

**TOWN OF LOS GATOS  
FINANCE COMMISSION AGENDA  
FEBRUARY 14, 2022  
TELECONFERENCE  
5:00 P.M.**

*Ron Dickel, Chair  
Kyle Park, Vice Chair  
Stacey Dell, Commissioner  
Loreen Huddleston, Commissioner  
Rick Tinsley, Commissioner  
Rob Rennie, Mayor  
Matthew Hudes, Council Member*

**IMPORTANT NOTICE**

This meeting is being conducted utilizing teleconferencing and electronic means consistent with Government Code Section 54953, as Amended by Assembly Bill 361, in response to the state of emergency relating to COVID-19 and enabling teleconferencing accommodations by suspending or waiving specified provisions in the Ralph M. Brown Act (Government Code § 54950 et seq.). Consistent with AB 361 and Town of Los Gatos Resolution 2021-044, this meeting will not be physically open to the public and the Commission will be teleconferencing from remote locations. Members of the public can only participate in the meeting by joining the Zoom webinar (log in information provided below).

**PARTICIPATION**

To provide oral comments in real-time during the meeting:

- **Zoom webinar:** Join from a PC, Mac, iPad, iPhone or Android device: Please click this URL to join: <https://losgatosca.gov.zoom.us/j/85940430924?pwd=MTFicHA0eFhIRXU4Z3BSK1FEOEFudz09>  
Passcode: 687164. You can also type in 859 4043 0924 in the “Join a Meeting” page on the Zoom website at <https://zoom.us/join>.
- **Join by telephone:** Join by Telephone: Dial: USA 877 336 1839 US Toll-free or 636-651-0002 US Toll. Conference code: 986172

When the Chair announces the item for which you wish to speak, click the “raise hand” feature in Zoom. If you are participating by phone on the Zoom app, press \*9 on your telephone keypad to raise your hand. If you are participating by calling in, press #2 on your telephone keypad to raise your hand.

When called to speak, you will be asked to provide your full name and your town/city of residence. This identifying information is optional and not a requirement for participation. Please limit your comments to three (3) minutes, or such other time as the Chair may decide, consistent with the time limit for speakers at a Council meeting.

If you are unable to participate in real-time, you may email to [PublicComment@losgatosca.gov](mailto:PublicComment@losgatosca.gov) the subject line “Public Comment Item #\_\_” (insert the item number relevant to your comment) or “Verbal Communications – Non-Agenda Item.” Comments received by 11:00 a.m. the day of the meeting will be reviewed and distributed before the meeting. All comments received will become part of the record.

**TOWN OF LOS GATOS  
FINANCE COMMISSION AGENDA  
FEBRUARY 14, 2022  
TELECONFERENCE  
5:00 P.M.**

**RULES OF DECORUM AND CIVILITY**

To conduct the business of the community in an effective and efficient manner, please follow the meeting guidelines set forth in the Town Code and State law.

The Town does not tolerate disruptive conduct, which includes but is not limited to:

- addressing the Planning Commission without first being recognized;
- interrupting speakers, Planning Commissioners, or Town staff;
- continuing to speak after the allotted time has expired;
- failing to relinquish the microphone when directed to do so;
- repetitiously addressing the same subject.

Town Policy does not allow speakers to cede their commenting time to another speaker. Disruption of the meeting may result in a violation of Penal Code Section 403.

**REMOTE LOCATION PARTICIPANTS** *The following Commission Members are listed to permit them to appear electronically or telephonically at the Finance Commission meeting: CHAIR RON DICKEL, VICE CHAIR KYLE PARK, COMMISSIONER STACEY DELL, COMMISSIONER LOREEN HUDDLESTON, COMMISSIONER RICK TINSLEY, MAYOR ROB RENNIE, AND COUNCIL MEMBER MATTHEW HUDES. All votes during the teleconferencing session will be conducted by roll call vote.*

**MEETING CALL TO ORDER**

**ROLL CALL**

**CONSENT ITEMS** *(Items appearing on the Consent Items are considered routine Town business and may be approved by one motion. Any member of the Commission may request to have an item removed from the Consent Items for comment and action. Members of the public may provide input on any or multiple Consent Item(s) when the Chair asks for public comments on the Consent Items. If you wish to comment, please follow the Participation Instructions contained on Page 1 of this agenda. If an item is removed, the Chair has the sole discretion to determine when the item will be heard.)*

1. Approve Draft Minutes of the January 10, 2022 Finance Commission Meeting.
2. Receive the Second Quarter Investment Report (October through December 2021) for Fiscal Year 2021/22.
3. Approve the Revised 2022 Commission Workplan.

**VERBAL COMMUNICATIONS** *(Members of the public are welcome to address the Commission on any matter that is not listed on the agenda, pursuant to the Participation Instructions on Page 1 of this agenda. To ensure all agenda items are heard and unless additional time is authorized by the Chair, this portion of the agenda is limited to 30 minutes and no more than three (3) minutes per speaker. In the event additional speakers were not able to be heard during the initial Verbal Communications portion of the agenda, an additional Verbal Communications will be opened prior to adjournment.)*

**OTHER BUSINESS** *(Up to three minutes may be allotted to each speaker on any of the following items, pursuant to the Participation Instructions contained on Page 1 of this agenda.)*

- [4.](#) Provide Input on the Desired Attributes of the Next Finance Director.
- [5.](#) Receive American Rescue Plan Act and Infrastructure Investment and Jobs Act Updates.
- [6.](#) Review and Provide Comments to the Town Council Regarding Mid-Year Budget Report.
- [7.](#) Review and Provide Comments to the Town Council Regarding the Five-Year Forecast (FY 2022/23 – 2026/27) and Scenarios.
- [8.](#) Discuss Topics for Future Commission Agendas.

## **ADJOURNMENT**

**IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN THIS MEETING, PLEASE CONTACT THE CLERK DEPARTMENT AT (408) 354-6834. NOTIFICATION 48 HOURS BEFORE THE MEETING WILL ENABLE THE TOWN TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY TO THIS MEETING [28 CFR §35.102-35.104]**



**TOWN OF LOS GATOS  
FINANCE COMMISSION  
AGENDA REPORT**

MEETING DATE: 2/14/2022

ITEM NO: 1

Item 1.

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**DRAFT  
Minutes of the Finance Commission Meeting  
January 10, 2022**

The Finance Commission of the Town of Los Gatos conducted a regular meeting utilizing teleconference and electronic means consistent with Government Code Section 54953, as Amended by Assembly Bill 361, in response to the state of emergency relating to COVID-19 and enabling teleconferencing accommodations by suspending or waiving specified provisions in the Ralph M. Brown Act (Government Code § 54950 et seq.) and Town of Los Gatos Resolution 2021-044 on Monday, January 10, 2022, at 5:00 p.m.

**MEETING CALLED TO ORDER AT 5:01 P.M.**

**ROLL CALL**

Present: Commissioner Stacey Dell, Commissioner Ron Dickel, Commissioner Loreen Huddleston, Commissioner Kyle Park, Commissioner Rick Tinsley, Mayor Rob Rennie joined later at 5:05 p.m., and Council Member Matthew Hudes. (All participating remotely.)

Staff Present: Town Manager Laurel Prevetti, Assistant Town Manager Arn Andrews, Finance Director Stephen Conway, and Finance and Budget Manager Gitta Ungvari.

**COMMISSIONER REPORTS**

1. Receive Subcommittee Report

Subcommittee Chair Huddleston requested to complete the work of the subcommittee with a final staff report to the subcommittee and Commission.

**CONSENT ITEMS (TO BE ACTED UPON BY A SINGLE MOTION)**

2. Approve Minutes of the December 13, 2021 Finance Commission Meeting.

**MOTION:** Motion by Commissioner Tinsley to approve the consent items **Seconded** by Commissioner Huddleston.

**VOTE:** Motion passed 5-0.

**VERBAL COMMUNICATIONS**

Jak Van Nada - Commented on the cooperative work of the Finance Commission and staff during the last year.



PAGE 2 OF 3

SUBJECT: Draft Minutes of the Finance Commission Meeting of January 10, 2022

DATE: January 11, 2022

## OTHER BUSINESS

Selection of Finance Commission Chair and Vice Chair

**MOTION:** Motion by **Commissioner Park** to select Commissioner Dickel as Chair **Seconded** by **Commissioner Dell**.

**VOTE:** Motion passed 5-0.

**MOTION:** Motion by **Commissioner Park** to select Commissioner Park as Vice Chair **Seconded** by **Commissioner Tinsley**.

**VOTE:** Motion passed 5-0.

3. Approve the Finance Commission Meeting Dates and Times for 2022

Commission confirmed the regular meeting dates at the second Monday of each month at 5 p.m.

4. Adopt the 2022 Finance Commission Workplan

Arn Andrews presented the staff report. Commissioners discussed the item.

Opened Public Comment.

Catherine Somers - Commented that the Commission should analyze if the funding spent on Summer Promenades and destination marketing boosted sales tax and transient occupancy tax (TOT) collection.

Closed Public Comment.

Commissioners suggested to add the following items to the draft Workplan based on the Commission discussion and public input:

- Extend Key Performance Indicators to include Town Departments,
- Continue discussing financial budgeting and best practices,
- Discuss the community survey results,
- Evaluate major expenditures of Town Departments with benchmarking similar costs to determine potential cost savings,
- Review and discuss Internal Service Funds,

PAGE 3 OF 3

SUBJECT: Draft Minutes of the Finance Commission Meeting of January 10, 2022

DATE: January 11, 2022

5. Review the Town's Draft Financial Transactions Report for Submittal to the State Controller.

Opened Public Comment.

None.

Closed Public Comment.

**MOTION:** Motion by **Commissioner Tinsley** to approve Town's Draft Financial Transactions Report for Submittal to the State Controller. **Seconded by Commissioner Huddleston.**

**VOTE:** Motion passed 5-0.

6. Receive an Update on the Actuarial Services Request for Proposals (RFP) Process

Arn Andrews presented the verbal report. The Chair commented on the actuarial selection process based on his participation.

Opened Public Comment.

None.

Closed Public Comment.

8. Discuss Topics for Future Commission Agendas

Additional items were discussed under Item 4.

**ADJOURNMENT:**

The meeting adjourned at 5:54p.m.

This is to certify that the foregoing is a true and correct copy of the minutes of the January 10, 2022 meeting as approved by the Finance Commission.

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Gitta Ungvari, Finance and Budget Manager



**TOWN OF LOS GATOS**  
**FINANCE COMMISSION REPORT**

MEETING DATE: 02/14/2022

ITEM NO: 2

Item 2.

DATE: February 8, 2022  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Receive the Second Quarter Investment Report (October through December 2021) for Fiscal Year 2021/22

**RECOMMENDATION:**

Receive the Second Quarter Investment Report (October through December 2021) for Fiscal Year 2021/22.

**DISCUSSION:**

As of December 31, 2021, the Town's weighted portfolio yield was 1.20% which trended approximately 100 basis points above the Local Agency Investment Fund (LAIF) yield of 0.21%. This favorable yield differential to LAIF was primarily due to the LAIF portfolio's lower weighted average maturity (WAM) of 338 days versus the Town's longer WAM of 471 days. The Town's weighted average rate of return of 1.20% at the close of the second quarter was 42 basis points lower when compared to the second quarter return of 1.62% in 2020.

In the second quarter of this fiscal year 2021/22, LAIF yields hovered at approximately 20 basis points (0.2%) through the end of the December. Staff in coordination with the Town's investment advisor primarily replaced maturing investments in shorter term maturities in the two- to three-year maturity range. These investments capture current yields that exceed the rates expected to be earned in the State Local Agency Investment Fund (LAIF) pool during that same time period. The State LAIF pool typically lags the market when current market yields are either increasing or decreasing.

Interest rates rose across the board in the month of December, especially in the short term maturity range of six months to two years. The rise in short term rates was likely driven by the

**PREPARED BY:** Stephen Conway  
Finance Director

Reviewed by: Town Manager and Assistant Town Manager

PAGE 2 OF 2

SUBJECT: Receive the Second Quarter Investment Report (October through December 2021) for Fiscal Year 2021/22

DATE: February 8, 2022

DISCUSSION (continued)

expectation that the Federal Reserve will start increasing its short-term Federal Funds rate sometime in 2022 or 2023. At its December Board meeting, the Fed signaled it would taper its asset purchase program more swiftly than previously reported. In addition, polling of individual Fed members indicate the possibility of three rate hikes during calendar year 2022.

CONCLUSION:

Staff recommends that the Finance Commission receive the Second Quarter Investment Report (October through December 2021) for Fiscal Year 2021/22.

Attachment:

1. Second Quarter Investment Report for FY 2021/22 (October through December 2021)

**Town of Los Gatos**  
**Summary Investment Information**  
**December 31, 2021**

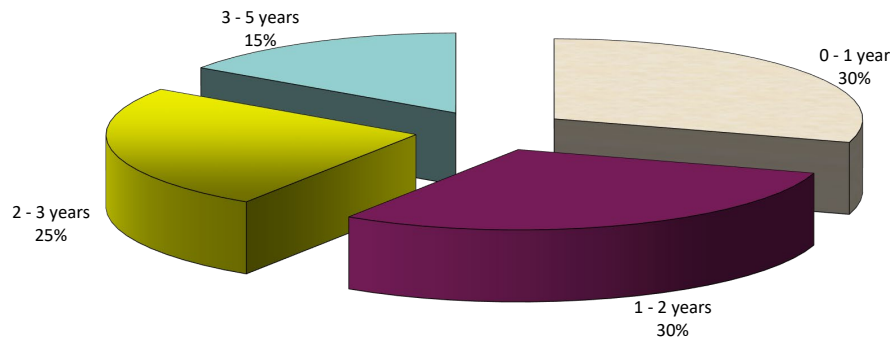
**Weighted Average YTM Portfolio Yield:** **1.20%** **Weighted Average Maturity (days)** **471**

	<u><b>This Month</b></u>	<u><b>Last Month</b></u>	<u><b>One year ago</b></u>
<b>Portfolio Balance</b>	\$60,407,357	\$61,676,907	\$61,118,129

**Benchmarks/ References:**

Town's Average Yield	1.20%	1.21%	1.62%
LAIF Yield for month	0.21%	0.20%	0.62%
3 mo. Treasury	0.06%	0.05%	0.09%
6 mo. Treasury	0.19%	0.10%	0.09%
2 yr. Treasury	0.74%	0.52%	0.12%
5 yr. Treasury (most recent)	1.27%	1.15%	0.36%
10 Yr. Treasury	1.51%	1.45%	0.92%

**Portfolio Maturity Profile**

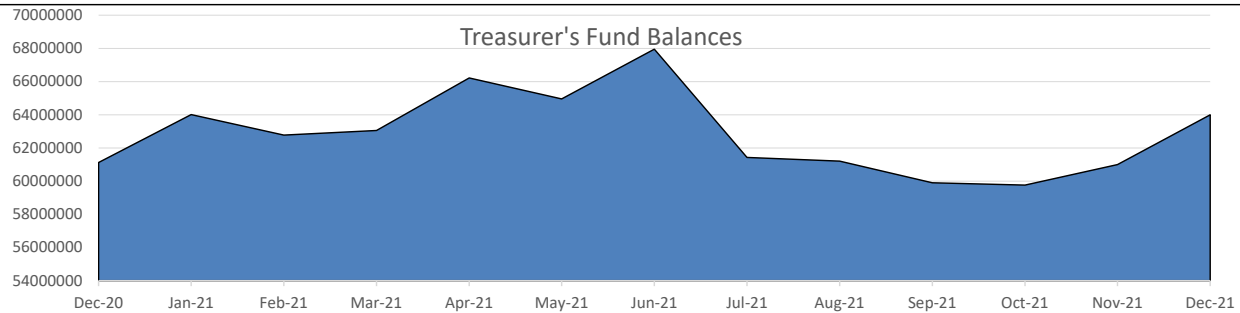
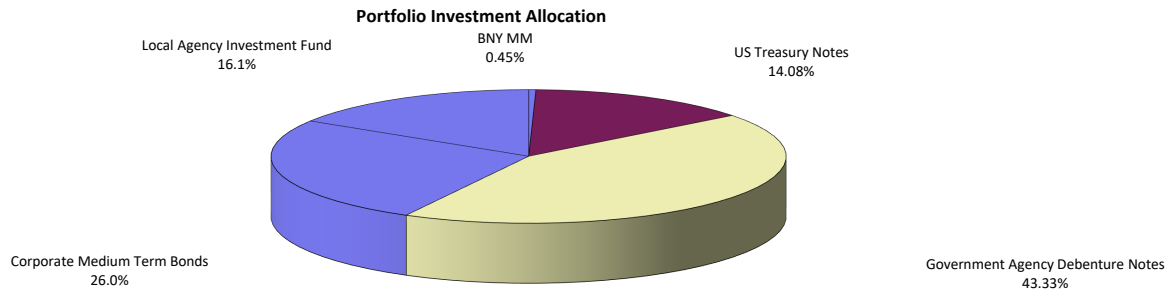


