



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

INTRODUCTION

Purpose

This Mid-Year Report covers the first and second quarters for the Fiscal Year (FY) 2018/19, reflecting the six month period ending December 31, 2018. The purposes of this public reporting are twofold. First, the report enables the Town to monitor its revenues and expenditures consistently so that it can proactively respond to unanticipated changes or emerging trends. Second, and equally important, the report increases 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 public reporting provides taxpayers with information that demonstrates the Town is committed to this goal.

Content

This Mid-Year Report presents an overview of the Town's operating revenues and expenditures for the period ending December 31, 2018 as compared to previous years, and explains any notable changes or trends in these numbers. This report also provides information on recommended budget adjustments for the current fiscal year.

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 December of each year for the prior fiscal year.

With respect to revenues: To develop a more accurate picture of the Town's anticipated year-end

financial position, the Town regularly monitors and adjusts its year-end revenue projections based on revenue performance and other developments that may affect Town revenues.

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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ATTACHMENT 1



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

BUDGET CONTEXT

Status of FY 2018/19 Adopted Budget

Overall, second quarter FY 2018/19 General Fund revenues are trending in line with the second quarter of Fiscal Year 2017/18. Due to some projected revenue increases, staff is recommending a net General Fund revenue increase of \$1.0 million from the adopted budgeted estimates, offset by \$0.1 million in expenditure increases (see page 12 for details). The current forecast expects a better than expected increases in property tax, motor vehicle in lieu, and transient occupancy tax (TOT) due to the continued surge in the local economy as well as tourism within the Bay Area. Sales tax revenues are declining compared to the same quarter last fiscal year primarily due to the impact of online retail sales and reduced taxable transactions from Netflix. Revenues such as licenses and permits, and fees for services are all trending favorably, another indication of the strong economy (see summary detail on page 16).

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 42% of the adopted budget. With six months of data now available, it is expected that the next six months of expenditure trends will be within budget, although unexpected costs can still 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 legal services, mandatory well testing expenses, crossing guard services costs, funding to provide for additional Americans with Disability Act (ADA) trainings, and tuition reimbursement expenses (see page 12 for details).

Providing existing service levels to the community in this and future fiscal years will require performance of economically sensitive revenues (Property, Sales, TOT) to keep pace with anticipated benefit and other cost increases. The FY 2018/19 budget is the fifth budget in five years that did not require any service reductions to balance the budget. The FY 2019/20 budget is also expected to be “status quo,” and maintain the Town’s high service levels while

recognizing the Town’s contractual obligations and unfunded mandates.

Federal Economic Outlook

The Federal Reserve Bank of San Francisco (FRBSF) in a January 10, 2019 publication indicated that the economy has continued to grow at a robust pace, primarily driven by solid gains in consumer income and spending. The report projects that the Gross Domestic Product (GDP) growth rate averaged 3.1% for 2018. However, the report forecasts that growth will slow down to 2.0% in 2019, as monetary policy continues to normalize and fiscal stimulus wanes and continue to fall gradually to an estimated long-term potential rate of 1.7%.

State Budget Update

Given federal political uncertainty, the risks to the current economic forecast, and the need for a solid fiscal foundation, the State Budget allocates \$13.6 billion to building budgetary resiliency and paying down the state’s unfunded pension liabilities. This includes:

- \$4 billion investment that eliminates all outstanding budgetary debt as well as deferrals
- \$4.8 billion to build reserves, bringing the state’s Rainy Day Fund to more than \$15 billion this year (the largest amount ever) and nearly \$20 billion over four years
- \$4.8 billion to pay down unfunded retirement liabilities

The Budget’s remaining spending prudently charts the path toward building a long-term fiscal foundation. Over 86 percent of the new spending contained in the Budget is one-time, and in each of the out-years the Budget has a positive operating balance. The Budget also more than quadruples the size of the state’s Safety Net Reserve, strengthening programs that provide the first-line of defense for families during an economic downturn.



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

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, 2018.

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



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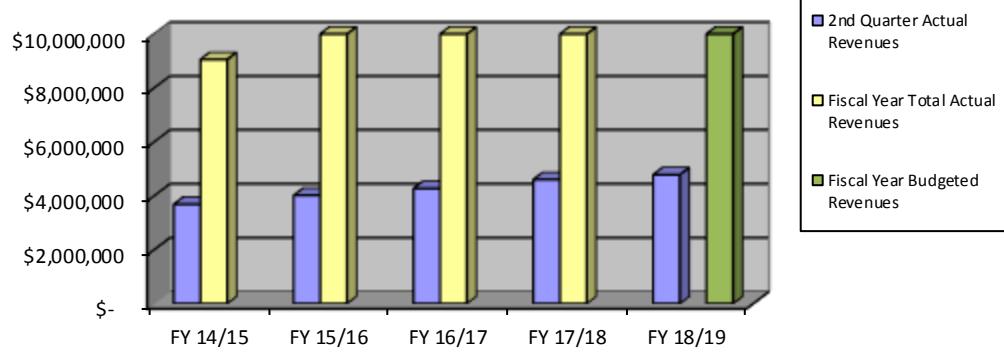
Property Tax

