



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2017/18

INTRODUCTION

Purpose

This is the second quarterly budget performance report for the Fiscal Year (FY) 2017/18, for the six month period ending December 31, 2017. 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, 2017 as compared to previous years, and explains any notable changes or trends in these numbers. This report also provides information on 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.

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EXECUTIVE SUMMARY

Status of FY 2017/18 Adopted Budget

Overall, second quarter General Fund revenues are trending in line with the second quarter of Fiscal Year 2016/17. Due to some projected revenue increases, staff is recommending a net General Fund revenue increase of \$0.3 million from adopted budgeted estimates, offset by expenditure increases (see page 13 for details). The current forecast expects a substantial increase in property tax, motor vehicle in lieu, transient occupancy tax (TOT), franchise fees, and business license tax due to the continued surge in the local economy as well as tourism within the Bay Area. Sales tax revenues are declining primarily due to the current Netflix business model and the impact of online retail sales. Revenues such as licenses and permits, and fees for services are all trending favorably, a strong indication that the economy continues to rebound (see summary detail on page 19).

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 gas utility expenses, legal services, mandatory well testing expenses, increased utility locator service costs, funding to provide for additional background check services, and tuition reimbursement 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 2017/18 budget is the fourth budget in five years that did not require any service reductions to balance the budget. The FY 2018/19 budget is expected to be “status quo,” maintaining the Town’s high service levels while recognizing the Town’s contractual obligations and unfunded mandates.

General Fund Reserve Status - 6/30/17

General Fund Reserves are classified into the following 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, 2017 with a balance of approximately \$26.7 million in committed and assigned reserves which is in accordance with Town financial policies and operating and capital budget requirements.

	6/30/2017 Amount (millions)
General Fund Reserves	
Committed	
Budget Stabilization Reserve	\$4.97
Catastrophic Reserve	\$4.97
CalPERS Reserve	\$3.39
Almond Grove Reserve	\$1.80
Assigned	
Carryforward Appropriation	\$0.03
Strategic Planning	\$2.60
Capital Improvements	\$8.27
Open Space	\$0.56
Sustainability Reserve	\$0.14
Total General Fund Reserves	\$26.73

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/OPEB (California Public Employees’ Retirement System/Other Post Employment Benefit) Reserve was established in an initial amount of \$300,000 to mitigate the Town’s unfunded pension

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liabilities in June 2016. According to the Council action, an annual payment of \$300,000 is deposited from available year-end savings. In addition Town Council can appropriate any additional funding to this reserve by a formal Council action. Due to robust investment earnings during the “dot com” years preceding 2001, the Town’s pension trust was determined by CalPERS to be “superfunded”. As such, the Town was not required in those years to make pension contributions and placed them into a General Fund deposit account dedicated for future CalPERS employer pension cost. In FY 2016/17 the Town reclassified \$1.8 million from the deposit account as a prior year adjustment, increasing the General Fund Reserve for CalPERS/OPEB to \$3.39 million.

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 \$8.3 million available in Capital Improvement Reserve, \$3.6 million is already committed for capital projects in FY 2017/18. In addition, the Council set aside money the Almond Grove Reserve to provide funding to the Almond Grove Street Rehabilitation Project.

The availability of approximately \$26.7 million in committed and assigned 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 and the savings from the Almond Grove Reserve were incorporated into the FY 2017/18 adopted budget.

Federal Economic Outlook

The Congressional Budget Office (CBO) projects average growth for the economy. Real Gross Domestic Product (GDP) is anticipated to grow by about 2.0 percent in 2018. By the CBO’s projections, the national unemployment rate will reach 4.2% by early 2018. The CBO also estimates that the rate of inflation will rise to 2.0% in 2018.

The CBO expects that the Federal Reserve will raise the federal funds interest rate from 0.9% in the second quarter of 2017 to 2.0% by the end of 2018 and then to 3.0% by the end of 2020.

The US Department of Commerce reported that home construction rose 6.1% since last year.

State Budget Update

During the State’s recovery from the Great Recession, the past five budgets expanded government spending. The Governor’s proposed budget is projected to have a one-time surplus. However, the State must continue to plan for the next recession. With this in mind, the Governor is proposing bringing the Rainy Day Fund to 100 percent of its Constitutional target.

The proposed budget also indicates that new uncertainties in California’s relationship with the federal government could have an impact on the upcoming budget for the State. Some of the uncertainties impacting the upcoming budget are associated with possible federal government actions related to federal tax changes, Children’s Health Insurance Program Reauthorization, and federal cost shifting.



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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, 2017.

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



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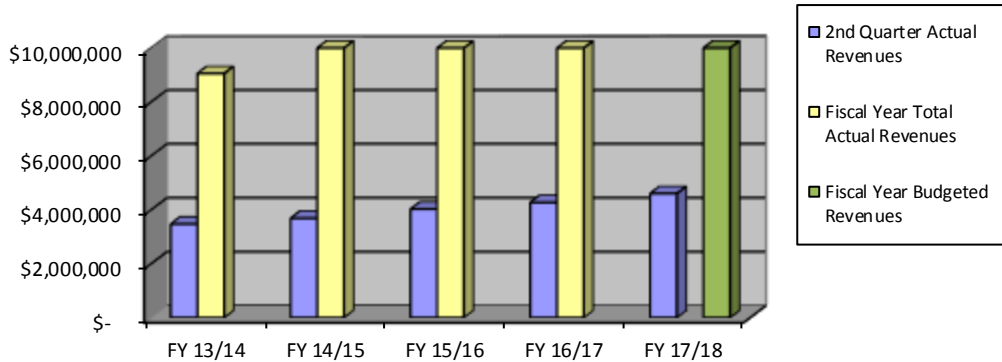
Property Tax

Property tax is the largest revenue source for the Town’s General Fund, accounting for 28.9% of budgeted General Fund revenues in FY 2017/18. 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 property tax 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 slightly higher than those received during the second quarter of the previous fiscal year and are at 40% of budgeted totals. Based on these trends and the County projections, staff recommends a \$540,277 increase in General Property Tax.