**Compliance:** The Town's investments are in compliance with the Town's investment policy dated September 21, 2021 and also in compliance with the requirements of Section 53601 of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

**Town of Los Gatos**  
**Portfolio Allocation & Treasurer's Fund Balances**  
**December 31, 2021**

	Month	YTD
Fund Balances - Beginning of Month/Period	\$61,676,906.80	\$67,951,235.09
Receipts	7,383,579.87	31,660,151.98
Disbursements	(8,653,130.13)	(39,204,030.53)
Fund Balances - End of Month/Period	<u>\$60,407,356.54</u>	<u>\$60,407,356.54</u>

<u>Portfolio Allocation:</u>	% of Portfolio	Max. % Or \$ Allowed Per State Law or Policy
BNY MM	\$247,510.43	0.45%
US Treasury Notes	\$7,767,865.09	14.08%
Government Agency Debenture Notes	\$23,905,158.13	43.33%
Corporate Medium Term Bonds	\$14,350,644.01	26.01%
Local Agency Investment Fund	\$8,895,275.07	16.12%
Subtotal - Investments	<u>55,166,452.73</u>	100.00%
Reconciled Demand Deposit Balances	<u>5,240,903.81</u>	
Total Treasurer's Fund	<u>\$60,407,356.54</u>	



**Town of Los Gatos**  
**Non-Treasury Restricted Fund Balances**  
**December 31, 2021**

	Beginning Balance	DEC 21 Deposits Realized Gain/Adj.	DEC 21 Interest/ Earnings	DEC 21 Withdrawals	Ending Balance	
Non-Treasury Funds:						
Cert. of Participation 2002 Series A Reserve Fund	686,302.87		\$ 5.70		\$ 686,308.57	Note 1
Cert. Of Participation 2010 Ser A Lease Pymt Fund	21,141.41		0.25		\$ 21,141.66	Note 1
Cert. of Participation 2002 Lease Payment Fund	22.41		0.00		\$ 22.41	Note 1
Cert. of Participation 2010 Series Reserve Fund	1,277,105.66		10.47		1,277,116.13	Note 2
Total Restricted Funds:	<u>\$ 1,984,572.35</u>	<u>\$ -</u>	<u>\$ 16.42</u>	<u>\$ -</u>	<u>\$ 1,984,588.77</u>	
CEPPT IRS Section 115 Trust	0.00	0.00	0.00	0.00	0.00	
Grand Total COP's and CEPPT Trust	<u>\$ 1,984,572.35</u>	<u>\$ -</u>	<u>\$ 16.42</u>	<u>\$ -</u>	<u>\$ 1,984,588.77</u>	

These accounts are not part of the Treasurer's fund balances reported elsewhere in this report, as they are for separate and distinct entities.

**Note 1:** The three original funds for the Certificates of Participation 2002 Series A consist of construction funds which will be expended over the next few years, reserve funds which will guarantee the payment of lease payments, and a third fund for the disbursement of lease payments and initial delivery costs.

**Note 2:** The 2010 COP Funds are all for the Library construction, reserves to guarantee lease payments, and a lease payment fund for the life of the COP issue. The COI fund was closed in September 2010.

**Note 3:** The CEPPT Section IRS Section 115 Trust was established as an irrevocable trust dedicated to accumulate resources to fund the Town's unfunded liabilities related to pension and other p

**Town of Los Gatos  
Statement of Interest Earned  
December 31, 2021**

Interest by Month

July 2021	\$57,076.80
August 2021	56,600.18
September 2021	54,523.00
October 2021	54,951.68
November 2021	51,445.84
December 2021	55,030.55
January 2022	
February 2022	
March 2022	
April 20202	
May 2022	
June 2022	
	<hr/>
	<u>\$329,628.05</u>



*Item 2.*

Matured Assets													
US Treasury	912828Y20	Gov. Agency Debenture	1/31/2020	1,000,000.00	1,016,601.56	7/15/2021	1.47%	\$	38,221.16	\$	20,977.00	\$	609.80
Wells Fargo	94988J6A0	Corporate Bond	6/24/2020	1,350,000.00	1,370,749.50	9/9/2021	0.80%	\$	32,468.18	\$	10,139.92	\$	1,940.52
FNMA	3135G0Q89	Gov. Agency Debenture	2/10/2020	1,000,000.00	998,702.00	10/7/2021	1.38%	\$	22,802.08	\$	20,147.24	\$	3,941.85
FHLB	3130AABG2	US Treasury Note	4/15/2019	1,000,000.00	998,250.00	11/29/2021	2.34%	\$	49,166.67	\$	51,343.12	\$	9,670.58

\$ 16,162.75

\$ 329,628.05

### Market to Cost Position Report

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**Town of Los Gatos**  
**Summary Investment Information**  
**November 30, 2021**

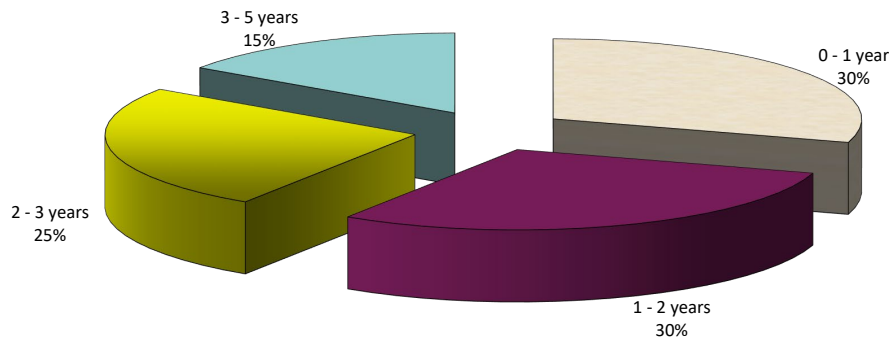
**Weighted Average YTM Portfolio Yield:** **1.21%** **Weighted Average Maturity (days)** **497**

	<u><b>This Month</b></u>	<u><b>Last Month</b></u>	<u><b>One year ago</b></u>
<b>Portfolio Balance</b>	\$61,676,887	\$59,763,609	\$60,767,876

**Benchmarks/ References:**

Town's Average Yield	1.21%	1.24%	1.62%
LAIF Yield for month	0.20%	0.20%	0.62%
3 mo. Treasury	0.05%	0.06%	0.08%
6 mo. Treasury	0.10%	0.06%	0.09%
2 yr. Treasury	0.52%	0.50%	0.15%
5 yr. Treasury (most recent)	1.15%	1.19%	0.36%
10 Yr. Treasury	1.45%	1.56%	0.84%

**Portfolio Maturity Profile**



**Compliance:** The Town's investments are in compliance with the Town's investment policy dated September 21, 2021 and also in compliance with the requirements of Section 53601 of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

**Town of Los Gatos  
Portfolio Allocation & Treasurer's Fund Balances  
November 30, 2021**

	<u>Month</u>	<u>YTD</u>
Fund Balances - Beginning of Month/Period	\$59,763,608.84	\$67,951,235.09
Receipts	4,960,966.94	24,276,572.11
Disbursements	<u>(3,047,688.98)</u>	<u>(30,550,920.40)</u>
Fund Balances - End of Month/Period	<u>\$61,676,886.80</u>	<u>\$61,676,886.80</u>

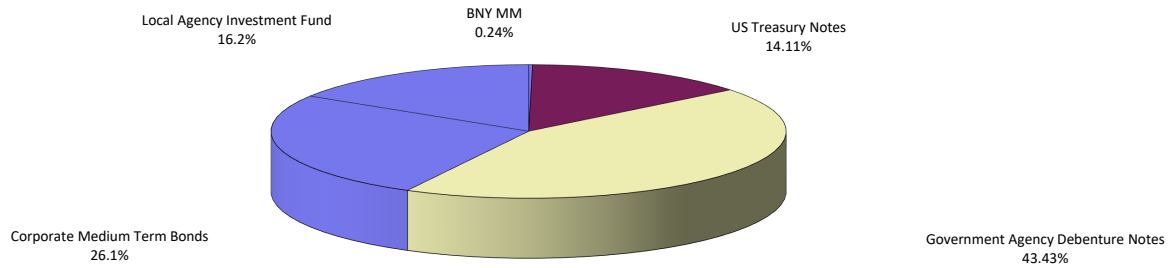
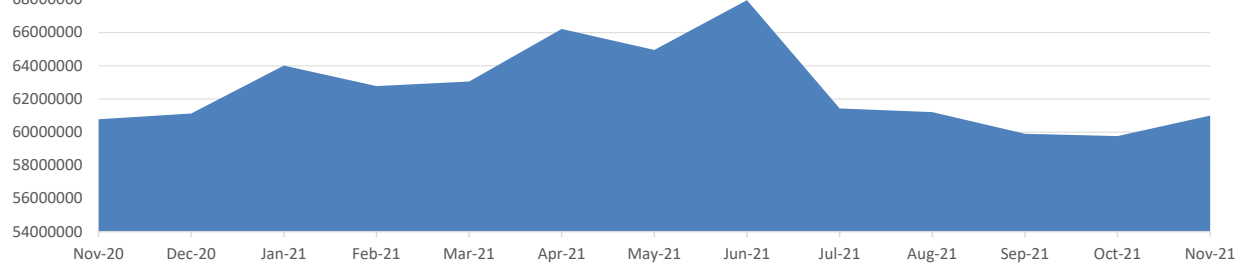
Portfolio Allocation:

% of Portfolio

Max. % Or \$ Allowed Per State Law or Policy

BNY MM	\$130,170.95	0.24%	20% of Town Portfolio
US Treasury Notes	\$7,767,865.09	14.11%	No Max. on US Treasuries
Government Agency Debenture Notes	\$23,905,158.13	43.43%	No Max. on Non-Mortgage Backed
Corporate Medium Term Bonds	\$14,350,644.01	26.07%	30% of Town Portfolio
Local Agency Investment Fund	<u>\$8,895,275.07</u>	<u>16.16%</u>	<u>\$75 M per State Law</u>
Subtotal - Investments	55,049,113.25	100.00%	
Reconciled Demand Deposit Balances	<u>6,627,773.55</u>		

Total Treasurer's Fund

\$61,676,886.80**Portfolio Investment Allocation****Treasurer's Fund Balances**

**Town of Los Gatos**  
**Non-Treasury Restricted Fund Balances**  
**November 30, 2021**

	Beginning Balance	NOV 21 Deposits Realized Gain/Adj.	NOV 21 Interest/ Earnings	NOV 21 Withdrawals	Ending Balance	
Non-Treasury Funds:						
Cert. of Participation 2002 Series A Reserve Fund	686,296.98		\$ 5.89		\$ 686,302.87	Note 1
Cert. Of Participation 2010 Ser A Lease Pymt Fund	21,141.15		0.26		\$ 21,141.41	Note 1
Cert. of Participation 2002 Lease Payment Fund	22.41		0.00		\$ 22.41	Note 1
Cert. of Participation 2010 Series Reserve Fund	1,277,094.81		10.85		1,277,105.66	Note 2
Total Restricted Funds:	<u>\$ 1,984,555.35</u>	<u>\$ -</u>	<u>\$ 17.00</u>	<u>\$ -</u>	<u>\$ 1,984,572.35</u>	
CEPPT IRS Section 115 Trust	0.00	0.00	0.00	0.00	0.00	
Grand Total COP's and CEPPT Trust	<u>\$ 1,984,555.35</u>	<u>\$ -</u>	<u>\$ 17.00</u>	<u>\$ -</u>	<u>\$ 1,984,572.35</u>	

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**Town of Los Gatos  
Statement of Interest Earned  
November 30, 2021**

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February 2022	
March 2022	
April 20202	
May 2022	
June 2022	
	<hr/>
	<u><u>\$274,597.50</u></u>

# Town of Los Gatos Investment Schedule March 2021

Item 2.