Property tax is the largest revenue source for the Town's General Fund, accounting for 29.5% of budgeted General Fund revenues in FY 2018/19. Property tax is levied by the Santa Clara County Assessor's Office at 1% of a property's assessed value, of which the Town receives approximately 9.3 cents per dollar paid on property located within the municipal limits of Los Gatos. In compliance with Proposition 13, the assessed value of real property is based on the 1975/76 assessment roll value, adjusted by a 2% inflation factor thereafter. However, when property changes hands or new construction occurs, property is then reassessed at its current market value. Real property values critically impact property tax revenues received by the Town. With the passage of Proposition 13, voters limited the tax rate that can be imposed on property. With the limitation on rates higher property tax revenues are primarily 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 valuations projected by the Santa Clara County Assessor's Office, given the value and quantity of home sales. Second quarter receipts are trending slightly higher than those received during the second quarter of the previous fiscal year and are at 38% of budgeted totals. Based on County projections and these trends, staff recommends a \$526,030 increase in General Property Tax.

PROPERTY TAX

Quarterly and Annual Revenues 5-Year History



	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>
2nd Quarter Actual Revenues	\$ 3,690,329	\$ 4,017,963	\$ 4,274,774	\$ 4,604,788	\$ 4,785,479
Fiscal Year Total Actual Revenues	\$ 9,054,908	\$ 10,779,448	\$ 11,518,257	\$ 12,510,822	
Fiscal Year Budgeted Revenues					\$ 12,507,071
2nd Quarter Percent of Total	41%	37%	37%	37%	38%
Recommended Budget Revision					\$ 526,030



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

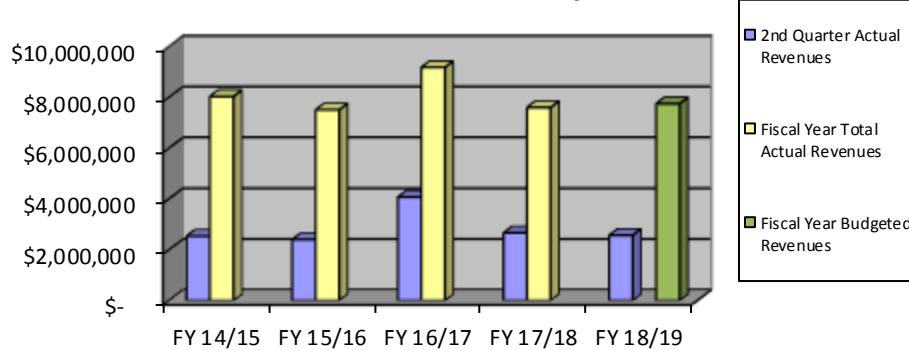
Sales Tax

Sales tax is the second largest revenue source for the Town's General Fund, accounting for 18.3% of budgeted General Fund revenues for FY 2018/19. The Town currently receives 1 cent for every 9 cents of sales tax paid per dollar on retail sales and taxable services transacted within Los Gatos. At the November 6, 2018 election the Town of Los Gatos residents approved ballot Measure G enacting a one-eighth cent (0.125%) sales tax for 20 years, providing about \$800,000 annually, requiring Independent Citizens Oversight with public review of spending, an all revenues controlled locally. The Sales Tax Measure will be effective starting April 1, 2019. These revenues are placed in the General Fund for unrestricted uses.

Analysis – FY 2016/17 marked the end of the State sales tax distributing mechanism commonly known as the triple flip and included a \$900,000 final “triple-flip” true-up payment from previous fiscal years as illustrated in the table below. For FY 2018/19 second quarter receipts are trending behind those in the same period last fiscal year. The reduction in receipts is associated with increased on-line sales versus brick and mortar shopping and by the continuing impact of the reduced taxable transactions from Netflix since 2011. Staff recommends a \$114,329 budget decrease to reflect the combined effect of declining sales tax projections of \$314,199 partially offset by the anticipated addition of \$200,000 collected from the additional one-eighth cent sales tax during the last quarter of the fiscal year.