PROPERTY TAX

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



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 3,475,492	\$ 3,690,329	\$ 4,030,272	\$ 4,274,774	\$ 4,604,788
Fiscal Year Total Actual Revenues	\$ 9,054,908	\$ 10,113,287	\$ 10,791,743	\$ 11,518,257	
Fiscal Year Budgeted Revenues					\$ 11,383,073
2nd Quarter Percent of Total	38%	36%	37%	37%	40%
Recommended Budget Revision					\$ 540,277



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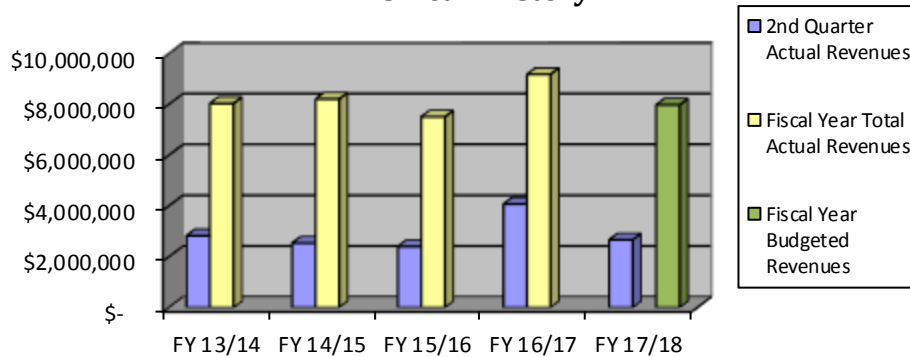
Sales Tax

Sales tax is the second largest revenue source for the Town’s General Fund, accounting for 20.3% of budgeted General Fund revenues for FY 2017/18. The Town receives 1 cent for every 9 cents of sales tax paid per dollar on retail sales and taxable services transacted within Los Gatos. 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 Auditor 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. After 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 4.3%, Town of Los Gatos Sales Tax revenues increase by 0.6% over the same period. Second quarter receipts are trending behind those in the same period last fiscal year. FY 2016/17 proceeds were included 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 current Netflix business model and on-line retail sales negatively impact Sales Tax revenue. Staff recommends a \$290,649 budget decrease to reflect the effect of declining sales tax projection.

SALES TAX

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



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 2,825,414	\$ 2,532,086	\$ 2,397,533	\$ 4,069,524	\$ 2,662,601
Fiscal Year Total Actual Revenue	\$ 8,029,571	\$ 8,202,678	\$ 7,501,175	\$ 9,171,373	
Fiscal Year Budgeted Revenues					\$ 7,972,195
2nd Quarter Percent of Total	35%	31%	32%	44%	33%
Recommended Budget Revision					\$ (290,649)



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2017/18

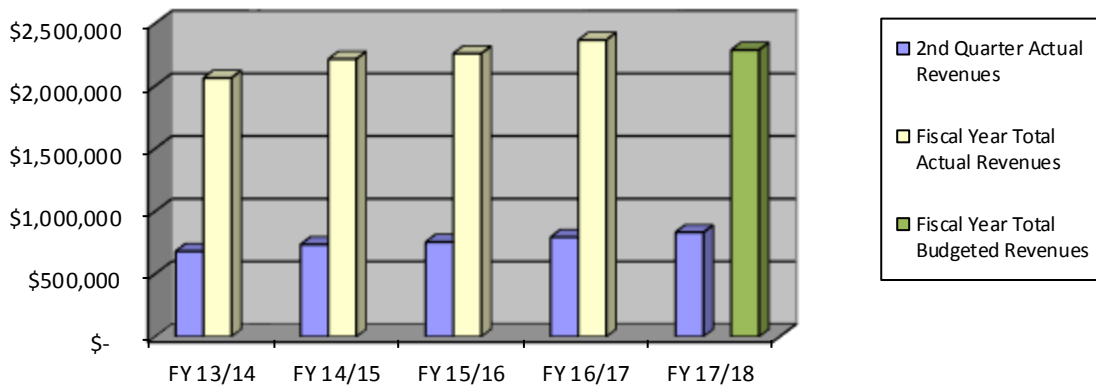
Franchise Fees

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 2017/18.

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 2016/17. Staff recommends a \$30,000 budget increase to this revenue source.

Franchise Fees

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



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 681,431	\$ 735,550	\$ 755,451	\$ 794,077	\$ 832,583
Fiscal Year Total Actual Revenues	\$ 2,063,756	\$ 2,215,430	\$ 2,258,892	\$ 2,366,908	
Fiscal Year Total Budgeted Revenues					\$ 2,287,390
2nd Quarter Revenue Percent of Total	33%	33%	33%	34%	36%

