$75,000 budget increase to supplement the annual funding of \$100,000 for tree maintenance and emergency removals due to recent storm activity.
- Labor Services: Staff recommends a \$47,000 budget adjustment for additional legal and negotiation services.
- Sales Tax Recovery Services: Due to a larger sales tax recovery from MuniServices, staff recommends a \$28,000 budget adjustment for the larger than usual expense associated with the recovering activities.
- Recruitment Services: Staff recommends an adjustment of \$24,000 for additional recruitment services for the Assistant Town Manager position.
- Mandated Well Testing and Monitoring: Staff recommends an adjustment of \$17,628 for well testing and monitoring required by the County of Santa Clara. Before 1990, an underground oil tank leaked into the surrounding soil. The Town began cleanup operations but did not complete the ongoing monitoring element. Town staff began testing in FY 2014/15, and as a result, more testing and samples were required by the County. The County has required that this project be closed out.
- Crossing Guard Services: Staff recommends an expenditure budget adjustment of \$20,946 to meet the increased cost of services.
- PPW Office Furniture: Staff recommends a \$19,880 adjustment to improve ergonomic working conditions at the PPW offices.
- Outside the Box: Staff is requesting \$17,112 to fund the Outside the Box Phase 2 program. The requested funds will cover the vinyl wraps for 8 additional boxes, artist stipends, and additional materials. Staff anticipates one final phase of about 3 to 5 boxes next fiscal year.
- EMPG Grant - Laptops: Staff was granted \$11,000 in grant dollars to purchase new laptops for the EOC. An adjustment of \$11,000 is recommended.
- Downtown Waste and Recycling Collection Services and Additional Recycling Bins: Staff recommends an adjustment of \$6,026 for weekend collection services, due to increased service cost in the Downtown area.
- Mandated Utility Location Services: Due to increased cost of mandated utility location services, staff recommends an adjustment of \$5,800.
- Reference Material: Staff recommends an adjustment of \$5,500 due to the cost of replacing outdated reference materials.
- BVP Grant: Staff was granted \$4,076 in grant dollars to purchase new bulletproof vest. An adjustment of \$4,076 is recommended.



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

- Humane Society Dog Project: Staff recommend \$3,002 increase to be able to spend the funding received from Silicon Valley Humane Society dedicated for a infrastructure project that provides a benefit to dogs within the Town of Los Gatos.
- Miscellaneous Operating Expenditures: Staff recommends \$5,643 combined expenditure budget increase to cover non-anticipated cross departmental operational expenditures (including educational reimbursements, turf maintenance, and electric vehicle charging station).

Other Fund Revenues and Expenditures

- Stonybrook and Kennedy Roads Sidewalk Improvements: The original cost estimate for the Stonybrook/Kennedy project was based on a design that retrofit the existing retaining wall structure on Kennedy Road. Following review of the design by a geotechnical engineer, it was determined that the existing structure could not be used and a new structure would need to be built, thereby increasing the cost. Additionally, following review of the project by the US Fish and Wildlife Service, it was determined that the Town would need to hire a biological consultant to review the project and perform several environmental studies. Staff recommends a \$150,000 expenditure budget increase.
- Civic Center Chiller Repair: The Civic Center chiller is at its half-life and recent tests on the chiller show several refrigerant leaks, which will require a rebuild of the chiller to remedy. The rebuild will cost approximately \$125,000 and would be scheduled for construction in the winter months. Staff recommends repairing the chiller before the summer months and \$125,000 expenditure budget adjustment for this project.
- Bicknell Storm Drain: Town staff determined that an existing Town storm drain line that entered a resident's property on Bicknell Road near Montclair did not have a storm drain easement, which is needed for the Town to use the resident's property for this purpose. Staff recommends \$21,500 expenditure budget adjustment to this capital project to fund the consultant design cost to reroute this storm drain line off of the resident's property. The design will result in a project estimate for future construction costs.
- Staff recommends a \$15,000 revenue and expenditure budget increase to recognize the Partnership to Improve Community Health (PICH) grant from the Santa Clara County Public Health Department that will be received and dedicated to the Bicycle & Pedestrian Master Plan.
- Laptops Anytime Program: The Library is launching is the new laptop vending machine by Laptops Anytime. This automated checkout kiosk will house 12 Dell laptops which can be checked out with a Library card for two hours for in-house use. The technology will create a more flexible programming space in the Technology Lab and will also provide patrons with an opportunity to find their own comfortable location in the Library. The machine and laptops will also be wrapped in a design unique to Los Gatos Library. The Friends of the Los Gatos Library has generously donated \$10,000 to help offset the total cost. Staff recommends a \$10,000 budget revenue and expenditure increase to receive the donation and pay for the laptops. Management Information System budget is being adjusted to reflect the revenue and expenditure.
- Ergonomic Evaluation: Staff recommends a \$10,500 budget increase to fulfill Town-wide ergonomic evaluation and equipment needs.
- Forbes Mill Footbridge Project: Staff recommends a \$9,781 revenue and expenditure budget increase to recognize the donation dedicated to the Forbes Mill Footbridge Project.