SALES TAX

Quarterly and Annual Revenues 5-Year History



	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
2nd Quarter Actual Revenues	\$ 2,532,086	\$ 2,397,533	\$ 4,069,524	\$ 2,662,601	\$ 2,568,415
Fiscal Year Total Actual Revenue	\$ 8,029,571	\$ 7,501,175	\$ 9,171,373	\$ 7,592,206	
Fiscal Year Budgeted Revenues					\$ 7,744,208
2nd Quarter Percent of Total	32%	32%	44%	35%	33%
Recommended Budget Revision					\$ (114,329)



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

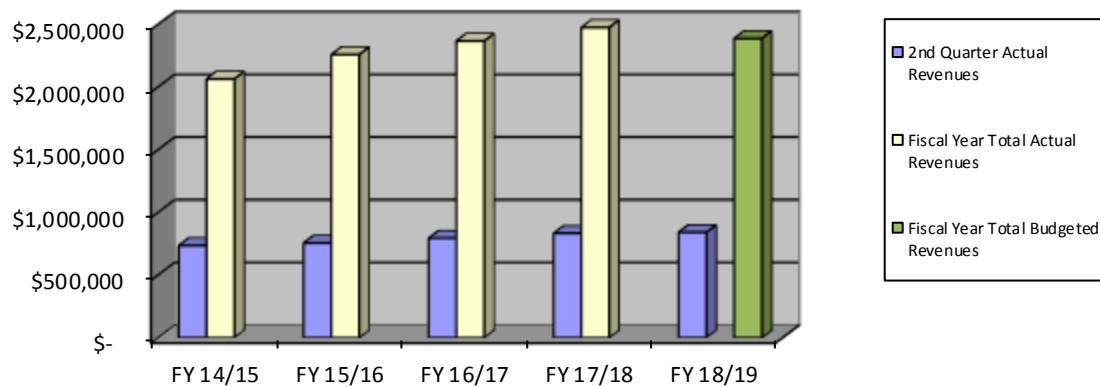
Franchise Fees

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 4.1% of budgeted General Fund revenues in FY 2018/19.

Analysis – Historically, franchise payments are not remitted equally throughout the fiscal year; therefore second quarter receipts are not necessarily predictive of future receipts. Total franchise fee revenues are trending slightly higher than those of the second quarter in FY 2017/18. Staff recommends no budget adjustment to this revenue source.

Franchise Fees

Quarterly and Annual Revenues 5-Year History



	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
2nd Quarter Actual Revenues	\$ 735,550	\$ 755,451	\$ 794,077	\$ 832,583	\$ 840,555
Fiscal Year Total Actual Revenues	\$ 2,063,756	\$ 2,258,892	\$ 2,366,908	\$ 2,474,814	
Fiscal Year Total Budgeted Revenues					\$ 2,386,910
2nd Quarter Revenue Percent of Total	36%	33%	34%	34%	35%

Recommended Budget Revision



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

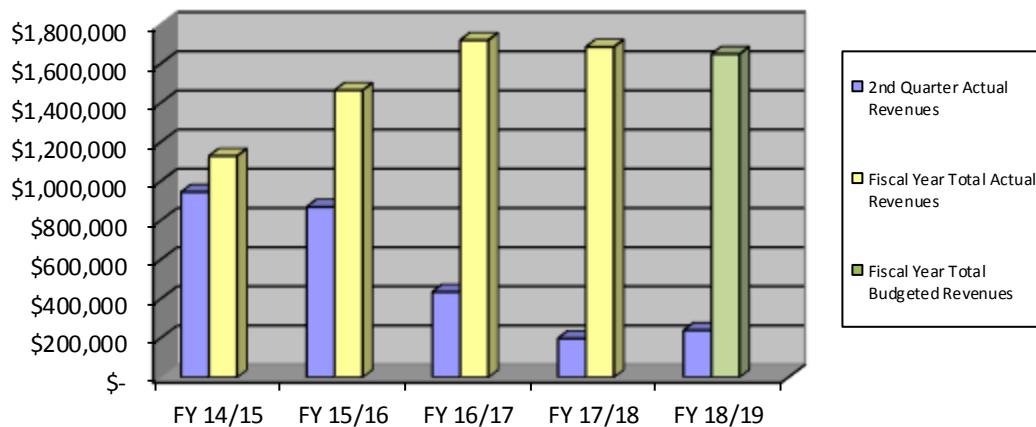
Business License Tax

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, and 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. 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 revenues are trending in line with prior results. Staff recommends no budget adjustment to this revenue source.

Business License Tax

Quarterly and Annual Revenues 5-Year History



	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>
2nd Quarter Actual Revenues	\$ 945,846*	\$ 870,249**	\$ 435,696	\$ 199,045	\$ 240,293
Fiscal Year Total Actual Revenues	\$ 1,130,020	\$ 1,465,547	\$ 1,720,980	\$ 1,686,251	
Fiscal Year Total Budgeted Revenues					\$ 1,650,000
2nd Quarter Revenue Percent of Total	59%	53%	59%	12%	15%