Recommended Budget Revision	\$ 30,000
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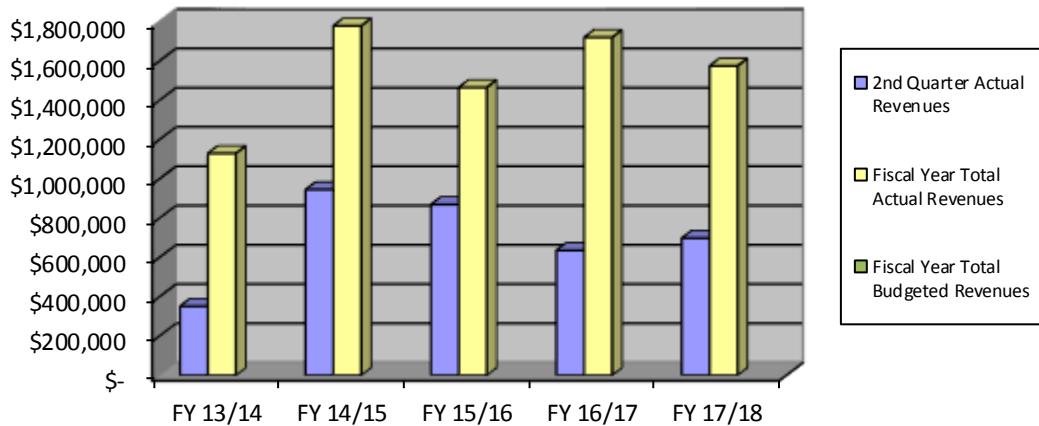
Business License Tax

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 trending higher compared to prior year second quarter revenue. 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 \$75,000.

Business License Tax

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



	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
2nd Quarter Actual Revenues	\$ 352,049	\$ 945,846*	\$ 870,249**	\$ 635,696	\$ 699,045
Fiscal Year Total Actual Revenues	\$ 1,130,020	\$ 1,779,307	\$ 1,465,547	\$ 1,720,980	\$ 1,720,980
Fiscal Year Total Budgeted Revenues					\$ 1,575,000
2nd Quarter Revenue Percent of Total	31%	53%	59%	37%	44%

Recommended Budget Revision **\$ 75,000**

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

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



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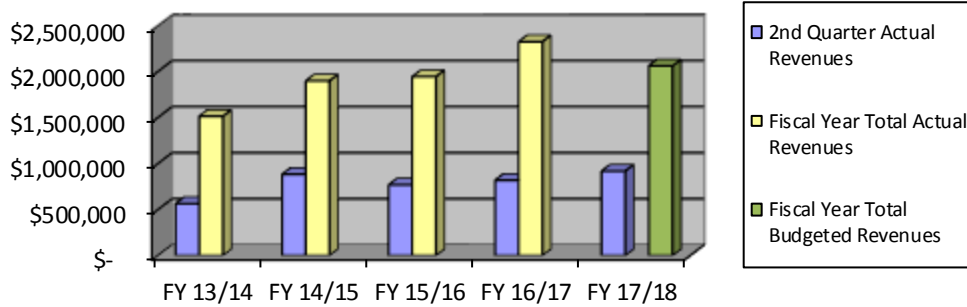
Transient Occupancy Tax

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 in 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 2.2% in 2016. The forecast for California visitation is an increase of 2.5% in 2017. Personal and business related travel is gaining strength. Second quarter TOT revenues are trending higher than those of the second quarter of 2016/17. Based on the recent trend and the combined effect of increased TOT rate, staff is recommending a budget increase of \$190,000.

Transient Occupancy Tax

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



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 562,906	\$ 882,406	\$ 766,651	\$ 817,061	\$ 917,019
Fiscal Year Total Actual Revenues	\$ 1,512,846	\$ 1,896,721	\$ 1,943,166	\$ 2,322,910	
Fiscal Year Total Budgeted Revenues					\$ 2,060,000
2nd Quarter Revenue Percent of Total	37%	47%	39%	35%	45%

Recommended Budget Revision **\$ 190,000**



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2017/18

Interest Income

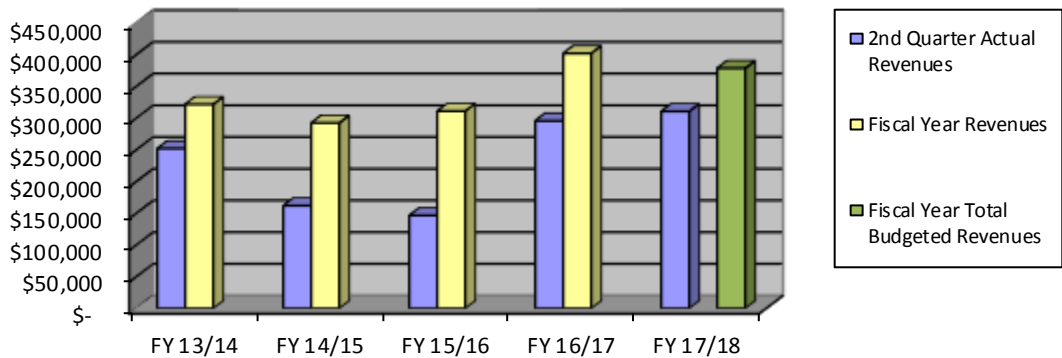
The Town earns interest income by investing monies not immediately required for daily operations in a number of money market instruments. These investments are made within the parameters stated in the Town Council's Investment Policy. The Town's investment goal is to achieve a competitive rate of return 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 analysts throughout the market are predicting a slight increase in yields. The increase of the interest earnings experienced this fiscal year are reflective of the Town's total portfolio yield increasing from 0.88% as of December 31, 2016 to the current yield of 1.53% as of December 31, 2017.

The strategy for the foreseeable future continues to be remaining 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. While the current trend shows a slight increase staff recommends no budget adjustment at this time since significant amount of cash will be spent on the Almond Grove Street Rehabilitation Project and additional cash will be placed on the IRS 115 Pension Trust during this fiscal year.