Institution	CUSIP #	Security	Deposit Date	Par Value	Original Cost	Market Value	Purchased Interest	Maturity Date or Call Date	Yield to Maturity or Call	Interest Received to Date	Interest Earned Prior Yrs.	Interest Earned Current FY	Days to Maturity
Treasury	91282CAP6	US Treasury Note	6/30/2021	1,000,000.00	995,390.63	992,656.25		10/15/2023	0.33%	\$ 365.44	\$ -	\$ 1,366.55	684
Toyota Motor Credit	89236TDP7	Corporate Bond	05/20/19	1,100,000.00	1,102,596.00	1,102,601.95		1/11/2022	2.50%	\$ 61,251.67	\$ 58,418.45	\$ 11,577.75	42
Toyota Motor Credit	89236THA6	Corporate Bond	4/12/2021	500,000.00	510,580.00	504,921.51		8/25/2023	0.45%	\$ 2,493.75	\$ 494.69	\$ 958.08	633
American Express Credit Corp.	0258M0EG0	Corporate Bond	4/5/2021	1,000,000.00	1,020,330.00	1,003,800.48		1/31/2022	0.46%	\$ 11,100.00	\$ 553.07	\$ 983.95	62
FFCB	3133EKMx1	Gov. Agency Debenture	8/2/2019	1,000,000.00	1,014,400.00	1,034,810.88		2/23/2024	1.90%	\$ 51,475.83	\$ 36,611.80	\$ 8,025.22	815
FFCB	3133EMBE1	Gov. Agency Debenture	10/8/2020	1,600,000.00	1,598,000.00	1,585,088.56		3/28/2024	0.34%	\$ 4,653.34	\$ 3,903.24	\$ 2,253.57	849
FFCB	3133EMCQ3	Gov. Agency Debenture	10/16/2020	2,000,000.00	1,998,000.00	1,988,598.06		10/13/2024	0.31%	\$ 5,553.33	\$ 4,295.55	\$ 2,557.27	1048
BankAmerica Corp	06051GHC6	Corporate Bond	10/9/2020	1,300,000.00	1,366,287.00	1,329,288.88		12/20/2023	0.66%	\$ 27,227.92	\$ 13,250.31	\$ 7,679.16	750
IBM	459200HG9	Corporate Bond	8/8/2019	1,000,000.00	995,010.00	1,009,153.93		8/1/2022	2.05%	\$ 37,135.42	\$ 38,718.82	\$ 8,560.66	244
IBM	459200YF8	Corporate Bond	3/25/2021	1,000,000.00	1,071,040.00	1,046,336.71		5/15/2024	0.71%	\$ 19,166.67	\$ 1,964.86	\$ 3,099.21	897
US Treasury	912828R28	US Treasury Note	7/2/2019	500,000.00	497,246.09	508,789.06		4/30/2023	1.77%	\$ 18,921.54	\$ 17,663.79	\$ 3,707.22	516
Freddie Mac	3137EAEV5	Gov. Agency Debenture	7/19/2019	2,000,000.00	2,072,358.00	2,071,625.82		6/19/2023	1.79%	\$ 105,416.67	\$ 71,285.65	\$ 15,318.40	566
FFCB	3133EKFV0	Gov. Agency Debenture	7/22/2019	1,000,000.00	999,630.00	1,018,211.21		1/17/2023	1.89%	\$ 37,239.58	\$ 36,626.98	\$ 7,903.99	413
Treasury	912828L57	US Treasury Note	7/22/2019	1,200,000.00	1,197,988.40	1,215,281.26		9/30/2022	2.09%	\$ 46,016.39	\$ 42,014.96	\$ 9,066.70	304
Freddie Mac	3137EADB2	Gov. Agency Debenture	1/17/2020	2,100,000.00	2,132,039.70	2,105,616.68		1/13/2022	2.12%	\$ 74,258.34	\$ 49,063.54	\$ 14,163.63	44
US Treasury	91282CAW1	Gov. Agency Debenture	7/15/2021	1,200,000.00	1,199,437.50	1,192,968.74		11/15/2023	0.27%	\$ 1,002.72	\$ -	\$ 1,225.25	715
American Honda	02665WCZ2	Corporate Bond	11/27/2019	1,000,000.00	1,012,410.01	1,031,880.71		6/27/2024	2.12%	\$ 48,733.34	\$ 33,895.56	\$ 8,926.03	940
JP Morgan Chase	46625HJE1	Gov. Agency Debenture	2/11/2020	900,000.00	934,587.00	920,310.25		9/23/2022	1.74%	\$ 47,287.50	\$ 22,179.72	\$ 6,719.80	297
Honeywell Int'l.	438516BW5	Corporate Bond	11/20/2019	1,000,000.00	1,014,660.00	1,034,626.13		7/15/2024	1.64%	\$ 39,483.33	\$ 31,978.44	\$ 8,320.92	958
Caterpillar Financial Serv	14913Q2V0	Corporate Bond	2/23/2021	1,000,000.00	1,077,370.00	1,040,758.26		5/17/2024	0.44%	\$ 20,900.00	\$ 1,582.27	\$ 1,906.19	899
FNMA	3135G0V75	Gov. Agency Debenture	10/17/2019	1,100,000.00	1,105,833.30	1,127,678.42		7/2/2024	1.63%	\$ 33,206.25	\$ 30,694.63	\$ 7,550.29	945
US Bancorp	91159HHV5	Corporate Bond	12/24/2019	1,000,000.00	1,049,040.00	1,050,360.32		1/5/2024	2.12%	\$ 54,468.75	\$ 32,781.93	\$ 9,053.49	766
FHLB	3133834G3	Gov. Agency Debenture	3/11/2021	1,400,000.00	1,460,522.00	1,435,766.28		6/9/2023	0.19%	\$ 7,272.22	\$ 854.65	\$ 1,178.03	556
FFCB	3133EKKQ7	Gov. Agency Debenture	10/21/2019	1,000,000.00	1,019,780.00	1,033,877.53		9/10/2024	1.66%	\$ 39,231.11	\$ 28,373.17	\$ 7,024.42	1015
PNC Financial	693476BN2	Corporate Bond	8/15/2019	1,000,000.00	1,029,280.00	1,004,983.58		2/6/2022	2.12%	\$ 68,108.33	\$ 39,793.76	\$ 8,888.24	68
FHLB	313379Q69	Gov. Agency Debenture	7/22/2019	1,000,000.00	1,006,960.00	1,010,707.64		6/10/2022	1.87%	\$ 40,020.83	\$ 36,595.58	\$ 7,897.21	192
FNMA	3135G0V59	Gov. Agency Debenture	11/27/2019	1,540,000.00	1,562,924.44	1,552,097.62		4/12/2022	1.61%	\$ 64,968.75	\$ 39,792.92	\$ 10,479.03	133
JP Morgan Chase	46625HJT8	Corporate Bond	9/23/2019	1,400,000.00	1,485,414.00	1,486,293.42		2/1/2024	2.39%	\$ 100,663.89	\$ 61,355.87	\$ 14,531.65	793
American Honda	02665WDH1	Corporate Bond	2/14/2020	600,000.00	603,756.00	609,946.00		5/10/2023	1.75%	\$ 22,295.00	\$ 14,494.97	\$ 4,417.79	526
Treasury	912828V23	US Treasury Note	11/29/2021	1,000,000.00	1,032,933.04	1,034,414.06	9,293.48	12/31/2023	0.66%	\$ (9,293.48)	\$ -	\$ 18.42	761
Treasury	91282CBE0_2	Gov. Agency Debenture	10/7/2021	1,000,000.00	994,768.98	989,765.62	285.33	1/15/2024	0.36%	\$ (285.33)	\$ -	\$ 525.26	776
FHLB	3130ALH98	Gov. Agency Debenture	2/26/2021	1,000,000.00	997,610.00	993,488.70		2/26/2024	0.33%	\$ 1,250.00	\$ 1,119.96	\$ 1,381.89	818
Treasury	912828M80	US Treasury Note	7/22/2019	1,000,000.00	1,006,175.23	1,017,265.62		11/30/2022	1.81%	\$ 47,158.47	\$ 35,281.07	\$ 7,613.55	365
Treasury	912828U57	US Treasury Note	7/31/2019	1,000,000.00	1,011,875.00	1,031,132.81		11/30/2023	1.84%	\$ 49,583.33	\$ 35,502.32	\$ 7,759.79	730
Treasury	912828X70	US Treasury Note	12/30/2019	1,000,000.00	1,010,589.29	1,031,445.31		4/30/2024	1.75%	\$ 40,703.30	\$ 29,364.36	\$ 8,198.44	882
Treasury	912828XT2	US Treasury Note	10/31/2019	1,000,000.00	1,015,667.41	1,031,875.00		5/31/2024	1.64%	\$ 41,639.34	\$ 27,624.64	\$ 6,951.59	913
American Honda	02665WCQ2	Corporate Bond	9/14/2021	950,000.00	1,012,871.00	999,245.94		10/10/2023	0.41%	\$ 2,487.15	\$ -	\$ 861.37	679
FFCB	3133EJ3Q0	Gov. Agency Debenture	8/28/2019	1,500,000.00	1,587,503.75	1,569,566.57		12/21/2023	2.12%	\$ 78,223.96	\$ 42,086.02	\$ 9,582.08	751
Freddie Mac	3133EKKT2	Gov. Agency Debenture	6/24/2019	1,550,000.00	1,573,188.00	1,586,040.09		2/8/2023	1.82%	\$ 82,731.25	\$ 57,521.06	\$ 11,941.28	435
Treasury	91282CBE0	Gov. Agency Debenture	9/15/2021	650,000.00	647,615.46	643,347.65	136.88	1/15/2024	0.28%	\$ (136.88)	\$ -	\$ 381.88	776
Subtotal				\$ 45,090,000.00	\$ 46,023,667.23	\$ 45,976,623.51	\$ 9,715.69			\$ 1,423,979.02	\$ 977,738.58	\$ 250,555.27	
BNY MM		Money Market			130,170.95	130,170.95			0.00%				1
LAIF		State Investment Pool			8,895,275.07	8,895,275.07			0.20%			7,879.48	1
					\$55,049,113.25	\$55,002,069.53				\$ 1,423,979.02	\$ 977,738.58	\$ 258,434.75	

Matured Assets													
US Treasury	912828Y20	Gov. Agency Debenture	1/31/2020	1,000,000.00	1,016,601.56			7/15/2021	1.47%	\$ 38,221.16	\$ 20,977.00	\$ 609.80	
Wells Fargo	94988J6A0	Corporate Bond	6/24/2020	1,350,000.00	1,370,749.50			9/9/2021	0.80%	\$ 32,468.18	\$ 10,139.92	\$ 1,940.52	
FNMA	3135G0Q89	Gov. Agency Debenture	2/10/2020	1,000,000.00	998,702.00			10/7/2021	1.38%	\$ 22,802.08	\$ 20,147.24	\$ 3,941.85	
FHLB	3130AABG2	US Treasury Note	4/15/2019	1,000,000.00	988,250.00			11/29/2021	2.34%	\$ 49,166.67	\$ 51,343.12	\$ 9,670.58	

Total Investments "Matured"	\$ 16,162.75
Total Interest FY 20_21 Matured and Current	\$ 274,597.50

Maturity Profile		Amount
0-1 year		\$21,013,336.79
1-2 years		\$10,924,979.22
2-3 years		\$23,110,797.24
3-5 years		\$ -
		\$55,049,113.25

Market to Cost Position Report		Amortized Cost
Institution		\$46,023,667.23
BNY Assets		130,170.95
BNY MM		8,895,275.07
LAIF		\$55,049,113.25

**Town of Los Gatos**  
**Summary Investment Information**  
**October 31, 2021**

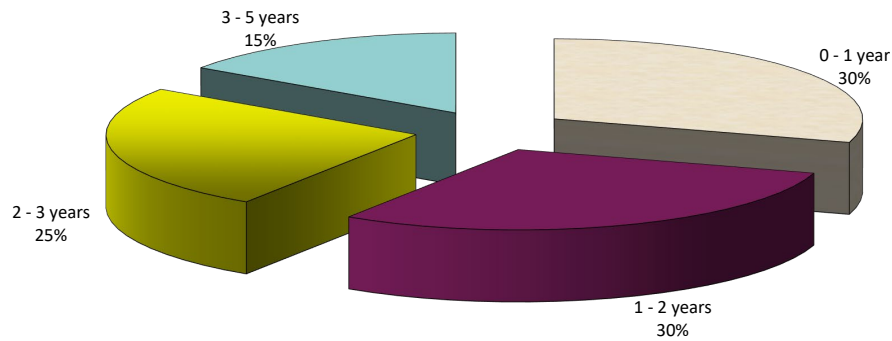
**Weighted Average YTM Portfolio Yield:** **1.24%** **Weighted Average Maturity (days)** **509**

	<u><b>This Month</b></u>	<u><b>Last Month</b></u>	<u><b>One year ago</b></u>
<b>Portfolio Balance</b>	\$59,763,609	\$59,898,959	\$58,591,198

**Benchmarks/ References:**

Town's Average Yield	1.24%	1.27%	1.63%
LAIF Yield for month	0.20%	0.21%	0.62%
3 mo. Treasury	0.06%	0.04%	0.09%
6 mo. Treasury	0.06%	0.05%	0.10%
2 yr. Treasury	0.50%	0.28%	0.16%
5 yr. Treasury (most recent)	1.19%	0.97%	0.39%
10 Yr. Treasury	1.56%	1.49%	0.88%

**Portfolio Maturity Profile**

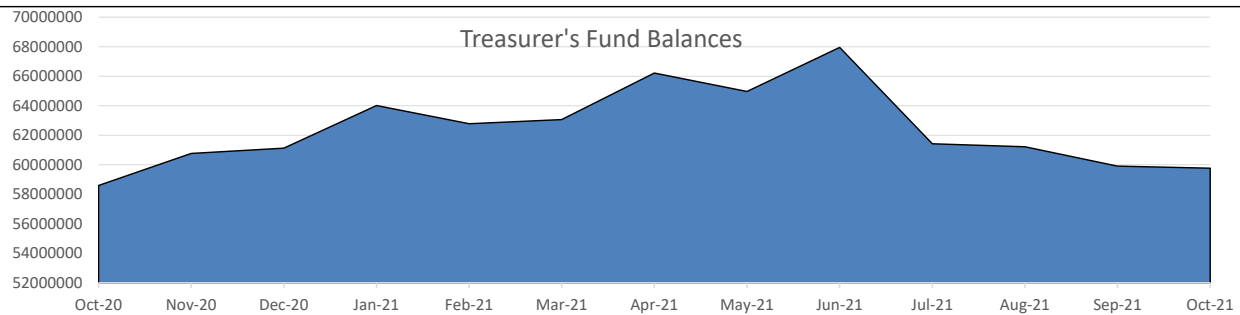
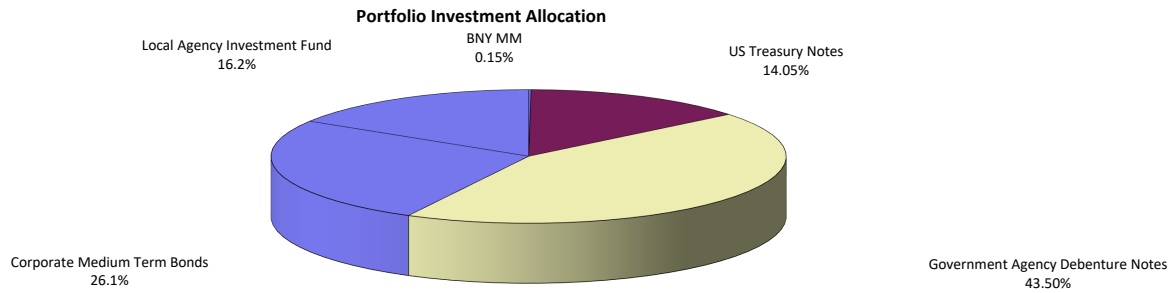


**Compliance:** The Town's investments are in compliance with the Town's investment policy dated September 21, 2021 and also in compliance with the requirements of Section 53601 of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

**Town of Los Gatos**  
**Portfolio Allocation & Treasurer's Fund Balances**  
**October 31, 2021**

	Month	YTD
Fund Balances - Beginning of Month/Period	\$59,898,959.34	\$67,951,235.09
Receipts	3,596,148.01	19,315,605.17
Disbursements	(3,731,498.51)	(27,503,231.42)
Fund Balances - End of Month/Period	<u>\$59,763,608.84</u>	<u>\$59,763,608.84</u>

<u>Portfolio Allocation:</u>	% of Portfolio	<u>Max. % Or \$ Allowed Per State Law or Policy</u>
BNY MM	\$81,734.42 0.15%	20% of Town Portfolio
US Treasury Notes	\$7,723,182.05 14.05%	No Max. on US Treasuries
Government Agency Debenture Notes	\$23,905,158.13 43.50%	No Max. on Non-Mortgage Backed
Corporate Medium Term Bonds	\$14,350,644.01 26.11%	30% of Town Portfolio
Local Agency Investment Fund	\$8,895,275.07 16.19%	\$75 M per State Law
Subtotal - Investments	<u>54,955,993.68</u> 100.00%	
Reconciled Demand Deposit Balances	<u>4,807,615.16</u>	
Total Treasurer's Fund	<u>\$59,763,608.84</u>	





**Town of Los Gatos**  
**Non-Treasury Restricted Fund Balances**  
**October 31, 2021**

	Beginning Balance	OCT 21 Deposits Realized Gain/Adj.	OCT 21 Interest/ Earnings	OCT 21 Withdrawals	Ending Balance	
Non-Treasury Funds:						
Cert. of Participation 2002 Series A Reserve Fund	\$ 686,291.28		\$ 5.70		\$ 686,296.98	Note 1
Cert. Of Participation 2010 Ser A Lease Pymt Fund	21,140.90		0.25		\$ 21,141.15	Note 1
Cert. of Participation 2002 Lease Payment Fund	22.41		0.00		\$ 22.41	Note 1
Cert. of Participation 2010 Series Reserve Fund	1,277,084.31		10.50		1,277,094.81	Note 2
Total Restricted Funds:	<u>\$ 1,984,538.90</u>	<u>\$ -</u>	<u>\$ 16.45</u>	<u>\$ -</u>	<u>\$ 1,984,555.35</u>	
CEPPT IRS Section 115 Trust	0.00	0.00	0.00	0.00	0.00	
Grand Total COP's and CEPPT Trust	<u>\$ 1,984,538.90</u>	<u>\$ -</u>	<u>\$ 16.45</u>	<u>\$ -</u>	<u>\$ 1,984,555.35</u>	

These accounts are not part of the Treasurer's fund balances reported elsewhere in this report, as they are for separate and distinct entities.

**Note 1:** The three original funds for the Certificates of Participation 2002 Series A consist of construction funds which will be expended over the next few years, reserve funds which will guarantee the payment of lease payments, and a third fund for the disbursement of lease payments and initial delivery costs.

**Note 2:** The 2010 COP Funds are all for the Library construction, reserves to guarantee lease payments, and a lease payment fund for the life of the COP issue. The COI fund was closed in September 2010.