Recommended Budget Revision

* 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



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

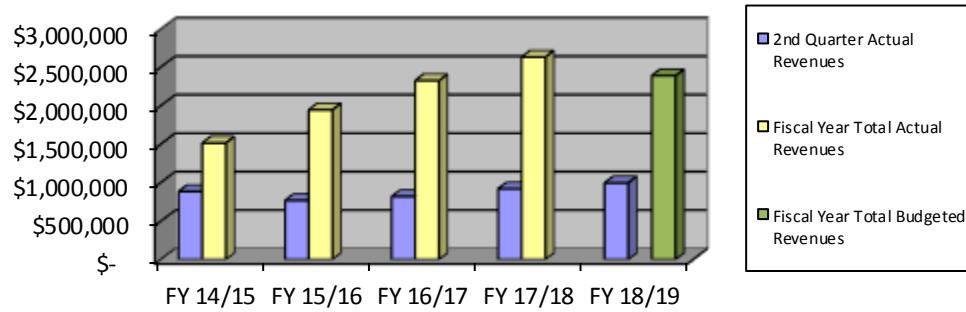
Transient Occupancy Tax

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 was effective from January 1, 2017.

Analysis – Visit California reported that the total number of visitors to California grew 2% in 2017 and the forecast for California visitation is an increase of 2.9% in 2018. Personal and business related travel has remained strong in the Bay Area. Second quarter TOT revenues are trending higher than those of the second quarter of 2017/18. Based on the positive trend and the continued effect of the increased TOT rate, staff is recommending a budget increase of \$350,000.

Transient Occupancy Tax

Quarterly and Annual Revenues 5-Year History



	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
2nd Quarter Actual Revenues	\$ 882,406	\$ 766,651	\$ 817,061	\$ 917,019	\$ 994,581
Fiscal Year Total Actual Revenues	\$ 1,512,846	\$ 1,943,166	\$ 2,322,910	\$ 2,628,927	
Fiscal Year Total Budgeted Revenues				\$ 2,386,910	
2nd Quarter Revenue Percent of Total	58%	39%	35%	35%	42%
Recommended Budget Revision					\$ 350,000



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

Interest Income

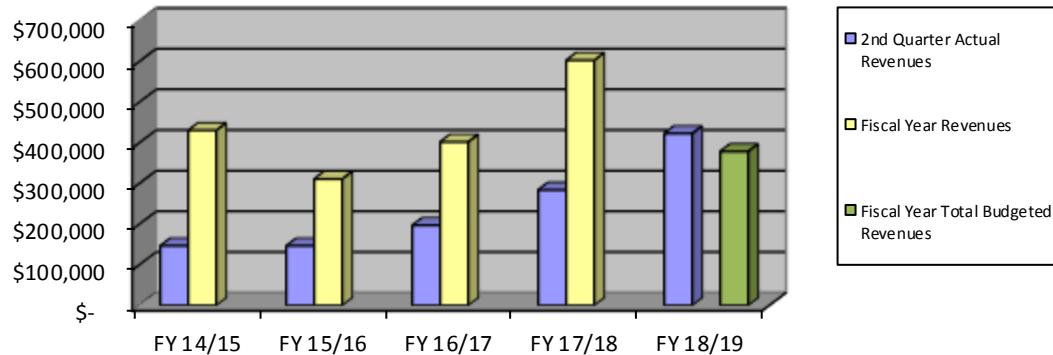
The Town earns interest income by investing monies not immediately required for daily operations in a number of fixed income and money market instruments. These investments are made within the parameters stated in the Town Council's Investment Policy. The Town's investment goal is to achieve a competitive 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 1.53% as of December 31, 2017 to the current yield of 1.94% as of December 31, 2018.

Because of the interest forecast, staff is continuing to focus on the purchase of new short-term (two years or less in maturity) investments as the reward for longer term investments in the three to five year maturity do not have adequate spreads to justify the additional risk of holding longer term maturities. While the current trend shows a slight increase staff recommends no budget adjustment at this time.

Interest Income

Quarterly and Annual Revenues 5-Year History



	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
2nd Quarter Actual Revenues	\$ 146,723	\$ 146,500	\$ 197,065	\$ 284,009	\$ 422,729
Fiscal Year Revenues	\$ 430,476	\$ 310,887	\$ 401,961	\$ 603,016	
Fiscal Year Total Budgeted Revenues					\$ 378,724
2nd Quarter Revenue Percent of Total	34%	47%	49%	47%	112%