Interest Income

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



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 251,835	\$ 161,825	\$ 146,500	\$ 295,641	\$ 310,485
Fiscal Year Revenues	\$ 321,555	\$ 292,209	\$ 310,887	\$ 401,961	
Fiscal Year Total Budgeted Revenues					\$ 378,410
2nd Quarter Revenue Percent of Total	78%	55%	47%	74%	82%

Recommended Budget Revision



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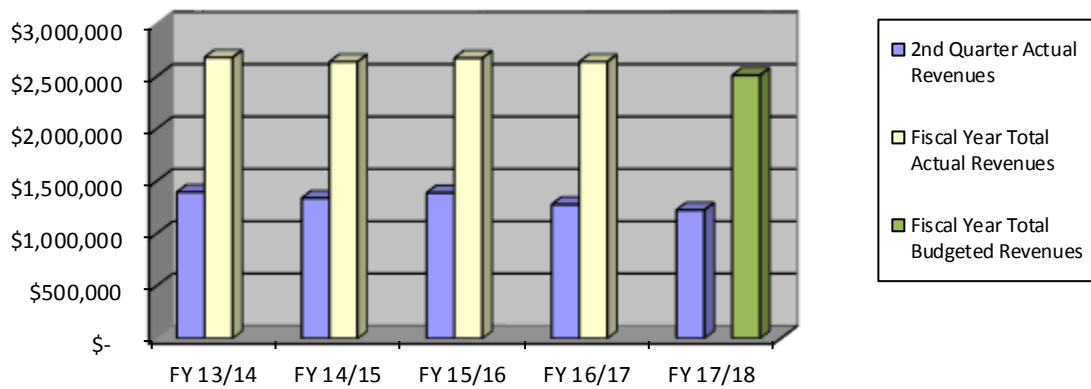
Charges for Services

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 49% 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 \$50,000 budget increase.

Charges for Services

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



	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 1,398,426	\$ 1,341,401	\$ 1,391,766	\$ 1,280,107	\$ 1,227,358
Fiscal Year Total Actual Revenues	\$ 2,684,126	\$ 2,643,276	\$ 2,677,944	\$ 2,643,012	
Fiscal Year Total Budgeted Revenues					\$ 2,514,525
2nd Quarter Revenue Percent of Total	52%	51%	52%	48%	49%
Recommended Budget Revision					\$ 50,000



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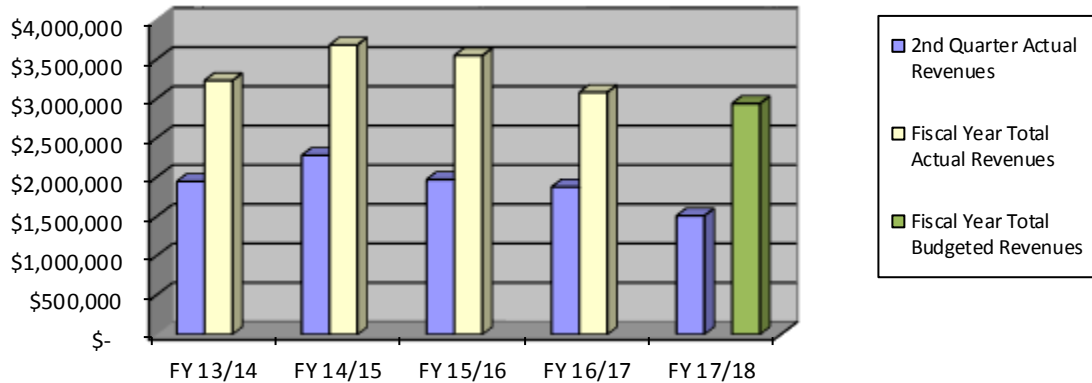
Licenses and Permits

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 2016/17 in anticipation of decreased development activity.

Analysis – Second quarter License and Permit revenue is trending 51% of budgeted revenue but below 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 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
2nd Quarter Actual Revenues	\$ 1,950,393	\$ 2,282,444	\$ 1,975,156	\$ 1,879,951	\$ 1,512,930
Fiscal Year Total Actual Revenues	\$ 3,235,122	\$ 3,687,393	\$ 3,552,935	\$ 3,084,388	
Fiscal Year Total Budgeted Revenues					\$ 2,941,539
2nd Quarter Revenue Percent of Total	60%	62%	56%	61%	51%

Recommended Budget Revision



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FY 2017/18 Recommended Budget Adjustments

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

FY 2017/18 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUND

Fund	Program	Account	General Fund Revenues		
111	1201	411XX	Property Tax	\$	240,277
111	1201	41126	ERAF		300,000
111	1201	41141	Motor Vehicle In Lieu Fee		178,214
111	1201	41211	Sales & Use Tax		(290,649)
111	1201	41311	Transient Occupancy Tax		190,000
111	2301	41411	Business License Tax		75,000
111	1201	41613	Franchise Fee		30,000
111	1201	45923	CalPERS Deposit		(300,000)
111	3301	44421	Plan Check Building		50,000
111	3301	45953	SB 1186 ADA Training		5,000
111	1201	45919	SVCEA JPA Reimbursement		100,000
111	4201	45919	Lease for PD Tower - SVRCS Reimbursement		3,327
111	4999	45922	CERT Suplies - Insurance Reimbursement		29,115
TOTAL GENERAL FUND REVENUES				\$	610,284

Fund	Program	Account	General Fund Expenditures		
111	1301	51111	Additional Salary per Town Attorney Contract Effective 1/16/2018	\$	7,341
111	3201	61241	Office Equipments		2,000
111	1301	63215	Legal Services		45,000
111	3201	61241	Office Equipments		5,000
111	3201	64111	Training		2,000
111	3301	61241	CDD Phase 1 Office Reorganization		15,000
111	3301	64232	SB 1186 ADA Training		4,000
111	3301	64232	SB 1186 ADA Training		1,000
111	4101	64292	Tuition Reimbursement per MOU		3,000
111	4201	62522	Lease for PD Tower		3,327
111	4202	64212	Backgound Check - Additional Hiring		2,000
111	4301	64291	Tuition Reimbursement per MOU		13,000
111	4999	61154	CERT Supplies		29,115
111	5101	62141	Safe Routes to School		5,000
111	5202	63356	Utility Locator Services		8,200
111	5301	61111	Park Maps		6,141
111	5301	61224	Drinking Fountain @ Livek Oak Manor & Oaks Hill Play Lot		9,000
111	5302	63219	Well Testing & Monitoring		10,000
TOTAL GENERAL FUND EXPENDITURES				\$	170,124