**Note 3:** The CEPPT Section IRS Section 115 Trust was established as an irrevocable trust dedicated to accumulate resources to fund the Town's unfunded liabilities related to pension and other p

**Town of Los Gatos  
Statement of Interest Earned  
October 31, 2021**

Interest by Month

July 2021	\$57,076.80
August 2021	56,600.18
September 2021	54,523.00
October 2021	54,951.68
November 2021	
December 2021	
January 2022	
February 2022	
March 2022	
April 20202	
May 2022	
June 2022	
	<hr/>
	<u><u>\$223,151.66</u></u>

# Town of Los Gatos Investment Schedule March 2021

Item 2.

Institution	CUSIP #	Security	Deposit Date	Par Value	Original Cost	Market Value	Purchased Interest	Maturity Date or Call Date	Yield to Maturity or Call	Interest Received to Date	Interest Earned Prior Yrs.	Interest Earned Current FY	Days to Maturity
Treasury	91282CAP6	US Treasury Note	6/30/2021	1,000,000.00	995,390.63	992,929.69		10/15/2023	0.33%	\$ 365.44	\$ -	\$ 1,098.60	714
Toyota Motor Credit	89236TDP7	Corporate Bond	05/20/19	1,100,000.00	1,102,596.00	1,105,145.45		1/11/2022	2.50%	\$ 61,251.67	\$ 58,418.45	\$ 9,307.60	72
Toyota Motor Credit	89236THA6	Corporate Bond	4/12/2021	500,000.00	510,580.00	506,516.66		8/25/2023	0.45%	\$ 2,493.75	\$ 494.69	\$ 770.22	663
American Express Credit Corp.	0258M0EG0	Corporate Bond	4/5/2021	1,000,000.00	1,020,330.00	1,005,872.00		1/31/2022	0.46%	\$ 11,100.00	\$ 553.07	\$ 791.02	92
FFCB	3133EKM1	Gov. Agency Debenture	8/2/2019	1,000,000.00	1,014,400.00	1,036,379.76		2/23/2024	1.90%	\$ 51,475.83	\$ 36,611.80	\$ 6,451.65	845
FFCB	3133EMBE1	Gov. Agency Debenture	10/8/2020	1,600,000.00	1,598,000.00	1,591,582.45		3/28/2024	0.34%	\$ 4,653.34	\$ 3,903.24	\$ 1,811.69	879
FFCB	3133EMCQ3	Gov. Agency Debenture	10/16/2020	2,000,000.00	1,998,000.00	1,996,824.14		10/13/2024	0.31%	\$ 5,553.33	\$ 4,295.55	\$ 2,055.85	1078
BankAmerica Corp	06051G1HC6	Corporate Bond	10/9/2020	1,300,000.00	1,366,287.00	1,334,031.84		12/20/2023	0.66%	\$ 27,227.92	\$ 13,250.31	\$ 6,173.44	780
IBM	459200HG9	Corporate Bond	8/8/2019	1,000,000.00	995,010.00	1,011,532.04		8/1/2022	2.05%	\$ 37,135.42	\$ 38,718.82	\$ 6,882.10	274
IBM	459200YF8	Corporate Bond	3/25/2021	1,000,000.00	1,071,040.00	1,052,161.97		5/15/2024	0.71%	\$ 4,166.67	\$ 1,964.86	\$ 2,491.52	927
US Treasury	912828R28	US Treasury Note	7/2/2019	500,000.00	497,246.09	509,511.72		4/30/2023	1.77%	\$ 18,921.54	\$ 17,663.79	\$ 2,980.31	546
Freddie Mac	3137EAE1	Gov. Agency Debenture	7/19/2019	2,000,000.00	2,072,358.00	2,074,223.74		6/19/2023	1.79%	\$ 105,416.67	\$ 71,285.65	\$ 12,314.80	596
FFCB	3133EKFV0	Gov. Agency Debenture	7/22/2019	1,000,000.00	999,630.00	1,019,546.95		1/17/2023	1.89%	\$ 37,239.58	\$ 36,626.98	\$ 6,354.19	443
Treasury	912828L57	US Treasury Note	7/22/2019	1,200,000.00	1,197,988.40	1,217,578.13		9/30/2022	2.09%	\$ 46,016.39	\$ 42,014.96	\$ 7,288.91	334
Freddie Mac	3137EADB2	Gov. Agency Debenture	1/17/2020	2,100,000.00	2,132,039.70	2,109,312.24		1/13/2022	2.12%	\$ 74,258.34	\$ 49,063.54	\$ 11,386.44	74
US Treasury	91282CAW1	Gov. Agency Debenture	7/15/2021	1,200,000.00	1,199,437.50	1,193,437.50	497.28	11/15/2023	0.27%	\$ (497.28)	\$ -	\$ 958.89	745
American Honda	02665WCZ2	Corporate Bond	11/27/2019	1,000,000.00	1,012,410.01	1,037,883.15		6/27/2024	2.12%	\$ 48,733.34	\$ 33,895.56	\$ 7,175.82	970
JP Morgan Chase	46625HJE1	Gov. Agency Debenture	2/11/2020	900,000.00	934,587.00	923,303.04		9/23/2022	1.74%	\$ 47,287.50	\$ 22,179.72	\$ 5,402.19	327
Honeywell Int'l.	438516BW5	Corporate Bond	11/20/2019	1,000,000.00	1,014,660.00	1,038,829.77		7/15/2024	1.64%	\$ 39,483.33	\$ 31,978.44	\$ 6,689.37	988
Caterpillar Financial Serv	14913Q2V0	Corporate Bond	2/23/2021	1,000,000.00	1,077,370.00	1,048,903.87		5/17/2024	0.44%	\$ 6,650.00	\$ 1,582.27	\$ 1,532.43	929
FNMA	3135G0V75	Gov. Agency Debenture	10/17/2019	1,100,000.00	1,105,833.30	1,130,642.50		7/2/2024	1.63%	\$ 33,206.25	\$ 30,694.63	\$ 6,069.84	975
US Bancorp	91159HHV5	Corporate Bond	12/24/2019	1,000,000.00	1,049,040.00	1,055,164.04		1/5/2024	2.12%	\$ 54,468.75	\$ 32,781.93	\$ 7,278.30	796
FHLB	3133834G3	Gov. Agency Debenture	3/11/2021	1,400,000.00	1,460,522.00	1,437,785.72		6/9/2023	0.19%	\$ 7,272.22	\$ 854.65	\$ 947.04	586
FFCB	3133EKQA7	Gov. Agency Debenture	10/21/2019	1,000,000.00	1,019,780.00	1,036,831.81		9/10/2024	1.66%	\$ 39,231.11	\$ 28,373.17	\$ 5,647.09	1045
PNC Financial	693476BN2	Corporate Bond	8/15/2019	1,000,000.00	1,029,280.00	1,007,772.38		2/6/2022	2.12%	\$ 68,108.33	\$ 39,793.76	\$ 7,145.45	98
FHLB	313379Q69	Gov. Agency Debenture	7/22/2019	1,000,000.00	1,006,960.00	1,012,485.75		6/10/2022	1.87%	\$ 40,020.83	\$ 36,595.58	\$ 6,348.74	222
FNMA	3135G0V59	Gov. Agency Debenture	11/27/2019	1,540,000.00	1,562,924.44	1,554,883.04		4/12/2022	1.61%	\$ 64,968.75	\$ 39,792.92	\$ 8,424.32	163
JP Morgan Chase	46625HJT8	Corporate Bond	9/23/2019	1,400,000.00	1,485,414.00	1,493,954.00		2/1/2024	2.39%	\$ 100,663.89	\$ 61,355.87	\$ 11,682.31	823
American Honda	02665WDH1	Corporate Bond	2/14/2020	600,000.00	603,756.00	612,327.86		5/10/2023	1.75%	\$ 16,445.00	\$ 14,494.97	\$ 3,551.56	556
FHLB	3130AABG2	US Treasury Note	4/15/2019	1,000,000.00	988,250.00	1,001,434.00		11/29/2021	2.34%	\$ 39,791.67	\$ 51,343.12	\$ 7,825.53	29
Treasury	91282CBE0_2	Gov. Agency Debenture	10/7/2021	1,000,000.00	994,768.98	990,117.19	285.33	1/15/2024	0.36%	\$ (285.33)	\$ -	\$ 233.45	806
FHLB	3130ALH98	Gov. Agency Debenture	2/26/2021	1,000,000.00	997,610.00	994,511.30		2/26/2024	0.33%	\$ 1,250.00	\$ 1,119.96	\$ 1,110.93	848
Treasury	912828M80	US Treasury Note	7/22/2019	1,000,000.00	1,006,175.23	1,019,726.56		11/30/2022	1.81%	\$ 37,158.47	\$ 35,281.07	\$ 6,120.69	395
Treasury	912828U57	US Treasury Note	7/31/2019	1,000,000.00	1,011,875.00	1,032,890.62		11/30/2023	1.84%	\$ 38,958.33	\$ 35,502.32	\$ 6,238.26	760
Treasury	912828X70	US Treasury Note	12/30/2019	1,000,000.00	1,010,589.29	1,033,398.44		4/30/2024	1.75%	\$ 40,703.30	\$ 29,364.36	\$ 6,590.90	912
Treasury	912828XT2	US Treasury Note	10/31/2019	1,000,000.00	1,015,667.41	1,033,789.06		5/31/2024	1.64%	\$ 31,639.34	\$ 27,624.64	\$ 5,588.54	943
American Honda	02665WCQ2	Corporate Bond	9/14/2021	950,000.00	1,012,871.00	1,003,772.68		10/10/2023	0.41%	\$ 2,487.15	\$ -	\$ 525.77	709
FFCB	3133EJ3Q0	Gov. Agency Debenture	8/28/2019	1,500,000.00	1,587,503.75	1,574,275.65		12/21/2023	2.12%	\$ 78,223.96	\$ 42,086.02	\$ 7,703.24	781
Freddie Mac	3133EKKT2	Gov. Agency Debenture	6/24/2019	1,550,000.00	1,573,188.00	1,588,653.34		2/8/2023	1.82%	\$ 82,731.25	\$ 57,521.06	\$ 9,599.85	465
Treasury	91282CBE0	Gov. Agency Debenture	9/15/2021	650,000.00	647,615.46	643,576.17	136.88	1/15/2024	0.28%	\$ (136.88)	\$ -	\$ 231.14	806
Subtotal				\$ 45,090,000.00	\$ 45,978,984.19	\$ 46,063,498.22	\$ 919.49						
BNY MM					81,734.42	81,734.42			0.00%				1
LAIF					8,895,275.07	8,895,275.07			0.20%			7,879.48	1
					\$54,955,993.68	\$55,040,507.71				\$ 1,405,839.17	\$ 1,029,081.71	\$ 216,659.49	
<u>Matured Assets</u>													
US Treasury	912828Y20	Gov. Agency Debenture	1/31/2020	1,000,000.00	1,016,601.56			7/15/2021	1.47%	\$ 38,221.16	\$ 20,977.00	\$ 609.80	0
Wells Fargo	94988J6A0	Corporate Bond	6/24/2020	1,350,000.00	1,370,749.50			9/9/2021	0.80%	\$ 32,468.18	\$ 10,139.92	\$ 1,940.52	0
FNMA	3135G0Q89	Gov. Agency Debenture	2/10/2020	1,000,000.00	998,702.00			10/7/2021	1.38%	\$ 22,802.08	\$ 20,147.24	\$ 3,941.85	0

Total Investments "Matured"	\$ 6,492.17
Total Interest FY 20_21 Matured and Current	223,151.66

Maturity Profile	Amount
0-1 year	\$20,946,975.03
1-2 years	\$10,731,716.95
2-3 years	\$23,277,301.70
3-5 years	\$ -
	\$54,955,993.68

## Market to Cost Position Report

Institution	Amortized Cost
BNY Assets	\$45,978,984.19
BNY MM	81,734.42
LAIF	8,895,275.07
	\$54,955,993.68

## Town of Los Gatos

## Insight ESG Ratings as of December 31, 2021

Security Description	Maturity Date	Par/Shares	Moody Rating	S&P Rating	Insight ESG Rating	Environment	Social	Governance
TOYOTA MOTOR CREDIT CORP 2.6% 11JAN2022	1/11/2022	\$ 1,100,000	A1	A+	3	3	3	4
AMERICAN EXPRESS CREDIT 2.7% 03MAR2022 (CALLABLE 31JAN22)	3/3/2022	\$ 1,000,000	A2	A-	2	1	2	3
PNC FINANCIAL SERVICES 3.3% 08MAR2022 (CALLABLE 06FEB22)	3/8/2022	\$ 1,000,000	A2	A	2	2	3	3
IBM CORP 1.875% 01AUG2022	8/1/2022	\$ 1,000,000	A3	A-	3	1	3	5
JPMORGAN CHASE & CO 3.25% 23SEP2022	9/23/2022	\$ 900,000	A2	A-	3	1	3	4
AMERICAN HONDA FINANCE 1.95% 10MAY2023	5/10/2023	\$ 600,000	A3	A-	3	1	4	3
TOYOTA MOTOR CREDIT CORP 1.35% 25AUG2023	8/25/2023	\$ 500,000	A1	A+	3	3	3	4
AMERICAN HONDA FINANCE 3.625% 10OCT2023	10/10/2023	\$ 950,000	A3	A-	3	1	4	3
BANK OF AMERICA CORP 3.004% 20DEC2023 (CALLABLE 20DEC22)	12/20/2023	\$ 1,300,000	A2	A+	3	2	4	4
JPMORGAN CHASE & CO 3.875% 01FEB2024	2/1/2024	\$ 1,400,000	A2	A-	3	1	3	4
US BANCORP 3.375% 05FEB2024 (CALLABLE 05JAN24)	2/5/2024	\$ 1,000,000	A2	A+	3	2	4	4
IBM CORP 3.0% 15MAY2024	5/15/2024	\$ 1,000,000	A3	A-	3	1	3	5
CATERPILLAR FIN SERVICES 2.85% 17MAY24	5/17/2024	\$ 1,000,000	A2	A	3	3	3	4
AMERICAN HONDA FINANCE 2.4% 27JUN2024	6/27/2024	\$ 1,000,000	A3	A-	3	1	4	3
HONEYWELL INTERNATIONAL 2.3% 15AUG2024 (CALLABLE 15JUL24)	8/15/2024	\$ 1,000,000	A2	A	4	4	5	3
<b>Total/Average</b>		<b>\$ 14,750,000</b>			<b>2.9</b>	<b>1.6</b>	<b>3.3</b>	<b>3.8</b>

\*ESG ratings are from 1 to 5, with 1 as the highest rating and 5 as the lowest. All ratings are weighted by industry rankings, based on the importance of the category within the individual industry.



**TOWN OF LOS GATOS  
FINANCE COMMISSION REPORT**

MEETING DATE: 02/14/2022

ITEM NO: 3

Item 3.

DATE: February 2, 2022  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Approve the Revised 2022 Commission Workplan

**RECOMMENDATION:**

Approve the revised 2022 Commission Workplan.

**DISCUSSION:**

On January 10, 2022, the Finance Commission reviewed the draft 2022 Workplan (Attachment 1) and provided input regarding the draft Workplan. Attachment 2 contains a revised 2022 Workplan based on Commission input.