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

- Gas Tax: Staff recommends a \$26,599 revenue and expenditure budget decrease due to updated gas tax revenue forecast.
- Building Maintenance Repairs: Staff requests a \$40,000 budget adjustment to cover emergency costs at the Youth Recreation Center flood damage.
- Fire Protection Services: Staff requests \$34,607 budget adjustment to fund the 5-year sprinkler system inspection and emergency expenditures which stemmed from a leak in the fire sprinkler system at NUMU.
- Water Utility: Staff recommends an \$18,000 budget increase due to increased water utility costs for facilities. Water expenditures are tracking high while use remains similar to last year.
- Miscellaneous Services & Repairs: Staff requests a \$15,000 budget increase to fund the installation of privacy film on the windows at the Police Operations Building to enhance security.
- Vehicle Replacements: Staff recommends \$6,521 expenditure budget increase to cover actual costs associated with a rise in the price of a detective vehicle and the necessary build costs.
- Teachers Insurance and Annuity Association (TIAA) Donation: Staff recommends a \$500 revenue and expenditure budget increase to recognize donation dedicated to Teen After School Programming.



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

FINANCIAL SUMMARIES, PROJECTIONS, AND RECOMMENDATIONS

General Fund

The following table is the *Schedule of General Fund Operating Revenues Versus. Operating Expenditures* for the second quarter of FY 2016/17 which includes comparison information from the prior year. The last column contains projections of final balances for the current fiscal year based upon the early trends observed through the second quarter and the proposed mid-year adjustments.

Town of Los Gatos
Schedule of General Fund
Operating Revenues vs. Operating Expenditures
For the period ended December 31, 2016