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FY 2017/18 MID-YEAR BUDGET ADJUSTMENT REQUESTS - OTHER FUNDS					
Fund	Program	Account	Other Fund Revenues		
411			GFAR		-
411		xxxxx	From Cleless Ness Trust for Library Teen Door		41,000
411		xxxxx	From Library Trust for Library Teen Door		10,000
				\$	51,000
481			Gas Tax		
481	481-811-9901	82405	Decreased Gas Tax Revenue Projections for Street Repair		(14,417)
				\$	(14,417)
631			Equipment Replacement Fund		
631	5402	49411	From GFAR - Skid-Steer Tractor		98,000
				\$	98,000
711			Library Trust Fund		
711	7301	45411	Donation		1,100
				\$	1,100
TOTAL OTHER FUNDS REVENUES				\$	135,683
Fund	Program	Account	Other Fund Expenditures		
231			Blackweel District LLD		
231	5501	63363	Landscape Maintenance		955
				\$	955
233			Gemini Court LLD		
233	5503	63363	Landscape Maintenance		838
				\$	838
234			Santa Rosa Heights LLD		
234	5504	63363	Landscape Maintenance		6,217
				\$	6,217
236			Hillbrook Drive LLD		
236	5506	63363	Landscape Maintenance		897
				\$	897
411			GFAR		
411	411-xxx-xxxx	82405	Library Teen Door Installation		51,000
411	411-xxx-xxxx	82405	Mechanic Bay Heater		25,000
411	411-821-2302	82405	Building Replacement at Corporate Yard		100,000
411	411-813-0219	82405	Facilities Assesment		80,000
411	411-821-2115	82405	Traffic Calming		30,000
411	8011	99631	Transfer to Equipment Replacement for Skidteer		98,000
				\$	384,000
481			Gas Tax		
481	481-811-9901	82405	Decreased Gas Tax Revenue Projections for Street Repair		(14,417)
				\$	(14,417)
621			Information Technology		
621	2501	61133	Patrol Car Mobile Computer Replacement		100,000
				\$	100,000
631			Equipment Replacement		
631	5402	81201	Vehicle Replacement - Facility Maintenance Worker Skidsteer		51,300
					98,000
				\$	149,300
633			Facilities Maintenance		
633	5404	61222	Fire Protection Services - Increased Contract		4,107
	5404	61214	Downtown Event Flags		5,000
	5404	62612	Utilities - Gas		120,000
	5404	63353	Elevator Maintenance		15,000
	5404	63362	South Yard and Forbes Mill Fence		15,000
				\$	159,107
711			Library Trust Fund		
711	7301	49411	To Teen Door Installation - Capital Project		10,000
	7301	62415	Family Book Program		1,000
				\$	11,000
712			Cleless Ness Trust		
712	7302	49411	To Teen Door Installation - Capital Project		41,000
				\$	41,000
713			Mc Clendon Trust		
713	7304	61241	New Furniture		6,000
				\$	6,000
TOTAL OTHER FUNDS EXPENDITURES				\$	844,897



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2017/18

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 \$240,277 in General Property Tax, \$300,000 in Educational Revenue Augmentation Fund (ERAF) repayment, and \$178,214 Motor Vehicle in Lieu fee which are in line with the estimates and forecasts provided to the Town from Santa Clara County.
- Transient Occupancy Tax: Actual receipts and Visit California forecasts indicate 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 \$190,000.
- Silicon Valley Clean Energy Refund: Staff is requesting a revenue budget increase in the amount of \$100,000 to recognize the Silicon Valley Clean Energy (SVCE) refund. As part of the Joint Powers Agreement that formed SVCE in 2016, the twelve Santa Clara County member communities loaned \$2.7 million to provide the agency's initial working capital. The loan agreement gave SVCE four years from the effective date, or March 2020, to pay back the loan. However, all funds were returned in January 2018, more than two years ahead of schedule and within SVCE's first year of operation.
- Business License: Staff recommends a revenue increase of \$75,000 as a result of an increase in business license activity received during the period.
- Plan Check Building Service: Staff recommends \$50,000 increase in revenues due to increased building activities.
- Garbage Franchise Fees: Staff recommends \$30,000 increase in revenues due to increased garbage franchisee fee collections.
- Staff recommends a revenue budget adjustment of \$29,115 to align the budget to the revenue that the Town received from an insurance reimbursement to replace Community Emergency Response Team (CERT) equipment.
- Americans with Disabilities Act (ADA) Training: ADA training is funded through SB1186 State Mandated Fee, which is collected with every business license and placed in a deferred revenue account. Staff recommends a revenue budget increase of \$5,000 to provide ADA training for the Community Development Building Division staff.
- Silicon Valley Regional Interoperability Authority (SVRIA) ECOMM: Staff recommends a budget increase of \$3,327 to recognize reimbursement from SVRIA to cover increased radio leasing cost.
- Sales and Use Tax: Staff recommends a \$290,649 budget decrease to reflect the declining sales tax projection provided by MuniServices, the Town Sales Tax advisor.
- CalPERS General Fund Deposit: As mentioned earlier the Town set aside money in the CalPER General Fund Liability Deposit Account at the time when CalPERS was superfunded and did not require pension contribution from the Town. Staff programmed the use of deposit in the amount of \$300,000 annually in the adopted budget if needed to address increases in future CalPERS rates. In FY 2016/17 the Town reclassified the \$1.8 million in the deposit account as a prior year adjustment, increasing the General Fund Reserve for CalPERS/OPEB in the same amount. Staff recommends a \$300,000 revenue budget decrease to reflect the change as the entire revenue was recognized in the prior year.