**Attachments:**

1. Draft 2022 Workplan
2. Revised 2022 Workplan

**PREPARED BY:** Arn Andrews  
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, and Finance Director

# FINANCE COMMISSION 2022 WORKPLAN

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	TOPICS	TOPICS	TOPICS
FEBRUARY 2022	Mid-Year and Five-Year Forecast Review  Review Measure G Sales Tax Rev/Exp Draft Report	Procedure and Process Subcommittee Final Report	Key Performance Indicators  ARPA Update
MARCH 2022	CIP Review & Funding  Community Survey Results	Actuarial Valuations Updates	2 <sup>nd</sup> Qtr Investment Report  Performance & Account Summary Reports for CERBT and CEPPT
APRIL 2022	FY 2021/22 Initial Budget Discussion  Business License Modernization Report	Revenue and Expense Review  Review Potential Revenue Measures	
MAY 2022	FY 2021/22 Final Budget Discussion	Review Potential Revenue Measures	Key Performance Indicators
JUNE 2022	Report Out Council Budget Actions	Review Investment Policy	3 <sup>rd</sup> Qtr Investment Report

# FINANCE COMMISSION 2022 WORKPLAN

			Performance & Account Summary Reports for CERBT and CEPPT
JULY 2022			
AUGUST 2022	Pre-Audit Meeting		Key Performance Indicators
SEPTEMBER 2022			4 <sup>th</sup> Qtr Investment Report  Performance & Account Summary Reports for CERBT and CEPPT
OCTOBER 2022			
NOVEMBER 2022	ACFR Review		Key Performance Indicators
DECEMBER 2022	ACFR Review		1 <sup>st</sup> Qtr Investment Report  Performance & Account Summary Reports for CERBT and CEPPT
JANUARY 2023	Commission 2022 Workplan Review and 2023 Workplan Adoption	FTR Population Review	

# FINANCE COMMISSION 2022 WORKPLAN

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	TOPICS	TOPICS	TOPICS
FEBRUARY 2022	Mid-Year and Five-Year Forecast Review	Review Measure G Sales Tax Rev/Exp Draft Report (tentative)	ARPA/Infrastructure Update 2 <sup>nd</sup> Qtr Investment Report
MARCH 2022	CIP Review & Funding  Internal Service Funds	Procedure and Process Subcommittee Final Report Sale/Lease Town Properties	Commission KPI Update/Review  Performance & Account Summary Reports for CERBT and CEPPT
APRIL 2022	FY 2021/22 Initial Budget Discussion Community Survey Results	Review of Major Expenses Relative Spending vs Peers HDL Cannabis Report	Commission KPI Update/Review Actuarial Valuations Updates
MAY 2022	FY 2021/22 Final Budget Discussion  Business License Modernization Report	Review Potential Revenue Measures	3 <sup>rd</sup> Qtr Investment Report



# FINANCE COMMISSION 2022 WORKPLAN

JUNE 2022	Report Out Council Budget Actions Discuss Department Level KPIs	Review Investment Policy	Performance & Account Summary Reports for CERBT and CEPPT
JULY 2022	Budgeting and Fiscal Best Practices (subcommittee)		Commission KPI Review
AUGUST 2022	Pre-Audit Meeting		4 <sup>th</sup> Qtr Investment Report
SEPTEMBER 2022			Performance & Account Summary Reports for CERBT and CEPPT
OCTOBER 2022			
NOVEMBER 2022	ACFR Review		Key Performance Indicators
DECEMBER 2022	ACFR Review		1 <sup>st</sup> Qtr Investment Report Performance & Account Summary Reports for CERBT and CEPPT
JANUARY 2023	Commission 2022 Workplan Review and 2023 Workplan Adoption	FTR Population Review	



**TOWN OF LOS GATOS  
FINANCE COMMISSION REPORT**

MEETING DATE: 02/14/2022

Item 3.

ITEM NO: 3

DESK ITEM

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DATE: February 13, 2022  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Approve the Revised 2022 Commission Workplan

REMARKS:

Attachment 3 contains public comment received between 11:01 a.m. Friday, February 11 and 11:00 a.m. Monday, February 13, 2022.

Attachments previously received with the Staff Report:

1. Draft 2022 Workplan
2. Revised 2022 Workplan

Attachment received with this Desk Item:

3. Public Comment Received between 11:01 a.m. Friday, February 11 and 11:00 a.m. Monday, February 13, 2022.

PREPARED BY: Arn Andrews  
Assistant Town Manager

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Reviewed by: Town Manager, Town Attorney, and Finance Director

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**From:** Phil Koen

**Sent:** Sunday, February 13, 2022 11:40 AM

**To:** Rob Rennie <RRennie@losgatosca.gov>

**Cc:** Ron Dickel; Kyle Park; Laurel Prevetti <LPrevetti@losgatosca.gov>; Shelley Neis <sneis@losgatosca.gov>; Jak Van Nada; Rick Van Hoesen; David Weissman; Lee Fagot; Matthew Hudes <MHudes@losgatosca.gov>; Mary Badame <MBadame@losgatosca.gov>; Marico Sayoc <MSayoc@losgatosca.gov>; Maria Ristow <MRistow@losgatosca.gov>; Catherine Somers <catherine@losgatoschamber.com>

**Subject:** Item #3 - FC meeting

EXTERNAL SENDER

Hello Rob,

As you know the LGCA has been urging the TC to complete a FIA so the 20-year fiscal impact from the growth resulting from the land use decisions in the 2040 GP are fully understood. This is even more urgent given the dire warning in the FY 2022 mid-year budget message from the Town Manager which indicated there is a very real potential of a lack of operating revenues to cover projected cost increases, even before considering the 30% increase in population projected in the 2040 GP. It should also be pointed out a majority of surveyed voters agreed with our position on the importance of the Town completing a comprehensive FIA prior to the PC and TC evaluating the draft 2040 GP.

In reviewing the attached workplan, there is no mention of a FIA. Given the charter of the FC, it would be logical for this group to assist in the selection of a financial consultant to prepare a FIA, establishing the proper scope which should include examining the ability to pay down unfunded pension liabilities as well as funding long term capital needs and evaluating and advising the TC on the completeness of such report.

Not knowing if the TC has committed to completing a FIA, the LGCA wanted to again point out the importance of a FIA and to suggest that this be added to the FC workplan. The TC must direct the FC to be involved in a FIA since the Town Manager has been determined this matter to be a TC policy decision and not a FC decision. The LGCA obviously disagrees with the TM's view, and respectfully request the TC to take the appropriate action and direct the FC to take this matter up immediately.

Thank you.

Phil Koen

ATTACHMENT 3

# FINANCE COMMISSION 2022 WORKPLAN

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	TOPICS	TOPICS	TOPICS
FEBRUARY 2022	Mid-Year and Five-Year Forecast Review	Review Measure G Sales Tax Rev/Exp Draft Report (tentative)	ARPA/Infrastructure Update 2 <sup>nd</sup> Qtr Investment Report
MARCH 2022	CIP Review & Funding  Internal Service Funds	Procedure and Process Subcommittee Final Report Sale/Lease Town Properties	Commission KPI Update/Review  Performance & Account Summary Reports for CERBT and CEPPT
APRIL 2022	FY 2021/22 Initial Budget Discussion Community Survey Results	Review of Major Expenses Relative Spending vs Peers HDL Cannabis Report	Commission KPI Update/Review Actuarial Valuations Updates
MAY 2022	FY 2021/22 Final Budget Discussion  Business License Modernization Report	Review Potential Revenue Measures	3 <sup>rd</sup> Qtr Investment Report

# FINANCE COMMISSION 2022 WORKPLAN

JUNE 2022	Report Out Council Budget Actions Discuss Department Level KPIs	Review Investment Policy	Performance & Account Summary Reports for CERBT and CEPPT
JULY 2022	Budgeting and Fiscal Best Practices (subcommittee)		Commission KPI Review
AUGUST 2022	Pre-Audit Meeting		4 <sup>th</sup> Qtr Investment Report
SEPTEMBER 2022			Performance & Account Summary Reports for CERBT and CEPPT
OCTOBER 2022			
NOVEMBER 2022	ACFR Review		Key Performance Indicators
DECEMBER 2022	ACFR Review		1 <sup>st</sup> Qtr Investment Report Performance & Account Summary Reports for CERBT and CEPPT
JANUARY 2023	Commission 2022 Workplan Review and 2023 Workplan Adoption	FTR Population Review	



**TOWN OF LOS GATOS  
FINANCE COMMISSION REPORT**

MEETING DATE: 02/14/2022

ITEM NO: 4

Item 4.

DATE: February 2, 2022  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Provide Input on the Desired Attributes of the Next Finance Director

**RECOMMENDATION:**

Provide input on the desired attributes of the next Finance Director.

**REMARKS:**

The Town contracted with Teri Black & Company (TBC) for professional recruitment services for the position of Finance Director. On January 6, 2022, TBC officially launched advertising the opportunity, including broad dissemination of the recruitment brochure (Attachment 1). The closing date for the recruitment was February 6, 2022. Staff anticipates interviews the first week of March. Staff appreciates any comments or input regarding the desired attributes of the next Finance Director.

**Attachments:**

1. Finance Director Recruitment Brochure

**PREPARED BY:** Arn Andrews  
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, and Finance Director





# *Finance* DIRECTOR

*Town of Los Gatos*







## The Community

The Town of Los Gatos (population 33,000) is nestled at the base of the Sierra Azules, and is located approximately 60 miles south of San Francisco, in the south-western portion of Santa Clara County where the Santa Clara Valley meets the lower slopes of the Santa Clara Mountains. Los Gatos is bounded by the City of San Jose to the north and east; the City of Campbell to the north; the cities of Monte Sereno and Saratoga to the west, and unincorporated County of Santa Clara to the south.

Los Gatos encompasses a wide variety of terrain, ranging from flat topography at the edge of the valley floor to densely wooded hillsides. Both the valley and hillsides are interspersed with creeks, streams, and riparian habitat. The sharp contrast between the valley floor and the hillsides provides the Town's picturesque background.

The Town originally developed at a distance from other population centers and therefore evolved as an independent community, having residential, commercial, and industrial areas. The economy of the Town has changed from the wheat farming, milling, logging, orchard, and cannery businesses in the 19th and early 20th centuries, to the high-tech, retail, services, and visitor destination businesses of today. The railroad also played a significant role in the growth and development of the Town.

The climate and easy access by rail from San Francisco made Los Gatos an early tourist destination. Today, the Town is situated within the largest metropolitan area of northern California and is closely

tied to Silicon Valley and its fast-paced economy. Los Gatos; however, retains a mix of residential, commercial, and light industrial uses, remains an attractive destination for visitors, and continues to retain its small-town community connections.

Los Gatos prides itself as a self-contained community. Over 3,000 businesses serve the residents and act as a destination point for visitors who enjoy its restaurants, hotels, and variety of shops within a pedestrian oriented downtown setting. The Town is also an inclusive community with a mix of ages, family sizes, and incomes. Los Gatos has many parks and greenbelt areas, as well as vibrant downtown area. Downtown Los Gatos is listed on the National Register of Historic Places and is the model of what many cities strive to achieve in a business district.

## The Town of Los Gatos

The Town of Los Gatos is a general law city operating under the Council-Manager form of government. The five members of the Town Council are elected at large to four-year over-lapping terms. The Mayor and Vice Mayor are selected by the Council on an annual basis. The Town Council enjoys a high level of civility and a collaborative relationship between Council members and Town staff.

The Town Council appoints the Town Manager to be the executive head of Town government. Among the staff reporting directly to the Town Manager are the Assistant Town Manager, Chief of Police, Community Development Director, Parks and Public Works Director, Library

Director, Finance Director, and Human Resources Director. The Town Attorney is appointed by and reports to the Town Council.

## The Finance Department

The Finance Department manages the Town's financial affairs including preparation and oversight of the Town's annual budget and financial statement audits and reports, investment activities and reporting, accounting, financial forecasting and debt management, procurement process oversight, business license administration, payroll and accounts payable, accounts receivable, revenue collection, and oversight of the Town's financial operating system. The Finance Director is a member of a collaborative and supportive executive team that is dedicated to delivering outstanding service to both internal and external customers.

Reporting to the Town Manager, the Finance Director provides staff support to the Town Council, the Town's recently created Finance Commission and the Pension and Other Post-Employment Benefits (OPEB) Trusts Oversight Committee. With the planned implementation of new Enterprise Resource Planning (ERP) software, the Finance Director will play a key role ensuring efficiencies and accountability in this new integrated finance and human resources system, including automation and an on-line portal for the business license process. The Department is supported by an annual FY 2021-22 Department budget of \$1.6 million and seven hard-working, collegial staff members.







## *The Ideal Candidate*

Los Gatos seeks an experienced and knowledgeable municipal finance professional who thrives in a strong team environment. This highly regarded candidate will be respected for their technical expertise and leadership style, as well as their ability to generate creative solutions that advance the policy goals of the Town Council. Demonstrated success developing credible financial forecasts, defensible long-term projections, and strategic thinking to guide the organization is expected. The ideal candidate will have the demonstrated ability to plan, organize, anticipate, and articulate emerging financial trends and issues and recommend viable options to ensure the Town remains in a solid financial position. In addition, the successful candidate will implement for best practices that result in maximized efficiency, lower costs, and high-quality work products. The selected candidate will have the ability to quickly establish credibility and gain the confidence of staff, Town leadership as well as the community.

The ideal candidate will be a resilient leader known for their collaborative style, strong relationships, and accessibility to the public and colleagues. A hands-on and inclusive manager, the candidate will value diverse opinions and welcome input to ensure the best possible solutions. In addition, this strategic and solutions-oriented individual will be inclined towards modernization, encourage continuous process improvement, and remain current on industry trends and innovations. To be successful, the

candidate will be able to anticipate issues, develop an intimate understanding of customer needs, and generate innovative options for consideration. Analytical and appropriately detail oriented, the selected candidate will be proficient at identifying critical issues and resourceful in crafting feasible solutions to propose to colleagues and decision makers. With the planned implementation of new ERP software, the successful candidate will also be adept at managing the change and transformation required of a nimble contemporary Finance Department.

An exceptional communicator with effective presentation skills, the ideal candidate will be comfortable engaging regularly with the community, elected, and appointed officials. This knowledgeable leader will be able to communicate complex financial information in an understandable manner tailored for intended audiences. Working with a highly educated and engaged community, the new Director will exhibit a calm and confident demeanor and be comfortable making community presentations and responding to inquiries regarding the Town's financial condition. This individual will also have strong written communication skills composing important communication documents including the Annual Comprehensive Financial Report, Five-Year Forecast and the Operating and Capital Improvement Budgets.

The ideal candidate will be an approachable manager who motivates and develops staff and can easily delegate and engage employees in advancing the Town's goals. The

successful candidate will work with staff to streamline and modernize business processes that ensure timely and accurate information is provided in the most cogent manner possible. As a respected role model, they will exhibit impressive technical skills and a notable customer orientation with the ability to develop productive relationships. Through this leader's mentoring and investment in staff development, the Finance team will enhance its reputation for providing reliable information and outstanding customer service.

The ideal candidate will have sufficient years of progressively responsible experience supervising professional staff and managing complex financial operations with experience involving budgeting, financial analysis, and accounting in a public-sector agency. Depth in accounting will be considered favorably. With the upcoming implementation of a new financial system, experience optimizing major technological enhancements will help to ensure a smooth transition. An educational background including a Bachelor's degree in Accounting, Auditing, Business Administration, Public Administration, or a related field is expected, and a Master's degree and/or CPA is highly desirable. In addition, relevant finance credentials such as Government Finance Officers Association Certified Public Finance Officer (GFOA CPFO) and Association for Finance Professionals Certified Treasury Professional (AFP CTP) or other credentials are also desirable.



# Compensation & Benefits

The salary range for this position is \$160,419 - \$216,565. Placement within the range will be depending on qualifications and experience. In addition to salary, Los Gatos offers a competitive benefits package that includes, but is not limited to:

## Retirement

Public Employees' Retirement System Classic Tier 2 members - 2% @ 60 plan; Tier 3 (new members) 2% @ 62 plan. Los Gatos does not participate in Social Security, except the required Medicare.

## Healthcare

The Town provides a generous employer contribution toward the purchase of medical, dental, and vision coverage; employees may waive coverage and receive cash-in-lieu up to \$400 per month.

## Income Protection

\$50,000 Town-paid term life insurance coverage; short-term and long-term disability insurance.

## Vacation

Up to 25 days accrual per calendar year (maximum balance of 500 hours); eligible for cash out 2

times per year and at separation. Consideration for prior years of service in local government will be used in determining accrual rate.