Recommended Budget Revision



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

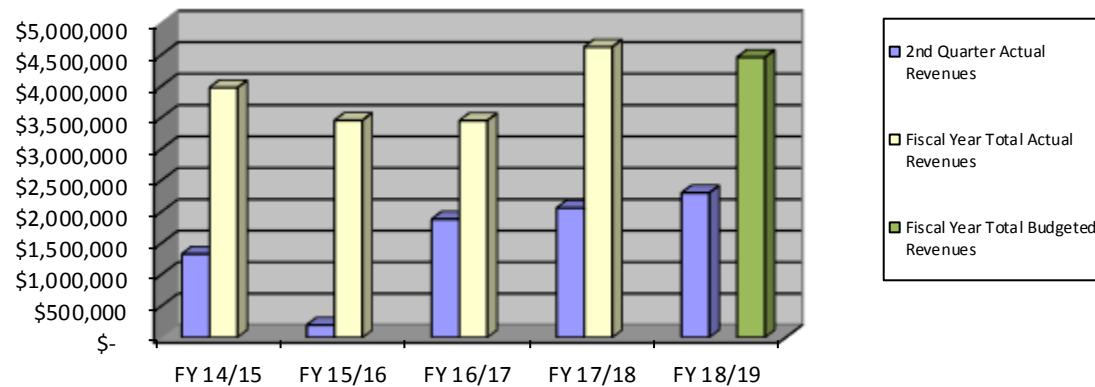
Charges for Services

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 52% 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 no budget adjustment to this revenue source.

Charges for Services

Quarterly and Annual Revenues 5-Year History



	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19
2nd Quarter Actual Revenues	\$ 1,329,584	\$ 199,836	\$ 1,885,794	\$ 2,063,371	\$ 2,304,693
Fiscal Year Total Actual Revenues	\$ 3,978,125	\$ 3,458,531	\$ 3,454,666	\$ 4,625,136	
Fiscal Year Total Budgeted Revenues					\$ 4,461,638
2nd Quarter Revenue Percent of Total	33%	6%	55%	45%	52%

Recommended Budget Revision



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

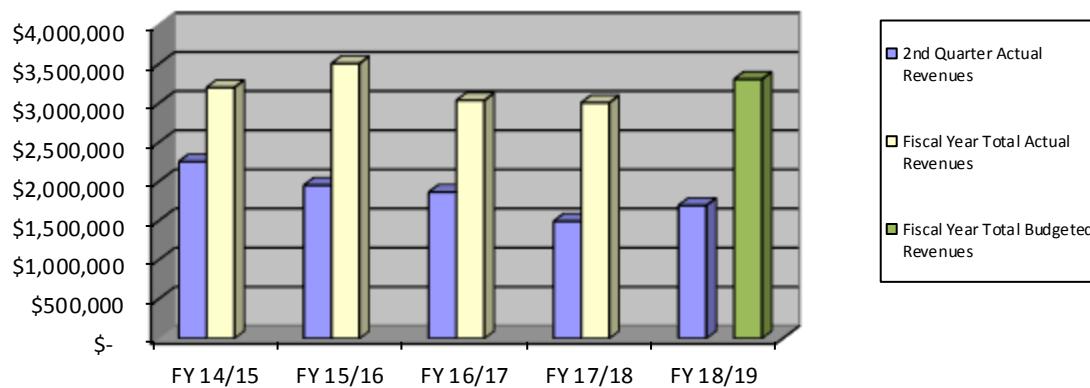
Licenses and Permits

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 higher than FY 2017/18 in anticipation of the North 40 permitting process development activity.

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

Licenses & Permits

Quarterly and Annual Revenues 5-Year History



	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>
2nd Quarter Actual Revenues	\$ 2,259,700	\$ 1,958,363	\$ 1,870,955	\$ 1,498,964	\$ 1,700,352
Fiscal Year Total Actual Revenues	\$ 3,206,310	\$ 3,512,019	\$ 3,042,166	\$ 3,011,309	
Fiscal Year Total Budgeted Revenues					\$ 3,311,429
2nd Quarter Revenue Percent of Total	70%	56%	62%	50%	51%

Recommended Budget Revision



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

FY 2018/19 Recommended Budget Adjustments

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

FY 2018/19 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUND

Fund	Program	Account	<i>General Fund Revenues</i>	
111	1201	411XX	Property Tax	\$ 526,030
111	1201	41141	Motor Vehicle In Lieu Fee	203,187
111	1201	41211	Sales & Use Tax	(114,329)
111	1201	41311	Transient Occupancy Tax	350,000
111	3301	45953	SB 1186 ADA Training	16,000
111	4201	45919	Lease for PD Tower - SVRCS Reimbursement	5,000
111	4302	44512	Crossing Guard Services - Reimbursements from Schools	7,548
111	4811	43213	Department of Justice Grant	5,941
			<i>TOTAL GENERAL FUND REVENUES</i>	\$ 999,377
Fund	Program	Account	<i>General Fund Expenditures</i>	
111	2201	63214	Liebert Cassidy Whitmore - Special Services	\$ 16,000
111	3301	64232	ADA Training	16,000
111	4201	62522	Lease for PD Tower	5,000
111	4301	64291	Tuition Reimbursement per MOU	11,350
111	4302	63342	Crossing Guard Services	9,475
111	4811	61145	Safety Uniforms	5,941
111	5301	62376	Pest Control	4,340
111	5302	63219	Special Studies - Well Testing & Monitoring	11,959
			<i>TOTAL GENERAL FUND EXPENDITURES</i>	\$ 80,065