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2017/18

General Fund Expenditures

- Legal Services: Staff recommends a \$45,000 budget adjustment for additional legal services related to the North 40 lawsuit and preparing the wireless ordinance.
- Staff recommends a budget adjustment of \$29,115 to align the budget to the revenue that the Town received from an insurance reimbursement to replace Community Emergency Response Team equipment.
- Office Furniture: Staff recommends a \$22,000 adjustment to improve ergonomic working conditions in Town offices and relocate the Building Division staff offices.
- Tuition Reimbursement: Staff recommends a \$16,000 adjustment to cover non-anticipated tuition reimbursements that are mandated through the approved Memorandum of Understanding (MOU).
- Drinking Fountains at Live Oak Manor and Oaks Hill Play Lot: Staff recommends a \$9,000 expenditure budget adjustment to fund the replacement of the drinking fountains at Oak Hill Play Lot and Live Oak Manor Park. The existing concrete drinking fountains are in poor condition and are near the end of their useful life.
- Mandated Well Testing and Monitoring: Staff recommends an adjustment of \$10,000 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.
- Mandated Utility Location Services: Due to increased cost and activity of mandated utility location services, staff recommends an adjustment of \$8,200.
- Training: Staff recommends an adjustment of \$7,000 to provide additional training (ADA and American Planning Association) for the Community Development Department.
- Printing Services: Staff recommends an adjustment of \$6,141 due to the cost of printing parks maps.
- Safe Routes to School: Staff recommends an adjustment of \$5,000 to provide membership support for the Safe Routes to School Partnership.
- Silicon Valley Regional Interoperability Authority (SVRIA) ECOMM: Staff recommends a budget increase of \$3,327 to cover increased radio leasing cost. SVRIA is reimbursing the Town for the additional leasing cost.
- Miscellaneous Operating Expenditures: Staff recommends \$9,341 combined expenditure budget increase to cover non-anticipated cross departmental operational expenditures (including Town Attorney salary increase, and background check for increased hiring).

Other Fund Revenues and Expenditures

- Gas Utility: Staff recommends a \$120,000 budget increase due to increased Town wide gas utility costs for facilities. Gas expenditures are tracking high; staff is currently discussing potential causes with PG&E.



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2017/18

- Building Replacement at Corporation Yard: Staff is requesting a \$100,000 budget adjustment from available year-end savings to the existing Building Replacement at Corporation Yard Capital Project. This project was put on hold and partially defunded to provide funding for the Almond Grove Street Rehabilitation project. This project will replace an old modular portable building and remodel an existing maintenance building to consolidate office space together and Police evidence and Parks and Public Works Department supply storage together. The existing space has deteriorated over the years and is beyond its useful life cycle.
- Skid-Steer Tractor: Staff is requesting a budget transfer in the amount of \$98,000 from the existing Open Space Trail Upgrade Capital Project for the purchase of a new Skid-Steer tractor to be used to mow weeds in the Town's open spaces and parks. Considering heightened concerns surrounding the use of chemicals to control weeds, mechanical mowing is the only alternative to decrease fire hazards in the open spaces. Staff has looked towards rental versus purchase; however, the suppliers do not rent needed equipment to perform brush removal in the hillside areas. Additionally, the equipment will be used for many maintenance operations such as sweeping trails and numerous maintenance tasks. With approval of this item through the midyear budget, staff will proceed with the procurement utilizing the cooperative purchasing provision in the Town's purchasing policy. This will allow for timely use of this equipment prior to vegetation growth in the spring.
- Facilities Assessment: Staff is recommending a \$80,000 budget increase from available year end savings to provide funding for a condition assessment of Town facilities to determine current condition of equipment and building systems to assess priorities for repair versus replacements and to predict capital expenditures needed year by year for life-cycle scheduled work and replacements.
- Vehicle Replacements: Staff recommends \$51,300 expenditure budget increase from available year end savings to replace one of the last Compressed Natural Gas (CNG) operated Facility Maintenance Vehicle. The Town has three other CNG vehicles and will gradually change those to hybrid and electric vehicle whenever it is possible.
- Traffic Calming: Staff is recommending a \$30,000 expenditure budget adjustment from available year end savings to fund additional traffic calming measures on College Avenue that were identified and voted for by College Avenue residents.
- Library Improvements for Sound Mitigation: Noise mitigation inside the Library was identified as a needed project by Library Staff and by public request as early as 2013. Staff contracted the original architects, Noll and Tam, to research the problem and develop a comprehensive plan for sound-mitigation. The report identified three phases of work to be completed. This project will include the first phase which is to install glass sound barrier doors between the teen area and rest of the Library. \$41,000 from the Library's Ness Trust and \$10,000 from the Library Trust will be moved to the CIP budget to cover anticipated costs of the project.
- Mechanic Bay Heater: The two Reznor gas-fired heaters for the mechanics bay have reached the end of their useful lives. This concrete and cement block structure is extremely cold in the winter months. A \$25,000 budget adjustment is recommended as the new units will be more efficient than the existing 40-year-old units.
- Library Elevator: Staff is recommending a \$15,000 expenditure budget to fund state mandated testing and emergency maintenance of the Library elevators.
- South Yard and Forbes Mill Fencing Repairs: Staff recommends \$15,000 expenditure budget adjustment to repair the fences at the South Yard and Forbes Mill. Due to the remote locations, the areas are subject to frequent vandalism.