	FY15/16 Final Balance	FY15/16 Adjusted Budget	FY15/16 2nd Qtr Actuals	FY15/16 % YTD	FY16/17 Adopted Budget	FY16/17 Adjusted Budget	FY16/17 2nd Qtr Actuals	FY16/17 % YTD	FY16/17 Finance Projection
Revenues									
General Property Tax	\$ 10,791,743	\$ 10,269,397	\$ 4,030,272	39%	\$ 10,458,633	\$ 10,458,633	\$ 4,274,774	41%	\$ 11,051,936
Sales & Use Tax	7,501,175	8,126,309	2,397,533	30%	8,164,403	8,164,403	4,069,524	50%	8,814,956
Franchise Fees	2,258,892	2,127,660	755,451	36%	2,191,120	2,191,120	794,077	36%	2,221,120
Transient Occ Tax	1,943,166	1,800,000	766,651	43%	1,900,000	1,900,000	817,061	43%	2,000,000
Business License Tax	1,465,547	1,300,000	870,249	67%	1,300,000	1,300,000	745,633	57%	1,450,000
Licenses & Permits	3,552,935	3,076,162	1,975,156	64%	2,946,583	2,946,583	1,879,951	64%	2,996,583
Motor Vehicle In Lieu	2,984,023	2,833,750	-	0%	3,013,840	3,013,840	-	0%	3,237,000
Intergovernmental	972,199	930,994	322,407	35%	717,684	717,684	303,665	42%	732,760
Charges for Services	2,677,944	2,786,451	1,391,766	50%	2,370,070	2,370,070	1,280,107	54%	2,498,621
Fines & Forfeitures	858,929	666,300	292,250	44%	650,900	650,900	420,525	65%	650,900
Interest	310,887	424,140	146,500	35%	438,880	438,880	187,954	43%	378,880
GASB & Other Investment To Market	310,008	(104,550)	239,189	-229%	(107,687)	(107,687)	-	0%	(107,687)
Miscellaneous/Other	3,016,355	4,706,827	2,071,937	44%	3,421,579	3,444,140	3,026,612	88%	3,157,259
Fund Transfers (Non Capital)	508,926	633,422	2,092,312	330%	363,428	363,428	103,230	28%	363,428
Fund Transfer (Capital)	2,516,795								
Total Operating Revenues	\$ 41,669,524	\$ 39,576,862	\$ 17,351,673	44%	\$ 37,829,433	\$ 37,851,994	\$ 17,903,113	47%	\$ 39,445,756
Use of Other Funding Sources:									
Use of Reserves - Capital Projects					1,400,000	1,400,000			1,400,000
Almond Grove Reserve					8,459,973	8,459,973			8,459,973
Carryforward Reserve									
Special Studies									
Total Other Funding Sources	\$ -	\$ -			\$ 9,859,973	\$ 9,859,973	\$ -		\$ 9,859,973
Total Revenues plus Reserves	\$ 41,669,524	\$ 39,576,862	\$ 17,351,673		\$ 47,689,406	\$ 47,711,967	\$ 17,903,113		\$ 49,305,729
Expenditures (includes c/f but no encumbrances)									
Mayor & Council	\$ 171,530	\$ 184,557	\$ 76,628	42%	\$ 202,421	\$ 202,421	\$ 86,402	43%	\$ 212,013
Attorney	296,258	308,963	128,277	42%	347,006	368,645	145,738	40%	372,272
Administrative Services	2,883,289	3,183,780	1,478,019	46%	3,310,379	3,314,217	1,212,337	37%	3,396,830
Comm Development	4,032,333	4,417,552	1,913,998	43%	4,143,098	4,160,990	1,662,604	40%	4,207,433
Police	13,844,684	15,027,844	6,588,363	44%	13,920,048	13,942,609	6,818,079	49%	14,115,823
Parks & Public Works	6,226,196	6,613,251	2,790,451	42%	6,452,425	6,452,425	3,053,886	47%	6,738,004
Library	2,332,268	2,577,394	1,197,752	46%	2,691,849	2,691,849	1,205,477	45%	2,735,336
Total Dept Expenses	\$ 29,786,558	\$ 32,313,341	\$ 14,173,488	44%	\$ 31,067,226	\$ 31,133,156	\$ 14,184,523	46%	\$ 31,777,712
General Government	6,342,902	6,880,087	701,389	0	15,891,999	15,903,561	2,820,951	18%	15,955,561
Total Non-Dept Expenses	\$ 6,342,902	\$ 6,880,087	\$ 701,389	10%	\$ 15,891,999	\$ 15,903,561	\$ 2,820,951	18%	\$ 15,955,561
Total Operating Expenditures	\$ 36,129,460	\$ 39,193,428	\$ 14,874,877	38%	\$ 46,959,225	\$ 47,036,717	\$ 17,005,474	36%	\$ 47,733,273
Other Uses									
To Almond Grove Reserve	2,516,795								
GASB 31 Adjust to Market Entry	310,008								
Authorized Carryforwards	54,000								
FY 2017/18 Salary Savings Allocation									1,000,000
Total Other Uses	\$ 2,880,803								\$ 1,000,000
Total Other Expenditures and Uses	\$ 39,010,263	\$ 39,193,428	\$ 14,874,877	38%	\$ 46,959,225	\$ 47,036,717	\$ 17,005,474	36%	\$ 48,733,273
Net Operating Revenues	\$ 2,659,261	\$ 383,434	\$ 2,476,796		\$ 730,181	\$ 675,250	\$ 897,639		\$ 572,456



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

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 Funds. The revenue from the Non-Point Source Program fund continues to lag expenses. This largely results from increased requirements associated with the Town's storm water permit, including increased inspections and monitoring, trash reduction requirements, and administrative costs. Staff will develop a plan to move the program toward a sustainable cost recovery model as part of the FY 2017/18 budget process. As indicated in the chart below, Non-Point Source fund balance is negative. It is anticipated that revenues for the Non-Point Source program will be received by the end of the fiscal year and therefore no budget adjustment is being recommended at this time. Staff will continue to monitor these revenue funds to ensure payments are received.

Special Revenue Funds Budget to Actuals Comparisons

	CDBG Grants	Non-Point Source	LLD's
Beginning Fund Balance	\$ 70,010	\$ 109,030	\$ 185,332
Budgeted Revenues	70,000	367,464	38,416
Total Actual Revenues - 2nd Qtr	\$ 50	\$ -	\$ -
Budgeted Expenditures	70,000	533,935	79,470
Total Actual Expenditures - 2nd Qtr	-	285,647	9,452
2nd Quarter Ending Fund Balance	\$ 70,060	\$ (176,617)	\$ 175,880



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

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. Capital Projects Funds are generally tracking in accordance with the FY 2016/17 adopted budget. Staff recommends increasing GFAR revenue budget by \$24,781 to recognize the donations and grants received. Staff recommends increasing GFAR expenditure budget by \$299,781 for the Forbes Mill Footbridge, Bicycle and Pedestrian Master Plan, the Civic Center Chiller Repair project, and additional funding for the Stonybrook and Kennedy Roads Sidewalk Project. Staff recommends to decrease both gas tax revenue and expenditure by \$26,599 to match current Gas Tax estimates. Staff will continue to monitor these 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*	Traffic *	Grant Funds*	Storm	Utility	Gas
	Fund	Mitigation	CIP	Drains	Undergd	Tax
Beginning Fund Balance	\$14,788,785	\$ 2,480,708	\$ (379,946)	\$ 1,668,054	\$ 2,881,502	\$ 1,651,113
Budgeted Revenues	11,894,673	1,203,803	1,056,176	103,880	50,000	631,843
Total Actual Revenues - 2nd Qtr	883,365	-	360	59,317	8,733	319,483
Budgeted Expenditures	25,605,608	1,717,333	994,443	-	70,000	2,043,905
Total Actual Expenditures - 2nd Qtr	2,505,919	92,060	-	-	-	1,446,615
2nd Quarter Ending Fund Balance	\$13,166,231	\$ 2,388,648	\$ (379,586)	\$ 1,727,371	\$ 2,890,235	\$ 523,981