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

FY 2018/19 MID-YEAR BUDGET ADJUSTMENT REQUESTS - OTHER FUNDS

Fund	Program	Account	Other Fund Revenues	
411				
			GFAR	
411	411-xxx-xxxx	49633	Police Headquarter Building Roof Repair- from Facilities	<u>\$ 50,000</u>
481				
			Gas Tax	
481	481-811-9901	82405	Decreased Gas Tax Revenue Projections for Street Repair	<u>\$ (178,776)</u>
711				
			Library Trust	
711	7301	45452	Additional Revenue from the Friends of the Library	<u>\$ 9,500</u>
TOTAL OTHER FUNDS REVENUES				\$ (119,276)
Fund	Program	Account	Other Fund Expenditures	
411				
			GFAR	
411	411-xxx-xxxx	82405	Police Headquarters Roof	<u>\$ 50,000</u>
481				
			Gas Tax	
481	481-811-9901	82405	Decreased Gas Tax Revenue Projections for Street Repair	<u>\$ (178,766)</u>
633				
			Facilities Maintenance	
633	5404	63332	Software License & Maintenance	12,500
		99411	Police Headquarter Roof Repair	<u>50,000</u>
				<u>\$ 62,500</u>
711				
			Library Trust Fund	
711	7301	624xx	Additional Programs supported by the Friends of the Library	<u>\$ 9,500</u>
TOTAL OTHER FUNDS EXPENDITURES				\$ (56,766)



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

General Fund Revenues and Expenditures

- General Property Tax and Motor Vehicle in Lieu Fee: Staff recommends an increase in projected revenues of approximately \$526,030 in General Property Tax and \$203,187 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 \$114,329 budget decrease to reflect the combined effect of declining sales tax projections of \$314,199 partially offset by the anticipated addition of \$200,000 from the additional one-eight cent sales tax during the last quarter of the fiscal year.
- Transient Occupancy Tax: Actual receipts and Visit California forecasts indicate steady growth in travel thereby staff recommends recognizing a revenue increase of \$350,000.
- 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 revenue and expenditure budget increases of \$16,000 to provide ADA training for the Community Development Building Division staff.
- Silicon Valley Regional Interoperability Authority (SVRIA): Staff recommends revenue and expenditure budget increases of \$5,000 to recognize continued infrastructure developments at the Stickney radio site located at 40 Fairview Plaza, Los Gatos.
- Crossing Guard Services: The Town contracts with All City Management Services, Inc. to provide crossing guard services at selected school crossing locations within Los Gatos. Costs for these services are shared between the Town and Los Gatos Union School District and Union School District. Staff recommends \$7,548 revenue budget and \$9,745 expenditure budget adjustments to reflect the current contract obligations. The net cost increase to the Town is \$1,926 in FY 18/19.
- Patrol Uniforms: Staff recommends a \$5,491 revenue and expenditure budget adjustments to recognize awarded grant funds by the Bureau of Justice Assistance (BJA) for the 2018 Bulletproof Vest Partnership (BVP) grant.
- Special Services: Staff recommends a \$16,000 expenditure budget adjustment to support consultation services related to employee relations.
- Tuition Reimbursement: Staff recommends a \$11,350 expenditure budget adjustment to cover non-anticipated tuition reimbursements that are mandated through the approved Memorandum of Understanding (MOU).
- Pest Control Services: Staff recommends a \$4,340 expenditure budget adjustment to provide funding for the increased cost of pest services.
- Mandated Well Testing and Monitoring: Staff recommends an adjustment of \$11,959 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. The funds will be used to destroy seven groundwater monitoring wells, two soil gas vapor probes, and all additional related work and certification to close the case with Santa Clara Department of Environmental Health.



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

Other Fund Revenues and Expenditures

- Police Headquarter Building Roof Repair: Staff recommends a \$50,000 expenditure budget increase from available Facilities Maintenance Fund balance. The roof for the Police Headquarters wing of the civic center has reached the end of its useful life. The roof has a history of water leaks and since the removal of the HVAC system over the old dispatch center, the leaks have increased. This project will replace the roof with a new roof membrane to match the museum wing roof completed in 2017.
- Gas Tax: Staff recommends a \$178,776 revenue and expenditure budget decrease due to an updated gas tax revenue forecast from the State of California.
- Police Operation Building (POB) Card Reader System Update: Staff recommends a \$12,500 expenditure budget increase from available Facilities Maintenance Fund balance. This request will augment existing funding to install additional security card readers at POB and also replace the antiquated camera system at POB which has become unsupported with a new system supported by The Alarm Company, the Town's current vendor. In FY 18/19 \$20,000 was budgeted in the Facilities Maintenance Fund for software licensing and maintenance associated with card access. The total anticipated cost for these improvements is \$32,500.
- Library Donation: Staff recommends a \$9,500 revenue and budget increase to recognize the additional Library Trust donation for building a collection of foreign language titles for adults (\$4,000), providing additional resources for archival preservation (\$1,000), and funding the purchase of a children's activity table in the Library (\$4,500).