## Management Leave

Up to 5 days per year, as authorized by Town Manager.

## Personal Leave

48 hours per year.

## Sick Leave

12 days accrual per calendar year.

## Holidays

10 days per calendar year plus one floating holiday to be used by June 30, 2022.

## Section 125 Flexible Spending Accounts

Voluntary pre-tax employee contributions up to \$2,650 per year for health care expenses and up to \$5,000 per year for dependent care expenses.

## APPLICATION & SELECTION PROCESS

**The closing date for this recruitment is just prior to midnight on Sunday, February 6, 2022. To be considered for this opportunity, upload a cover letter, resume, and list of six (6) professional references using the "Apply Now" feature at [www.tbcrecruiting.com](http://www.tbcrecruiting.com).**

**TB&CO.**

**Suzanne Mason • 562.631.2500**

**Teri Black • 424.296.3111**

**TERI BLACK & COMPANY, LLC**

**[www.tbcrecruiting.com](http://www.tbcrecruiting.com)**

Following the closing date, resumes will be screened in relation to the criteria articulated in this brochure. Applicants with the most relevant qualifications will immediately be granted preliminary interviews by the consultants. Candidates deemed to be the best qualified will be invited to interview with Los Gatos representatives in late February/early March. A smaller group of candidates will be invited to participate in follow-up interviews and meetings. The Town anticipates making an appointment shortly thereafter following the completion of extensive background and reference checks. Please note that references will not be contacted until the end of the process and, at that time, will be done so in close coordination with the candidate impacted.





**TOWN OF LOS GATOS**  
**FINANCE COMMISSION REPORT**

MEETING DATE: 02/14/2022

ITEM NO: 5

Item 5.

DATE: February 2, 2022  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Receive American Rescue Plan Act and Infrastructure Investment and Jobs Act Updates

**RECOMMENDATION:**

Receive American Rescue Plan Act and Infrastructure Investment and Jobs Act updates.

**DISCUSSION:**

On January 6, 2022, the United States Department of the Treasury adopted the final rule for implementing the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program under the American Rescue Plan Act (ARPA). The final rule takes effect on April 1, 2022 and provides state and local governments with even broader flexibility to pursue a wider range of uses to respond to local public health and economic needs. In addition, the final rule provides greater simplicity so recipients can focus on responding to the needs in their communities and maximizing the impact of their funds. An overview of the final rule can be found in Attachment 1.

Prior to April 1, 2022, recipients may take actions and use funds in a manner consistent with the final rule, and Treasury will not take action to enforce the Interim final rule if a use of funds is consistent with the terms of the final rule, regardless of when the SLFRF funds were used.

Of note, the final rule offers a standard allowance for revenue loss of up to \$10 million, allowing recipients to select between a standard amount of revenue loss or continue to complete the prior revenue loss calculation. Recipients that select the standard allowance may use that amount for government services, with streamlined reporting requirements.

The rule provides that government services generally include any service traditionally provided by a government. Following are some examples provided by Treasury:

**PREPARED BY:** Arn Andrews  
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, and Finance Director

DISCUSSION (continued):

- Construction of schools and hospitals
- Road building and maintenance, and other infrastructure
- Health services
- General government administration, staff, and administrative facilities
- Environmental remediation
- Provision of police, fire, and other public safety services (including purchase of fire trucks and police vehicles)

In addition, to the clarity that the final rule brings to the guidance for use of ARPA funds there have been additional Town Council allocations and changes to previous allocations. The table below provides an overview of ARPA commitments/allocations to date.

Allocations/Commitments	
Estimated ARPA Funds	\$7,229,744
Replace Lost Revenue	\$1,444,021
Economic Development	
• Parklets	\$930,000
• CUP Fee waiver	\$50,000
• ADA Fee Waiver	\$25,000
• Destination Marketing	\$55,000
• K-Rail	\$25,000
• Promenades	\$80,000
Totals	\$1,165,000
Nonprofit Assistance	
• Rent Waiver	\$341,452
• Direct Grants	\$110,000
• Enhanced Senior Services	\$500,000
Totals	\$951,452
Total Allocations	\$3,560,473
Total ARPA Funds Unallocated	\$3,669,271

DISCUSSION (continued):

Staff will provide a verbal update on the Infrastructure Investment and Jobs Act at the meeting.

Attachments:

1. Final Rule Overview



# **Coronavirus State & Local Fiscal Recovery Funds: Overview of the Final Rule**

U.S. DEPARTMENT OF THE TREASURY

January 2022

ATTACHMENT 1



**The Overview of the Final Rule provides a summary of major provisions of the final rule for informational purposes and is intended as a brief, simplified user guide to the final rule provisions.**

The descriptions provided in this document summarize key provisions of the final rule but are non-exhaustive, do not describe all terms and conditions associated with the use of SLFRF, and do not describe all requirements that may apply to this funding. Any SLFRF funds received are also subject to the terms and conditions of the agreement entered into by Treasury and the respective jurisdiction, which incorporate the provisions of the final rule and the guidance that implements this program.



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## Introduction

The Coronavirus State and Local Fiscal Recovery Funds (SLFRF), a part of the American Rescue Plan, delivers \$350 billion to state, local, and Tribal governments across the country to support their response to and recovery from the COVID-19 public health emergency. The program ensures that governments have the resources needed to:

- Fight the pandemic and support families and businesses struggling with its public health and economic impacts,
- Maintain vital public services, even amid declines in revenue, and
- Build a strong, resilient, and equitable recovery by making investments that support long-term growth and opportunity.

### EARLY PROGRAM IMPLEMENTATION

In May 2021, Treasury published the Interim final rule (IFR) describing eligible and ineligible uses of funds (as well as other program provisions), sought feedback from the public on these program rules, and began to distribute funds. The IFR went immediately into effect in May, and since then, governments have used SLFRF funds to meet their immediate pandemic response needs and begin building a strong and equitable recovery, such as through providing vaccine incentives, development of affordable housing, and construction of infrastructure to deliver safe and reliable water.

As governments began to deploy this funding in their communities, Treasury carefully considered the feedback provided through its public comment process and other forums. Treasury received over 1,500 comments, participated in hundreds of meetings, and received correspondence from a wide range of governments and other stakeholders.

### KEY CHANGES AND CLARIFICATIONS IN THE FINAL RULE

The final rule delivers broader flexibility and greater simplicity in the program, responsive to feedback in the comment process. Among other clarifications and changes, the final rule provides the features below.

#### Replacing Lost Public Sector Revenue

The final rule offers a standard allowance for revenue loss of up to \$10 million, allowing recipients to select between a standard amount of revenue loss or complete a full revenue loss calculation. Recipients that select the standard allowance may use that amount – in many cases their full award – for government services, with streamlined reporting requirements.

#### Public Health and Economic Impacts

In addition to programs and services, the final rule clarifies that recipients can use funds for capital expenditures that support an eligible COVID-19 public health or economic response. For example, recipients may build certain affordable housing, childcare facilities, schools, hospitals, and other projects consistent with final rule requirements.



In addition, the final rule provides an expanded set of households and communities that are presumed to be “impacted” and “disproportionately impacted” by the pandemic, thereby allowing recipients to provide responses to a broad set of households and entities without requiring additional analysis. Further, the final rule provides a broader set of uses available for these communities as part of COVID-19 public health and economic response, including making affordable housing, childcare, early learning, and services to address learning loss during the pandemic eligible in all impacted communities and making certain community development and neighborhood revitalization activities eligible for disproportionately impacted communities.

Further, the final rule allows for a broader set of uses to restore and support government employment, including hiring above a recipient’s pre-pandemic baseline, providing funds to employees that experienced pay cuts or furloughs, avoiding layoffs, and providing retention incentives.

### **Premium Pay**

The final rule delivers more streamlined options to provide premium pay, by broadening the share of eligible workers who can receive premium pay without a written justification while maintaining a focus on lower-income and frontline workers performing essential work.

### **Water, Sewer & Broadband Infrastructure**

The final rule significantly broadens eligible broadband infrastructure investments to address challenges with broadband access, affordability, and reliability, and adds additional eligible water and sewer infrastructure investments, including a broader range of lead remediation and stormwater management projects.

### **FINAL RULE EFFECTIVE DATE**

The final rule takes effect on April 1, 2022. Until that time, the interim final rule remains in effect; funds used consistently with the IFR while it is in effect are in compliance with the SLFRF program.

However, recipients can choose to take advantage of the final rule’s flexibilities and simplifications now, even ahead of the effective date. Treasury will not take action to enforce the interim final rule to the extent that a use of funds is consistent with the terms of the final rule, regardless of when the SLFRF funds were used. Recipients may consult the *Statement Regarding Compliance with the Coronavirus State and Local Fiscal Recovery Funds Interim Final Rule and Final Rule*, which can be found on Treasury’s website, for more information on compliance with the interim final rule and the final rule.



## Overview of the Program

The Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program provides substantial flexibility for each jurisdiction to meet local needs within the four separate eligible use categories. This Overview of the Final Rule addresses the four eligible use categories ordered from the broadest and most flexible to the most specific.

Recipients may use SLFRF funds to:

- **Replace lost public sector revenue**, using this funding to provide government services up to the amount of revenue loss due to the pandemic.
  - Recipients may determine their revenue loss by choosing between two options:
    - A standard allowance of up to \$10 million in aggregate, not to exceed their award amount, during the program;
    - Calculating their jurisdiction's specific revenue loss each year using Treasury's formula, which compares actual revenue to a counterfactual trend.
  - Recipients may use funds up to the amount of revenue loss for government services; generally, services traditionally provided by recipient governments are government services, unless Treasury has stated otherwise.
- **Support the COVID-19 public health and economic response** by addressing COVID-19 and its impact on public health as well as addressing economic harms to households, small businesses, nonprofits, impacted industries, and the public sector.
  - Recipients can use funds for programs, services, or capital expenditures that respond to the public health and negative economic impacts of the pandemic.
  - To provide simple and clear eligible uses of funds, Treasury provides a list of enumerated uses that recipients can provide to households, populations, or classes (i.e., groups) that experienced pandemic impacts.
  - Public health eligible uses include COVID-19 mitigation and prevention, medical expenses, behavioral healthcare, and preventing and responding to violence.
  - Eligible uses to respond to negative economic impacts are organized by the type of beneficiary: assistance to households, small businesses, and nonprofits.
    - Each category includes assistance for "impacted" and "disproportionately impacted" classes: impacted classes experienced the general, broad-based impacts of the pandemic, while disproportionately impacted classes faced meaningfully more severe impacts, often due to preexisting disparities.
    - To simplify administration, the final rule presumes that some populations and groups were impacted or disproportionately impacted and are eligible for responsive services.

*Coronavirus State & Local Fiscal Recovery Funds: Overview of the Final Rule*



- Eligible uses for assistance to impacted households include aid for re-employment, job training, food, rent, mortgages, utilities, affordable housing development, childcare, early education, addressing learning loss, and many more uses.
- Eligible uses for assistance to impacted small businesses or nonprofits include loans or grants to mitigate financial hardship, technical assistance for small businesses, and many more uses.
- Recipients can also provide assistance to impacted industries like travel, tourism, and hospitality that faced substantial pandemic impacts, or address impacts to the public sector, for example by re-hiring public sector workers cut during the crisis.
- Recipients providing funds for enumerated uses to populations and groups that Treasury has presumed eligible are clearly operating consistently with the final rule. Recipients can also identify (1) other populations or groups, beyond those presumed eligible, that experienced pandemic impacts or disproportionate impacts and (2) other programs, services, or capital expenditures, beyond those enumerated, to respond to those impacts.
- **Provide premium pay for eligible workers performing essential work**, offering additional support to those who have and will bear the greatest health risks because of their service in critical sectors.
  - Recipients may provide premium pay to eligible workers – generally those working in-person in key economic sectors – who are below a wage threshold or non-exempt from the Fair Labor Standards Act overtime provisions, or if the recipient submits justification that the premium pay is responsive to workers performing essential work.
- **Invest in water, sewer, and broadband infrastructure**, making necessary investments to improve access to clean drinking water, to support vital wastewater and stormwater infrastructure, and to expand affordable access to broadband internet.
  - Recipients may fund a broad range of water and sewer projects, including those eligible under the EPA’s Clean Water State Revolving Fund, EPA’s Drinking Water State Revolving Fund, and certain additional projects, including a wide set of lead remediation, stormwater infrastructure, and aid for private wells and septic units.
  - Recipients may fund high-speed broadband infrastructure in areas of need that the recipient identifies, such as areas without access to adequate speeds, affordable options, or where connections are inconsistent or unreliable; completed projects must participate in a low-income subsidy program.

While recipients have considerable flexibility to use funds to address the diverse needs of their communities, some restrictions on use apply across all eligible use categories. These include:

- **For states and territories:** No offsets of a reduction in net tax revenue resulting from a change in state or territory law.

*Coronavirus State & Local Fiscal Recovery Funds: Overview of the Final Rule*



- **For all recipients except for Tribal governments:** No extraordinary contributions to a pension fund for the purpose of reducing an accrued, unfunded liability.
- **For all recipients:** No payments for debt service and replenishments of rainy day funds; no satisfaction of settlements and judgments; no uses that contravene or violate the American Rescue Plan Act, Uniform Guidance conflicts of interest requirements, and other federal, state, and local laws and regulations.

Under the SLFRF program, funds must be used for costs incurred on or after March 3, 2021. Further, funds must be obligated by December 31, 2024, and expended by December 31, 2026. This time period, during which recipients can expend SLFRF funds, is the “period of performance.”

In addition to SLFRF, the American Rescue Plan includes other sources of funding for state and local governments, including the [Coronavirus Capital Projects Fund](#) to fund critical capital investments including broadband infrastructure; the [Homeowner Assistance Fund](#) to provide relief for our country’s most vulnerable homeowners; the [Emergency Rental Assistance Program](#) to assist households that are unable to pay rent or utilities; and the [State Small Business Credit Initiative](#) to fund small business credit expansion initiatives. Eligible recipients are encouraged to visit the Treasury website for more information.



## Replacing Lost Public Sector Revenue

The Coronavirus State and Local Fiscal Recovery Funds provide needed fiscal relief for recipients that have experienced revenue loss due to the onset of the COVID-19 public health emergency. Specifically, SLFRF funding may be used to pay for “government services” in an amount equal to the revenue loss experienced by the recipient due to the COVID-19 public health emergency.

Government services generally include any service traditionally provided by a government, including construction of roads and other infrastructure, provision of public safety and other services, and health and educational services. Funds spent under government services are subject to streamlined reporting and compliance requirements.

In order to use funds under government services, recipients should first determine revenue loss. They may, then, spend up to that amount on general government services.

### DETERMINING REVENUE LOSS

Recipients have two options for how to determine their amount of revenue loss. Recipients must choose one of the two options and cannot switch between these approaches after an election is made.

**1. Recipients may elect a “standard allowance” of \$10 million to spend on government services through the period of performance.**

Under this option, which is newly offered in the final rule Treasury presumes that up to \$10 million in revenue has been lost due to the public health emergency and recipients are permitted to use that amount (not to exceed the award amount) to fund “government services.” The standard allowance provides an estimate of revenue loss that is based on an extensive analysis of average revenue loss across states and localities, and offers a simple, convenient way to determine revenue loss, particularly for SLFRF’s smallest recipients.

All recipients may elect to use this standard allowance instead of calculating lost revenue using the formula below, including those with total allocations of \$10 million or less. Electing the standard allowance does not increase or decrease a recipient’s total allocation.

**2. Recipients may calculate their actual revenue loss according to the formula articulated in the final rule.**

Under this option, recipients calculate revenue loss at four distinct points in time, either at the end of each calendar year (e.g., December 31 for years 2020, 2021, 2022, and 2023) or the end of each fiscal year of the recipient. Under the flexibility provided in the final rule, recipients can choose whether to use calendar or fiscal year dates but must be consistent throughout the period of performance. Treasury has also provided several adjustments to the definition of general revenue in the final rule.