** GFAR, Traffic Mitigation, and Grant Funds balances are combined in the CAFR. The combined balance of \$14,616,048 is presented as an Appropriated Reserve. The Traffic Mitigation Fund balance includes \$2,273,501 deferred revenue.*



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

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, Association of Bay Area Governments (ABAG) Self-Insurance Fund, Office Stores Fund, Management Information Systems Fund, Vehicle Maintenance Fund, and the Facilities Maintenance Fund.

Internal Service Funds are generally tracking in accordance with the FY 2016/17 adopted budget. Staff recommends a \$134,628 budget adjustment to cover emergency and miscellaneous repairs, additional ergonomic evaluations, laptop expenses, and extra replacement costs as explained in the budget adjustment section. Staff will continue to monitor expenditures and propose a revised cost allocation if needed, during FY 2017/18 budget preparation.

Internal Service Funds Budget to Actuals Comparisons

	Equipment Replacem	Workers Comp	Self Insurance	Office Stores	Mngt Info Systems	Vehicle Maint.	Facility Maint.
Beginning Fund Balance	\$ 2,148,005	\$ 1,213,324 (1)	\$ 1,403,449 (2)	\$ 183,128	\$ 2,888,451 (3)	\$ 409,873 (4)	\$ 414,367 (5)
Budgeted Revenues	381,322	934,118	535,838	95,000	1,129,006	573,865	1,381,875
Total Actual Revenues - 2nd Qtr	198,234	494,741	248,267	14,378	540,086	286,932	706,363
Budgeted Expenditures	485,418	1,258,810	808,361	134,500	1,381,818	573,866	1,381,875
Total Actual Expenditures - 2nd Qtr	128,225	505,341	492,702	46,516	475,586	229,376	549,590
2nd Quarter Ending Fund Balance	\$ 2,218,014	\$ 1,202,724	\$ 1,159,014	\$ 150,990	\$ 2,952,951	\$ 467,429	\$ 571,140

(1) CAFR Net Position \$ 1,025,384 Adjusted for Net Pension Liability

(2) CAFR Net Position \$ 1,135,519 Adjusted for Net Pension Liability

(3) CAFR Net Position \$ 2,166,790 Adjusted for Net Pension Liability

(4) CAFR Net Position \$ 80,863 Adjusted for Net Pension Liability

(5) CAFR Net Position (\$ 104,260) Adjusted for Net Pension Liability



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2016/17

Trust and Agency Funds (Fiduciary Fund Type)

Town Trust and Agency Funds have fund balances as of December 31, 2016 of \$535,869 for the Library Trust Funds and \$2,083,253 for the Successor Agency (SA) Trust Fund. Staff recommends a \$10,500 revenue and expenditure budget adjustment for the donation received. The budget adjustments were discussed in the budget adjustment section of this report.

Trust & Agency Funds Budget to Actuals Comparisons

	<u>Library Trust</u>	<u>SA Trust</u>
Beginning Fund Balance	\$ 524,453	\$ 3,593,571
Budgeted Revenues	69,150	3,872,939
Total Actual Revenues - 2nd Qtr	18,000	1,924,107
Budgeted Expenditures	67,000	3,871,255
Total Actual Expenditures - 2nd Qtr	6,584	3,434,425
2nd Quarter Ending Fund Balance	\$ 535,869	\$ 2,083,253

Successor Agency to the Redevelopment Agency

During the second quarter, the Successor Agency Board and staff continued to work diligently to satisfy the many requirements and deadlines established by the state through AB1x26 and AB1484. 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.

CONCLUSION

The financial results from the prior fiscal year, coupled with the FY 2016/17 second quarter data, confirm that the second quarter financial results are stable and improving. Staff is cautious as the five-year financial plan projects shortfalls beginning in FY 2018/19. The shortfalls are due to the effect of implementing the anticipated increased employer pension costs due to CalPERS discount rate change in December 2016. Staff is actively engaged in the 2017/18 budget process, the primary focus will continue to be on ensuring that the available Town resources are allocated to meet the priority service needs of the community.