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- Landscaping: Staff recommends a budget adjustment in the amount of \$8,907 adjustment from available fund balance to align the budget in multiple Landscape and Lighting Districts (LLDs) funds with the new landscaping agreement.
- Additional Library Furniture: Staff has identified areas of the Library which could greatly benefit from the addition of supplemental public seating and table space. Through an effort of rearranging existing space, staff is now able to add more tables and chairs in the Children's room and in the Teen area. \$6,000 from the Library's McClendon Trust will be moved to the operating budget to cover the cost of furniture additions.
- Downtown Events Flags: Staff request \$5,000 expenditure budget adjustment to prepare permanent mounting mechanism. The new flags will have their own mounts and will be flown toward the streets only, as opposed to double hung and competing with the street trees.
- Fire Protection Services: Staff requests \$4,107 budget adjustment to cover increased contract cost related to fire protection and inspection services.
- Patrol Car Mobile Computer Replacement: Staff recommends a \$100,000 budget adjustment to replace the mobile data computers (MDCs) in patrol vehicles. Replacement funds for (MDCs) in patrol vehicles are collected each year. The funding collected is now sufficient to cover the entire cost of replacing the fleet of MDCs in patrol cars. Staff recommends replacing the MDCs this fiscal year to save on necessary repairs and avoid additional down time associated with the warranties being expired.
- Library Donation: Staff recommends a \$1,100 revenue budget increase to receive Library Trust donation throughout the year. Staff also recommends a \$1,000 expenditure budget increase to provide funding for the Book Family Program.
- Gas Tax: Staff recommends a \$14,417 revenue and expenditure budget decrease due to updated gas tax revenue forecast.



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2017/18

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 2017/18 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.

General Fund							
Fund 111							
SUMMARY OF REVENUES AND EXPENDITURES							
	FY 2016/17 Actuals	FY 2016/17 Q2	Q2 % of FY 2016/17 Actuals	Q2 % of FY 2017/18 Adopted	FY 2017/18 Q2	FY 2017/18 Adjusted	FY 2017/18 Finance Projection
Revenues							
Sales & Use Tax	\$ 9,171,373	\$ 4,069,524	44.4%	33.4%	\$ 2,662,601	\$ 7,972,195	\$ 7,681,546
Property Tax	11,518,257	4,274,774	37.1%	40.5%	4,604,788	11,383,073	11,923,350
VLF Backfill Property Tax	3,237,955	-	0.0%	0.0%	-	3,269,370	3,447,584
Franchise Fees	2,366,908	794,077	33.5%	36.4%	832,583	2,287,390	2,317,390
Transient Occupancy Tax	2,322,910	817,061	35.2%	44.5%	917,019	2,060,000	2,250,000
Other Taxes	1,726,128	637,636	36.9%	44.4%	702,477	1,582,000	1,657,000
Licenses & Permits	3,084,388	1,879,951	61.0%	51.4%	1,512,930	2,941,359	2,941,359
Intergovernmental	908,285	303,665	33.4%	47.3%	317,797	671,375	671,375
Town Services	2,634,012	1,280,107	48.6%	48.8%	1,227,358	2,514,525	2,514,525
Fines & Forfeitures	898,178	404,363	45.0%	39.2%	271,520	692,300	742,300
Interest	401,961	295,641	73.5%	82.0%	310,485	378,410	378,410
GASB 31 to Market	(230,308)	(107,687)	46.8%	0.0%	-	(107,687)	(107,687)
Other Sources	4,917,400	3,040,834	61.8%	109.8%	3,463,874	3,155,505	2,992,947
Fund Transfer In	313,825	103,230	32.9%	17.6%	102,000	579,836	579,836
Total Revenues & Transfers In	\$ 43,271,272	\$ 17,793,176	41%	43%	\$ 16,925,432	\$ 39,379,651	\$ 39,989,935
Use of Other Funding Sources:							
Use of Reserves - Capital Projects	\$ 1,400,000	\$ -				\$ 400,000	\$ 400,000
Use of Reserves - Almond Grove	5,898,187	-				-	-
Use of Reserve - Budget Strategy and Almond Grove		-				3,166,786	3,166,786
Total Other Funding Sources	\$ 7,298,187	\$ -	0%	0%	\$ -	\$ 3,566,786	\$ 3,566,786
Total Revenues and Use of Reserves	\$ 50,569,459	\$ 17,793,176	35%	39%	\$ 16,925,432	\$ 42,946,437	\$ 43,556,721
Expenditures							
Mayor and Council	193,584	\$ 86,481	44.7%	45.1%	\$ 92,394	\$ 205,092	\$ 205,092
Attorney	426,548	145,707	34.2%	42.5%	158,051	372,125	426,466
Administrative Services	2,825,082	1,212,612	42.9%	44.2%	1,582,199	3,577,761	3,577,761
Community Development	3,804,403	1,662,604	43.7%	45.3%	2,012,335	4,442,555	4,469,555
Police	13,347,234	6,816,759	51.1%	46.6%	7,197,220	15,455,232	15,505,674
Parks & Public Works	6,627,768	3,051,952	46.0%	48.1%	3,423,184	7,118,496	7,156,837
Library	2,514,653	1,204,043	47.9%	46.2%	1,291,021	2,793,218	2,793,218
Total Department Expenditures	\$ 29,739,272	\$ 14,180,158	48%	46%	\$ 15,756,404	\$ 33,964,479	\$ 34,134,603
General Government	\$ 14,195,060	\$ 2,856,236	20.1%	30.2%	\$ 2,708,911	8,981,956	8,981,956
Total Non-Departmental Expenditures	\$ 14,195,060	\$ 2,856,236	20%	30%	\$ 2,708,911	\$ 8,981,956	\$ 8,981,956
Total Operating Expenditures	\$ 43,934,332	\$ 17,036,394	39%	43%	\$ 18,465,315	\$ 42,946,435	\$ 43,116,559
To CalPERS Reserve	1,804,511						
Sales Tax Prior Adjustment	372,050						
GASB Adjustments	255,045						
Net Operating Revenues	\$ 4,203,521	\$ 756,782			\$ (1,539,883) *	\$ -	\$ 440,160

* FY 2017/18 Q2 Net Operating Revenues are negative because some revenues budgeted for the entire fiscal year are received in the third or fourth quarters.