To calculate revenue loss at each of these dates, recipients must follow a four-step process:



- a. Calculate revenues collected in the most recent full fiscal year prior to the public health emergency (i.e., last full fiscal year before January 27, 2020), called the *base year revenue*.
- b. Estimate *counterfactual revenue*, which is equal to the following formula, where  $n$  is the number of months elapsed since the end of the base year to the calculation date:

$$\text{base year revenue} \times (1 + \text{growth adjustment})^{\frac{n}{12}}$$

The *growth adjustment* is the greater of either a standard growth rate—5.2 percent—or the recipient’s average annual revenue growth in the last full three fiscal years prior to the COVID-19 public health emergency.

- c. Identify *actual revenue*, which equals revenues collected over the twelve months immediately preceding the calculation date.

Under the final rule, recipients must adjust actual revenue totals for the effect of tax cuts and tax increases that are adopted after the date of adoption of the final rule (January 6, 2022). Specifically, the estimated fiscal impact of tax cuts and tax increases adopted after January 6, 2022, must be added or subtracted to the calculation of actual revenue for purposes of calculation dates that occur on or after April 1, 2022.

Recipients may subtract from their calculation of actual revenue the effect of tax increases enacted prior to the adoption of the final rule. Note that recipients that elect to remove the effect of tax increases enacted before the adoption of the final rule must also remove the effect of tax decreases enacted before the adoption of the final rule, such that they are accurately removing the effect of tax policy changes on revenue.

- d. Revenue loss for the calculation date is equal to *counterfactual revenue* minus *actual revenue* (adjusted for tax changes) for the twelve-month period. If actual revenue exceeds counterfactual revenue, the loss is set to zero for that twelve-month period. Revenue loss for the period of performance is the sum of the revenue loss on for each calculation date.

The supplementary information in the final rule provides an example of this calculation, which recipients may find helpful, in the Revenue Loss section.



## SPENDING ON GOVERNMENT SERVICES

Recipients can use SLFRF funds on government services up to the revenue loss amount, whether that be the standard allowance amount or the amount calculated using the above approach. **Government services generally include *any service traditionally provided by a government***, unless Treasury has stated otherwise. Here are some common examples, although this list is not exhaustive:

- ✓ Construction of schools and hospitals
- ✓ Road building and maintenance, and other infrastructure
- ✓ Health services
- ✓ General government administration, staff, and administrative facilities
- ✓ Environmental remediation
- ✓ Provision of police, fire, and other public safety services (including purchase of fire trucks and police vehicles)

Government services is the most flexible eligible use category under the SLFRF program, and funds are subject to streamlined reporting and compliance requirements. Recipients should be mindful that certain restrictions, which are detailed further in the Restrictions on Use section and apply to all uses of funds, apply to government services as well.





## Responding to Public Health and Economic Impacts of COVID-19

The Coronavirus State and Local Fiscal Recovery Funds provide resources for governments to meet the public health and economic needs of those impacted by the pandemic in their communities, as well as address longstanding health and economic disparities, which amplified the impact of the pandemic in disproportionately impacted communities, resulting in more severe pandemic impacts.

The eligible use category to respond to public health and negative economic impacts is organized around the types of assistance a recipient may provide and includes several sub-categories:

- public health,
- assistance to households,
- assistance to small businesses,
- assistance to nonprofits,
- aid to impacted industries, and
- public sector capacity.

In general, to identify eligible uses of funds in this category, recipients should (1) identify a COVID-19 public health or economic impact on an individual or class (i.e., a group) and (2) design a program that responds to that impact. Responses should be related and reasonably proportional to the harm identified and reasonably designed to benefit those impacted.

To provide simple, clear eligible uses of funds that meet this standard, Treasury provides a non-exhaustive list of enumerated uses that respond to pandemic impacts. Treasury also presumes that some populations experienced pandemic impacts and are eligible for responsive services. In other words, recipients providing enumerated uses of funds to populations presumed eligible are clearly operating consistently with the final rule.<sup>1</sup>

Recipients also have broad flexibility to (1) identify and respond to other pandemic impacts and (2) serve other populations that experienced pandemic impacts, beyond the enumerated uses and presumed eligible populations. Recipients can also identify groups or “classes” of beneficiaries that experienced pandemic impacts and provide services to those classes.

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<sup>1</sup> However, please note that use of funds for enumerated uses may not be grossly disproportionate to the harm. Further, recipients should consult the Capital Expenditures section for more information about pursuing a capital expenditure; please note that enumerated capital expenditures are not presumed to be reasonably proportional responses to an identified harm except as provided in the Capital Expenditures section.



Step	1. Identify COVID-19 public health or economic impact	2. Design a response that addresses or responds to the impact
Analysis	<ul style="list-style-type: none"><li>• Can identify impact to a specific household, business or nonprofit or to a class of households, businesses, or nonprofits (i.e., group)</li><li>• Can also identify disproportionate impacts, or more severe impacts, to a specific beneficiary or to a class</li></ul>	<ul style="list-style-type: none"><li>• Types of responses can include a program, service, or capital expenditure</li><li>• Response should be related and reasonably proportional to the harm</li><li>• Response should also be reasonably designed to benefit impacted individual or class</li></ul>
Simplifying Presumptions	<ul style="list-style-type: none"><li>• Final Rule presumes certain populations and classes are impacted and disproportionately impacted</li></ul>	<ul style="list-style-type: none"><li>• Final Rule provides non-exhaustive list of enumerated eligible uses that respond to pandemic impacts and disproportionate impacts</li></ul>

To assess eligibility of uses of funds, recipients should first determine the sub-category where their use of funds may fit (e.g., public health, assistance to households, assistance to small businesses), based on the entity that experienced the health or economic impact.<sup>2</sup> Then, recipients should refer to the relevant section for more details on each sub-category.

While the same overall eligibility standard applies to all uses of funds to respond to the public health and negative economic impacts of the pandemic, each sub-category has specific nuances on its application. In addition:

- Recipients interested in using funds for capital expenditures (i.e., investments in property, facilities, or equipment) should review the Capital Expenditures section in addition to the eligible use sub-category.
- Recipients interested in other uses of funds, beyond the enumerated uses, should refer to the section on “Framework for Eligible Uses Beyond Those Enumerated.”

<sup>2</sup> For example, a recipient interested in providing aid to unemployed individuals is addressing a negative economic impact experienced by a household and should refer to the section on assistance to households. Recipients should also be aware of the difference between “beneficiaries” and “sub-recipients.” Beneficiaries are households, small businesses, or nonprofits that can receive assistance based on impacts of the pandemic that they experienced. On the other hand, sub-recipients are organizations that carry out eligible uses on behalf of a government, often through grants or contracts. Sub-recipients do not need to have experienced a negative economic impact of the pandemic; rather, they are providing services to beneficiaries that experienced an impact.



## RESPONDING TO THE PUBLIC HEALTH EMERGENCY

While the country has made tremendous progress in the fight against COVID-19, including a historic vaccination campaign, the disease still poses a grave threat to Americans' health and the economy. Providing state, local, and Tribal governments the resources needed to fight the COVID-19 pandemic is a core goal of the Coronavirus State and Local Fiscal Recovery Funds, as well as addressing the other ways that the pandemic has impacted public health. Treasury has identified several public health impacts of the pandemic and enumerated uses of funds to respond to impacted populations.

- **COVID-19 mitigation and prevention.** The pandemic has broadly impacted Americans and recipients can provide services to prevent and mitigate COVID-19 to the general public or to small businesses, nonprofits, and impacted industries in general. Enumerated eligible uses include:
  - ✓ Vaccination programs, including vaccine incentives and vaccine sites
  - ✓ Testing programs, equipment and sites
  - ✓ Monitoring, contact tracing & public health surveillance (e.g., monitoring for variants)
  - ✓ Public communication efforts
  - ✓ Public health data systems
  - ✓ COVID-19 prevention and treatment equipment, such as ventilators and ambulances
  - ✓ Medical and PPE/protective supplies
  - ✓ Support for isolation or quarantine
  - ✓ Ventilation system installation and improvement
  - ✓ Technical assistance on mitigation of COVID-19 threats to public health and safety
  - ✓ Transportation to reach vaccination or testing sites, or other prevention and mitigation services for vulnerable populations
  - ✓ Support for prevention, mitigation, or other services in congregate living facilities, public facilities, and schools
  - ✓ Support for prevention and mitigation strategies in small businesses, nonprofits, and impacted industries
  - ✓ Medical facilities generally dedicated to COVID-19 treatment and mitigation (e.g., ICUs, emergency rooms)
  - ✓ Temporary medical facilities and other measures to increase COVID-19 treatment capacity
  - ✓ Emergency operations centers & emergency response equipment (e.g., emergency response radio systems)
  - ✓ Public telemedicine capabilities for COVID-19 related treatment



- **Medical expenses.** Funds may be used for expenses to households, medical providers, or others that incurred medical costs due to the pandemic, including:
  - ✓ Unreimbursed expenses for medical care for COVID-19 testing or treatment, such as uncompensated care costs for medical providers or out-of-pocket costs for individuals
  - ✓ Paid family and medical leave for public employees to enable compliance with COVID-19 public health precautions
  - ✓ Emergency medical response expenses
  - ✓ Treatment of long-term symptoms or effects of COVID-19
- **Behavioral health care, such as mental health treatment, substance use treatment, and other behavioral health services.** Treasury recognizes that the pandemic has broadly impacted Americans' behavioral health and recipients can provide these services to the general public to respond. Enumerated eligible uses include:
  - ✓ Prevention, outpatient treatment, inpatient treatment, crisis care, diversion programs, outreach to individuals not yet engaged in treatment, harm reduction & long-term recovery support
  - ✓ Enhanced behavioral health services in schools
  - ✓ Services for pregnant women or infants born with neonatal abstinence syndrome
  - ✓ Support for equitable access to reduce disparities in access to high-quality treatment
  - ✓ Peer support groups, costs for residence in supportive housing or recovery housing, and the 988 National Suicide Prevention Lifeline or other hotline services
  - ✓ Expansion of access to evidence-based services for opioid use disorder prevention, treatment, harm reduction, and recovery
  - ✓ Behavioral health facilities & equipment
- **Preventing and responding to violence.** Recognizing that violence – and especially gun violence – has increased in some communities due to the pandemic, recipients may use funds to respond in these communities through:
  - ✓ Referrals to trauma recovery services for victims of crime
  - ✓ Community violence intervention programs, including:
    - Evidence-based practices like focused deterrence, with wraparound services such as behavioral therapy, trauma recovery, job training, education, housing and relocation services, and financial assistance
  - ✓ In communities experiencing increased gun violence due to the pandemic:
    - Law enforcement officers focused on advancing community policing
    - Enforcement efforts to reduce gun violence, including prosecution
    - Technology & equipment to support law enforcement response



## RESPONDING TO NEGATIVE ECONOMIC IMPACTS

The pandemic caused severe economic damage and, while the economy is on track to a strong recovery, much work remains to continue building a robust, resilient, and equitable economy in the wake of the crisis and to ensure that the benefits of this recovery reach all Americans. While the pandemic impacted millions of American households and businesses, some of its most severe impacts fell on low-income and underserved communities, where pre-existing disparities amplified the impact of the pandemic and where the most work remains to reach a full recovery.

The final rule recognizes that the pandemic caused broad-based impacts that affected many communities, households, and small businesses across the country; for example, many workers faced unemployment and many small businesses saw declines in revenue. The final rule describes these as “impacted” households, communities, small businesses, and nonprofits.

At the same time, the pandemic caused disproportionate impacts, or more severe impacts, in certain communities. For example, low-income and underserved communities have faced more severe health and economic outcomes like higher rates of COVID-19 mortality and unemployment, often because pre-existing disparities exacerbated the impact of the pandemic. The final rule describes these as “disproportionately impacted” households, communities, small businesses, and nonprofits.

To simplify administration of the program, the final rule presumes that certain populations were “impacted” and “disproportionately impacted” by the pandemic; these populations are presumed to be eligible for services that respond to the impact they experienced. The final rule also enumerates a non-exhaustive list of eligible uses that are recognized as responsive to the impacts or disproportionate impacts of COVID-19. Recipients providing enumerated uses to populations presumed eligible are clearly operating consistently with the final rule.

As discussed further in the section Framework for Eligible Uses Beyond Those Enumerated, recipients can also identify other pandemic impacts, impacted or disproportionately impacted populations or classes, and responses.

However, note that the final rule maintains that general infrastructure projects, including roads, streets, and surface transportation infrastructure, would generally not be eligible under this eligible use category, unless the project responded to a specific pandemic public health need or a specific negative economic impact. Similarly, general economic development or workforce development – activities that do not respond to negative economic impacts of the pandemic but rather seek to more generally enhance the jurisdiction’s business climate – would generally not be eligible under this eligible use category.



## Assistance to Households

### *Impacted Households and Communities*

Treasury presumes the following households and communities are impacted by the pandemic:

- ✓ Low- or-moderate income households or communities
- ✓ Households that experienced unemployment
- ✓ Households that experienced increased food or housing insecurity
- ✓ Households that qualify for the Children's Health Insurance Program, Childcare Subsidies through the Child Care Development Fund (CCDF) Program, or Medicaid
- ✓ *When providing affordable housing programs:* households that qualify for the National Housing Trust Fund and Home Investment Partnerships Program
- ✓ *When providing services to address lost instructional time in K-12 schools:* any student that lost access to in-person instruction for a significant period of time

Low- or moderate-income households and communities are those with (i) income at or below 300 percent of the Federal Poverty Guidelines for the size of the household based on the most recently published poverty guidelines or (ii) income at or below 65 percent of the area median income for the county and size of household based on the most recently published data. For the vast majority of communities, the Federal Poverty Guidelines are higher than the area's median income and using the Federal Poverty Guidelines would result in more households and communities being presumed eligible. Treasury has provided an easy-to-use spreadsheet with Federal Poverty Guidelines and area median income levels on its website.

Recipients can measure income for a specific household or the median income for the community, depending on whether the response they plan to provide serves specific households or the general community. The income thresholds vary by household size; recipients should generally use income thresholds for the appropriate household size but can use a default household size of three when easier for administration or when measuring income for a general community.

The income limit for 300 percent of the Federal Poverty Guidelines for a household of three is \$65,880 per year.<sup>3</sup> In other words, recipients can always presume that a household earning below this level, or a community with median income below this level, is impacted by the pandemic and eligible for services to respond. Additionally, by following the steps detailed in the section Framework for Eligible Uses Beyond Those Enumerated, recipients may designate additional households as impacted or disproportionately impacted beyond these presumptions, and may also pursue projects not listed below in response to these impacts consistent with Treasury's standards.

<sup>3</sup> For recipients in Alaska, the income limit for 300 percent of the Federal Poverty Guidelines for a household of three is \$82,350 per year. For recipients in Hawaii, the income limit for 300 percent of the Federal Poverty Guidelines for a household of three is \$75,780 per year.