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

FINANCIAL SUMMARIES, ESTIMATES, AND RECOMMENDATIONS

General Fund

The following table is the *Schedule of General Fund Operating Revenues Versus. Operating Expenditures* for the second quarter of FY 2018/19 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 2017/18 Actuals	FY 2017/18 Q2	Q2 % of FY 2017/18 Actuals	Q2 % of FY 2018/19 Adopted	FY 2018/19 Q2	FY 2018/19 Adopted	FY 2018/19 Estimates
Revenues							
Property Tax	\$ 12,510,822	\$ 4,604,788	36.8%	38.3%	\$ 4,785,479	\$ 12,507,071	\$ 13,033,101
Sales & Use Tax	7,592,206	2,662,601	35.1%	33.2%	2,568,415	7,744,208	7,629,879
VLF Backfill Property Tax	3,447,584	-	0.0%	0.0%	-	3,482,060	3,685,247
Franchise Fees	2,474,814	832,583	33.6%	35.2%	840,555	2,386,910	2,386,910
Transient Occupancy Tax	2,628,927	917,019	34.9%	43.8%	994,581	2,272,500	2,622,500
Business License Tax	1,686,251	199,045	11.8%	14.6%	240,293	1,650,000	1,650,000
Licenses & Permits	3,011,309	1,498,964	49.8%	51.3%	1,700,352	3,311,429	3,311,429
Intergovernmental	1,010,166	367,503	36.4%	45.3%	310,803	685,759	691,700
Town Services	4,625,136	2,063,371	44.6%	51.7%	2,304,693	4,461,638	4,461,638
Fines & Forfeitures	676,212	273,170	40.4%	32.9%	207,631	631,400	638,948
Interest	603,016	284,009	47.1%	111.6%	422,729	378,724	378,724
GASB 31 to Market	(358,254)	(267,176)	74.6%	-466.8%	517,744	(110,918)	(110,918)
Use of Property	32,206	-	0.0%	-	-	-	-
Miscellaneous Other	589,021	751,652	127.6%	184.4%	950,152	515,267	536,267
Debt Service - <i>Entry Eliminated for CAFR</i>	1,914,739	-	0.0%	0.0%	-	1,909,073	1,909,073
Proceeds for Sales of Assets	378,219	-	0.0%	-	-	-	-
Fund Transfer In	538,536	102,000	18.9%	18.9%	102,000	538,536	538,536
Total Revenues & Transfers In	\$ 43,360,910	\$ 14,289,529	33%	38%	\$ 15,945,427	\$ 42,363,657	\$ 43,363,034
Use of Other Funding Sources:							
Use of Reserves - Capital/Special Projects	\$ 3,243,595	\$ -	0.0%	0.0%	\$ -	\$ 2,785,220	\$ 2,998,931
Use of Reserve - Pension/OPEB	-	-	-	-	1,800,000	3,188,913	3,188,913
Total Other Funding Sources	\$ 3,243,595	\$ -	0%	30%	\$ 1,800,000	\$ 5,974,133	\$ 6,187,844
Total Revenues and Use of Reserves	\$ 46,604,505	\$ 14,289,529	31%	37%	\$ 17,745,427	\$ 48,337,790	\$ 49,550,878
Expenditures							
Mayor and Council	\$ 192,183	\$ 94,520	49.2%	44.6%	\$ 99,480	\$ 223,036	\$ 231,198
Attorney	354,205	158,095	44.6%	55.1%	310,194	562,723	584,490
Administrative Services	3,193,995	1,567,002	49.1%	48.3%	2,071,887	4,290,959	4,470,209
Community Development	4,192,165	2,012,335	48.0%	37.7%	2,106,707	5,590,899	5,819,124
Police	14,423,554	7,197,220	49.9%	52.3%	7,833,043	14,976,514	15,575,573
Parks & Public Works	7,099,527	3,422,553	48.2%	50.2%	3,859,545	7,684,056	7,991,484
Library	2,529,017	1,289,625	51.0%	50.1%	1,280,304	2,556,267	2,652,856
Total Department Expenditures	\$ 31,984,646	\$ 15,741,350	49%	49%	\$ 17,561,160	\$ 35,884,454	\$ 37,324,934
General Government	\$ 5,029,699	\$ 805,624	16.0%	37.2%	\$ 2,622,053	\$ 7,043,251	\$ 7,043,251
Debt Service - <i>Entry Eliminated for CAFR</i>	1,914,739	-	0.0%	0.0%	-	1,909,073	1,909,073
Transfers Out	3,243,595	-	0.0%	0.0%	-	2,785,220	2,844,024
Total Non-Departmental Expenditures	\$ 10,188,033	\$ 805,624	8%	22%	\$ 2,622,053	\$ 11,737,544	\$ 11,796,348
Total Operating Expenditures	\$ 42,172,679	\$ 16,546,974	39%	42%	\$ 20,183,213	\$ 47,621,998	\$ 49,121,282
Net Operating Revenues	\$ 4,431,826	\$ (2,257,445)			\$ (2,437,786)	* \$ 715,790	\$ 429,594