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2017/18

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 has developed 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	\$ 87,900	\$ 14,894	\$ 199,643
Budgeted Revenues	-	584,394	38,861
Total Actual Revenues - 2nd Qtr	\$ -	\$ 25,640	\$ -
Budgeted Expenditures	-	564,910	110,046
Total Actual Expenditures - 2nd Qtr	-	410,281	19,280
2nd Quarter Ending Fund Balance	\$ 87,900	\$ (369,747)	\$ 180,363



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2017/18

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 2017/18 adopted budget. Staff recommends increasing GFAR revenue budget by \$51,000 to recognize the transfer from Cleless Ness Trust and Library Trust for the Library Teen Door installation. Staff recommends increasing GFAR expenditure budget by \$384,000 for the Library Teen Door installation, Mechanic Bay Heater, Corporate Yard Building Upgrade, Facilities Assessment, and Traffic Calming on College Avenue. Staff recommends to decrease both gas tax revenue and expenditure by \$14,417 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* Fund	Traffic * Mitigation	Grant Funds* CIP	Storm Drains	Utility Undergd	Gas Tax
Beginning Fund Balance	\$ 18,253,744	\$ 2,527,528	\$ (380,253)	\$ 1,805,442	\$ 2,929,116	\$ 693,508
Budgeted Revenues	4,675,849	1,075,017	1,080,928	101,240	44,280	882,457
Total Actual Revenues - 2nd Qtr	460,564	-	85,718	61,644	15,446	299,664
Budgeted Expenditures	21,677,394	1,090,017	1,026,044	158,750	112,000	1,334,229
Total Actual Expenditures - 2nd Qtr	4,897,412	11,588	2,739	9,185	-	-
2nd Quarter Ending Fund Balance	\$ 13,816,896	\$ 2,515,940	\$ (297,274)	\$ 1,857,901	\$ 2,944,562	\$ 993,172

* GFAR, Traffic Mitigation, and Grant Funds balances are combined in the CAFR. The combined balance of \$18,102,031 is presented as an Appropriated Reserve. The Traffic Mitigation Fund balance includes \$2,298,987 deferred revenue.



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2017/18

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.

Staff recommends a \$249,300 budget adjustment to cover patrol car mobile computer replacements, and equipment and vehicle replacements 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 Replacemt	Workers Comp	Self Insurance	Office Stores	Information Technology	Vehicle Maint.	Facility Maint.
Beginning Fund Balance	\$ 1,894,057	\$ 902,307 (*)	\$ 885,441 (*)	\$ 200,437	\$ 2,251,331 (*)	\$ 182,369 (*)	\$ (37,872)
Budgeted Revenues	932,313	969,547	553,953	118,000	1,180,879	586,654	1,736,089
Total Actual Revenues - 2nd Qtr	356,038	529,375	253,388	59,547	557,664	293,328	718,821
Budgeted Expenditures	818,211	1,258,466	816,952	134,500	1,439,581	583,491	1,402,052
Total Actual Expenditures - 2nd Qtr	218,824	529,310	352,345	47,173	576,047	229,435	625,251
2nd Quarter Ending Fund Balance	\$ 2,031,271	\$ 902,372	\$ 786,484	\$ 212,811	\$ 2,232,948	\$ 246,262	\$ 55,698
	27%	42%	43%	35%	40%	39%	45%

(*) Reflects CAFR Net Position Adjusted for Net Pension Liability



BUDGET PERFORMANCE REPORT – 2ND QUARTER FY 2017/18

Trust and Agency Funds (Fiduciary Fund Type)

Town Trust and Agency Funds have estimated fund balances as of December 31, 2017 of \$534,217 for the Library Trust Funds and \$3,735,702 for the Successor Agency (SA) Trust Fund. Staff recommends a \$1,100 revenue budget adjustment for the donation received in the Library Trust. In addition, an expenditure budget adjustment of \$58,000 for Library Teen Door installation, new furniture, and family book program. The budget adjustments were discussed in the budget adjustment section of this report.

Trust & Agency Funds Budget to Actuals Comparisons

	Library Trust	SA Trust
Beginning Fund Balance	\$ 531,958	\$ 3,348,443
Budgeted Revenues	78,365	3,857,721
Total Actual Revenues - 2nd Qtr	17,700	1,914,749
Budgeted Expenditures	72,500	3,856,383
Total Actual Expenditures - 2nd Qtr	15,441	1,527,490
2nd Quarter Ending Fund Balance	\$ 534,217	\$ 3,735,702
	21%	40%

** Certification of Participation Long Term Debt (\$18,785,000) and net land and building value (\$6,986,199) are not presented in the Fund Balance*

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 2017/18 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 primarily due to the anticipated increased employer pension costs associated with CalPERS discount rate assumption changes in December 2016. Staff is actively engaged in the 2018/19 budget process with the primary focus of ensuring that the available Town resources are allocated to meet the priority service needs of the community.