* FY 2018/19 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 – MID-YEAR FY 2018/19

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	\$ 166,654	\$ 71,339	\$ 198,685	
Budgeted Revenues	-	584,394	39,680	
Total Actual Revenues - 2nd Qtr	\$ -	\$ 101,513	\$ -	
Budgeted Expenditures	-	559,482	112,830	
Total Actual Expenditures - 2nd Qtr	-	308,731	12,871	
2nd Quarter Ending Fund Balance	\$ 166,654	\$ (135,879)	\$ 185,814	



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

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 2018/19 adopted budget. Staff recommends increasing GFAR revenue budget by \$50,000 to recognize the transfer from Facilities Maintenance Fund to cover the Police Headquarter Building Roof Repair and the expenditure budget adjustment for the same project. Staff recommends to decrease both gas tax revenue and expenditure by \$178,776 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	\$ 12,175,060	\$ 2,421,723	\$ (134,112)	\$ 2,485,998	\$ 2,997,984	\$ 703,149
Budgeted Revenues	4,964,695	1,370,384	1,080,928	101,110	44,310	1,324,204
Total Actual Revenues - 2nd Qtr	694,013	8,779	85,718	92,083	16,663	448,541
Budgeted Expenditures	16,117,435	1,380,384	2,795,570	203,058	2,330,000	1,787,981
Total Actual Expenditures - 2nd Qtr	3,614,578	84,097	317,257	-	-	999
2nd Quarter Ending Fund Balance	\$ 9,254,495	\$ 2,346,405	\$ (365,651)	\$ 2,578,081	\$ 3,014,647	\$ 1,150,691

** GFAR, Traffic Mitigation, and Grant Funds balances are combined in the CAFR. The combined balance of \$12,301,4321 is presented as an Appropriated Reserve. The Traffic Mitigation Fund balance includes \$2,161,239 deferred revenue.*



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

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 \$62,500 budget adjustment to cover the Police headquarter Roof Repair and the additional cost to update the Police Operational Building card access system. Staff will continue to monitor expenditures and propose a revised cost allocation if needed, during FY 2019/20 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	\$ 2,328,273	\$ 620,727	(*) \$ 994,769	\$ 227,791	\$ 2,161,808	(*) \$ 262,790	\$ 245,436
Budgeted Revenues	1,070,000	878,386	376,187	118,000	334,478	379,655	1,209,089
Total Actual Revenues - 2nd Qtr	325,826	659,707	159,889	64,879	191,132	188,329	607,197
Budgeted Expenditures	1,665,187	1,218,202	641,361	134,500	1,224,791	376,655	1,151,086
Total Actual Expenditures - 2nd Qtr	242,254	967,285	362,788	36,775	295,031	112,558	396,920
2nd Quarter Ending Fund Balance	\$ 2,411,845	\$ 313,149	\$ 791,870	\$ 255,895	\$ 2,057,909	\$ 338,561	\$ 455,713
	15%	79%	57%	27%	24%	30%	34%

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



BUDGET PERFORMANCE REPORT – MID-YEAR FY 2018/19

Trust and Agency Funds (Fiduciary Fund Type)

Town Trust and Agency Funds have estimated fund balances as of December 31, 2019 of \$584,744 for the Library Trust Funds and \$1,806,925 for the Successor Agency (SA) Trust Fund. Staff recommends a \$9,500 revenue and expenditure budget adjustment for the donation received in the Library Trust. 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	\$ 535,744	\$ 3,348,443
Budgeted Revenues	78,650	3,828,296
Total Actual Revenues - 2nd Qtr	64,668	1,909,073
Budgeted Expenditures	73,500	3,831,229
Total Actual Expenditures - 2nd Qtr	16,387	3,450,591
2nd Quarter Ending Fund Balance	\$ 584,025	\$ 1,806,925
	22%	90%

** Certification of Participation Long Term Debt (\$16,530,000) and net land and building value (\$6,884,507) are not presented in the Fund Balance*

Successor Agency to the Redevelopment Agency

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 2018/19 second quarter data, confirm that the second quarter financial results are stable and improving. Staff is actively engaged in the 2019/20 budget process with the primary focus of ensuring that the available Town resources are allocated to meet the priority service needs of the community.