Treasury recognizes the enumerated projects below, which have been expanded under the final rule, as eligible to respond to impacts of the pandemic on households and communities:

- ✓ Food assistance & food banks
- ✓ Emergency housing assistance: rental assistance, mortgage assistance, utility assistance, assistance paying delinquent property taxes, counseling and legal aid to prevent eviction and homelessness & emergency programs or services for homeless individuals, including temporary residences for people experiencing homelessness
- ✓ Health insurance coverage expansion
- ✓ Benefits for surviving family members of individuals who have died from COVID-19
- ✓ Assistance to individuals who want and are available for work, including job training, public jobs programs and fairs, support for childcare and transportation to and from a jobsite or interview, incentives for newly-employed workers, subsidized employment, grants to hire underserved workers, assistance to unemployed individuals to start small businesses & development of job and workforce training centers
- ✓ Financial services for the unbanked and underbanked
- ✓ Burials, home repair & home weatherization
- ✓ Programs, devices & equipment for internet access and digital literacy, including subsidies for costs of access
- ✓ Cash assistance
- ✓ Paid sick, medical, and family leave programs
- ✓ Assistance in accessing and applying for public benefits or services
- ✓ Childcare and early learning services, home visiting programs, services for child welfare-involved families and foster youth & childcare facilities
- ✓ Assistance to address the impact of learning loss for K-12 students (e.g., high-quality tutoring, differentiated instruction)
- ✓ Programs or services to support long-term housing security: including development of affordable housing and permanent supportive housing
- ✓ Certain contributions to an Unemployment Insurance Trust Fund<sup>4</sup>

<sup>4</sup> Recipients may only use SLFRF funds for contributions to unemployment insurance trust funds and repayment of the principal amount due on advances received under Title XII of the Social Security Act up to an amount equal to (i) the difference between the balance in the recipient's unemployment insurance trust fund as of January 27, 2020 and the balance of such account as of May 17, 2021, plus (ii) the principal amount outstanding as of May 17, 2021 on any advances received under Title XII of the Social Security Act between January 27, 2020 and May 17, 2021. Further, recipients may use SLFRF funds for the payment of any interest due on such Title XII advances. Additionally, a recipient that deposits SLFRF funds into its unemployment insurance trust fund to fully restore the pre-pandemic balance may not draw down that balance and deposit more SLFRF funds, back up to the pre-pandemic balance. Recipients that deposit SLFRF funds into an unemployment insurance trust fund, or use SLFRF funds to repay principal on Title XII advances, may not take action to reduce benefits available to unemployed workers by changing the computation method governing regular unemployment compensation in a way that results in a reduction of average weekly benefit amounts or the number of weeks of benefits payable (i.e., maximum benefit entitlement).

***Disproportionately Impacted Households and Communities***

Treasury presumes the following households and communities are disproportionately impacted by the pandemic:

- ✓ Low -income households and communities
- ✓ Households residing in Qualified Census Tracts
- ✓ Households that qualify for certain federal benefits<sup>5</sup>
- ✓ Households receiving services provided by Tribal governments
- ✓ Households residing in the U.S. territories or receiving services from these governments

Low-income households and communities are those with (i) income at or below 185 percent of the Federal Poverty Guidelines for the size of its household based on the most recently published poverty guidelines or (ii) income at or below 40 percent of area median income for its county and size of household based on the most recently published data. For the vast majority of communities, the Federal Poverty Guidelines level is higher than the area median income level and using this level would result in more households and communities being presumed eligible. Treasury has provided an easy-to-use spreadsheet with Federal Poverty Guidelines and area median income levels on its website.

Recipients can measure income for a specific household or the median income for the community, depending on whether the service they plan to provide serves specific households or the general community. The income thresholds vary by household size; recipients should generally use income thresholds for the appropriate household size but can use a default household size of three when easier for administration or when measuring income for a general community.

The income limit for 185 percent of the Federal Poverty Guidelines for a household of three is \$40,626 per year.<sup>6</sup> In other words, recipients can always presume that a household earning below this level, or a community with median income below this level, is disproportionately impacted by the pandemic and eligible for services to respond.

<sup>5</sup> These programs are Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), Free- and Reduced-Price Lunch (NSLP) and/or School Breakfast (SBP) programs, Medicare Part D Low-Income Subsidies, Supplemental Security Income (SSI), Head Start and/or Early Head Start, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Section 8 Vouchers, Low-Income Home Energy Assistance Program (LIHEAP), and Pell Grants. For services to address educational disparities, Treasury will recognize Title I eligible schools as disproportionately impacted and responsive services that support the school generally or support the whole school as eligible.

<sup>6</sup> For recipients in Alaska, the income limit for 185 percent of the Federal Poverty Guidelines for a household of three is \$50,783 per year. For recipients in Hawaii, the income limit for 185 percent of the Federal Poverty Guidelines for a household of three is \$46,731 per year





Treasury recognizes the enumerated projects below, which have been expanded under the final rule, as eligible to respond to disproportionate impacts of the pandemic on households and communities:

- ✓ Pay for community health workers to help households access health & social services
- ✓ Remediation of lead paint or other lead hazards
- ✓ Primary care clinics, hospitals, integration of health services into other settings, and other investments in medical equipment & facilities designed to address health disparities
- ✓ Housing vouchers & assistance relocating to neighborhoods with higher economic opportunity
- ✓ Investments in neighborhoods to promote improved health outcomes
- ✓ Improvements to vacant and abandoned properties, including rehabilitation or maintenance, renovation, removal and remediation of environmental contaminants, demolition or deconstruction, greening/vacant lot cleanup & conversion to affordable housing<sup>7</sup>
- ✓ Services to address educational disparities, including assistance to high-poverty school districts & educational and evidence-based services to address student academic, social, emotional, and mental health needs
- ✓ Schools and other educational equipment & facilities

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<sup>7</sup> Please see the final rule for further details and conditions applicable to this eligible use. This includes Treasury's presumption that demolition of vacant or abandoned residential properties that results in a net reduction in occupiable housing units for low- and moderate-income individuals in an area where the availability of such housing is lower than the need for such housing is ineligible for support with SLFRF funds.



## Assistance to Small Businesses

Small businesses have faced widespread challenges due to the pandemic, including periods of shutdown, declines in revenue, or increased costs. The final rule provides many tools for recipients to respond to the impacts of the pandemic on small businesses, or disproportionate impacts on businesses where pre-existing disparities like lack of access to capital compounded the pandemic's effects.

Small businesses eligible for assistance are those that experienced negative economic impacts or disproportionate impacts of the pandemic and meet the definition of "small business," specifically:

1. Have no more than 500 employees, or if applicable, the size standard in number of employees [established](#) by the Administrator of the Small Business Administration for the industry in which the business concern or organization operates, and
2. Are a small business concern as defined in section 3 of the Small Business Act<sup>8</sup> (which includes, among other requirements, that the business is independently owned and operated and is not dominant in its field of operation).

## Impacted Small Businesses

Recipients can identify small businesses impacted by the pandemic, and measures to respond, in many ways; for example, recipients could consider:

- |                                       |  |
|---------------------------------------|--|
| ✓ Decreased revenue or gross receipts | ✓ Capacity to weather financial hardship                                   |
| ✓ Financial insecurity                | ✓ Challenges covering payroll, rent or mortgage, and other operating costs |
| ✓ Increased costs                     |  |

Assistance to small businesses that experienced negative economic impacts includes the following enumerated uses:

- |   |  |
|---|--|
| ✓ Loans or grants to mitigate financial hardship, such as by supporting payroll and benefits, costs to retain employees, and mortgage, rent, utility, and other operating costs | ✓ Technical assistance, counseling, or other services to support business planning |
|---|--|

## Disproportionately Impacted Small Businesses

Treasury presumes that the following small businesses are disproportionately impacted by the pandemic:

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<sup>8</sup> 15 U.S.C. 632.



- ✓ Small businesses operating in Qualified Census Tracts
- ✓ Small businesses operated by Tribal governments or on Tribal lands
- ✓ Small businesses operating in the U.S. territories

Assistance to disproportionately impacted small businesses includes the following enumerated uses, which have been expanded under the final rule:

- ✓ Rehabilitation of commercial properties, storefront improvements & façade improvements
- ✓ Support for microbusinesses, including financial, childcare, and transportation costs
- ✓ Technical assistance, business incubators & grants for start-up or expansion costs for small businesses



## Assistance to Nonprofits

Nonprofits have faced significant challenges due to the pandemic’s increased demand for services and changing operational needs, as well as declines in revenue sources such as donations and fees.

Nonprofits eligible for assistance are those that experienced negative economic impacts or disproportionate impacts of the pandemic and meet the definition of “nonprofit”—specifically those that are 501(c)(3) or 501(c)(19) tax-exempt organizations.

### **Impacted Nonprofits**

Recipients can identify nonprofits impacted by the pandemic, and measures to respond, in many ways; for example, recipients could consider:

- ✓ Decreased revenue (e.g., from donations and fees)
- ✓ Financial insecurity
- ✓ Increased costs (e.g., uncompensated increases in service need)
- ✓ Capacity to weather financial hardship
- ✓ Challenges covering payroll, rent or mortgage, and other operating costs

Assistance to nonprofits that experienced negative economic impacts includes the following enumerated uses:

- ✓ Loans or grants to mitigate financial hardship
- ✓ Technical or in-kind assistance or other services that mitigate negative economic impacts of the pandemic

### **Disproportionately Impacted Nonprofits**

Treasury presumes that the following nonprofits are disproportionately impacted by the pandemic:

- ✓ Nonprofits operating in Qualified Census Tracts
- ✓ Nonprofits operated by Tribal governments or on Tribal lands
- ✓ Nonprofits operating in the U.S. territories

Recipients may identify appropriate responses that are related and reasonably proportional to addressing these disproportionate impacts.



## Aid to Impacted Industries

Recipients may use SLFRF funding to provide aid to industries impacted by the COVID-19 pandemic. Recipients should first designate an impacted industry and then provide aid to address the impacted industry's negative economic impact.

This sub-category of eligible uses does not separately identify disproportionate impacts and corresponding responsive services.

**1. Designating an impacted industry.** There are two main ways an industry can be designated as "impacted."

1. If the industry is in the travel, tourism, or hospitality sectors (including Tribal development districts), the industry is impacted.
2. If the industry is outside the travel, tourism, or hospitality sectors, the industry is impacted if:
  - a. The industry experienced at least 8 percent employment loss from pre-pandemic levels,<sup>9</sup> or
  - b. The industry is experiencing comparable or worse economic impacts as the national tourism, travel, and hospitality industries as of the date of the final rule, based on the totality of economic indicators or qualitative data (if quantitative data is unavailable), and if the impacts were generally due to the COVID-19 public health emergency.

Recipients have flexibility to define industries broadly or narrowly, but Treasury encourages recipients to define narrow and discrete industries eligible for aid. State and territory recipients also have flexibility to define the industries with greater geographic precision; for example, a state may identify a particular industry in a certain region of a state as impacted.

**2. Providing eligible aid to the impacted industry.** Aid may only be provided to support businesses, attractions, and Tribal development districts operating prior to the pandemic and affected by required closures and other efforts to contain the pandemic. Further, aid should be generally broadly available to all businesses within the impacted industry to avoid potential conflicts of interest, and Treasury encourages aid to be first used for operational expenses, such as payroll, before being used on other types of costs.

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<sup>9</sup> Specifically, a recipient should compare the percent change in the number of employees of the recipient's identified industry and the national Leisure & Hospitality sector in the three months before the pandemic's most severe impacts began (a straight three-month average of seasonally-adjusted employment data from December 2019, January 2020, and February 2020) with the latest data as of the final rule (a straight three-month average of seasonally-adjusted employment data from September 2021, October 2021, and November 2021). For parity and simplicity, smaller recipients without employment data that measure industries in their specific jurisdiction may use data available for a broader unit of government for this calculation (e.g., a county may use data from the state in which it is located; a city may use data for the county, if available, or state in which it is located) solely for purposes of determining whether a particular industry is an impacted industry.



Treasury recognizes the enumerated projects below as eligible responses to impacted industries.

- ✓ Aid to mitigate financial hardship, such as supporting payroll costs, lost pay and benefits for returning employees, support of operations and maintenance of existing equipment and facilities
- ✓ Technical assistance, counseling, or other services to support business planning
- ✓ COVID-19 mitigation and infection prevention measures (see section Public Health)

As with all eligible uses, recipients may pursue a project not listed above by undergoing the steps outlined in the section Framework for Eligible Uses Beyond Those Enumerated.

**PUBLIC SECTOR CAPACITY**

Recipients may use SLFRF funding to restore and bolster public sector capacity, which supports government's ability to deliver critical COVID-19 services. There are three main categories of eligible uses to bolster public sector capacity and workforce: Public Safety, Public Health, and Human Services Staff; Government Employment and Rehiring Public Sector Staff; and Effective Service Delivery.

**Public Safety, Public Health, and Human Services Staff**

SLFRF funding may be used for payroll and covered benefits for public safety, public health, health care, human services and similar employees of a recipient government, for the portion of the employee's time spent responding to COVID-19. Recipients should follow the steps below.

**1. Identify eligible public safety, public health, and human services staff.** Public safety staff include:

- ✓ Police officers (including state police officers)
- ✓ Sheriffs and deputy sheriffs
- ✓ Firefighters
- ✓ Emergency medical responders
- ✓ Correctional and detention officers
- ✓ Dispatchers and supervisor personnel that directly support public safety staff

Public health staff include:

- ✓ Employees involved in providing medical and other physical or mental health services to patients and supervisory personnel, including medical staff assigned to schools, prisons, and other such institutions
- ✓ Laboratory technicians, medical examiners, morgue staff, and other support services essential for patient care
- ✓ Employees of public health departments directly engaged in public health matters and related supervisory personnel

Human services staff include:

- ✓ Employees providing or administering social services and public benefits
- ✓ Child welfare services employees
- ✓ Child, elder, or family care employees

**2. Assess portion of time spent on COVID-19 response for eligible staff.**

Recipients can use a variety of methods to assess the share of an employees' time spent responding to COVID-19, including using reasonable estimates—such as estimating the share of time based on discussions with staff and applying that share to all employees in that position.

For administrative convenience, recipients can consider public health and safety employees entirely devoted to responding to COVID-19 (and their payroll and benefits fully covered by SLFRF) if the



employee, or his or her operating unit or division, is “primarily dedicated” to responding to COVID-19. Primarily dedicated means that more than half of the employee, unit, or division’s time is dedicated to responding to COVID-19.

Recipients must periodically reassess their determination and maintain records to support their assessment, although recipients do not need to track staff hours.

3. **Use SLFRF funding for payroll and covered benefits for the portion of eligible staff time spent on COVID-19 response.** SLFRF funding may be used for payroll and covered benefits for the portion of the employees’ time spent on COVID-19 response, as calculated above, through the period of performance.

### Government Employment and Rehiring Public Sector Staff

Under the increased flexibility of the final rule, SLFRF funding may be used to support a broader set of uses to restore and support public sector employment. Eligible uses include hiring up to a pre-pandemic baseline that is adjusted for historic underinvestment in the public sector, providing additional funds for employees who experienced pay cuts or were furloughed, avoiding layoffs, providing worker retention incentives, and paying for ancillary administrative costs related to hiring, support, and retention.

- **Restoring pre-pandemic employment.** Recipients have two options to restore pre-pandemic employment, depending on the recipient’s needs.
  - *If the recipient simply wants to hire back employees for pre-pandemic positions:* Recipients may use SLFRF funds to hire employees for the same positions that existed on January 27, 2020 but that were unfilled or eliminated as of March 3, 2021. Recipients may use SLFRF funds to cover payroll and covered benefits for such positions through the period of performance.
  - *If the recipient wants to hire above the pre-pandemic baseline and/or would like to have flexibility in positions:* Recipients may use SLFRF funds to pay for payroll and covered benefits associated with the recipient increasing its number of budgeted FTEs up to 7.5 percent above its pre-pandemic baseline. Specifically, recipients should undergo the following steps:
    - a. Identify the recipient’s budgeted FTE level on January 27, 2020. This includes all budgeted positions, filled and unfilled. This is called the *pre-pandemic baseline*.
    - b. Multiply the pre-pandemic baseline by 1.075. This is called the *adjusted pre-pandemic baseline*.
    - c. Identify the recipient’s budgeted FTE level on March 3, 2021, which is the beginning of the period of performance for SLFRF funds. Recipients may, but are not required to, exclude the number of FTEs dedicated to responding to the COVID-19 public health emergency. This is called the *actual number of FTEs*.
    - d. Subtract the *actual number of FTEs* from the *adjusted pre-pandemic baseline* to calculate the number of FTEs that can be covered by SLFRF funds. Recipients do not have to hire for the same roles that existed pre-pandemic.

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Recipients may use SLFRF funds to cover payroll and covered benefits through the period of performance; these employees must have begun their employment on or after March 3, 2021. Recipients may only use SLFRF funds for additional FTEs hired over the March 3, 2021 level (i.e., the *actual number of FTEs*).

- **Supporting and retaining public sector workers.** Recipients can also use funds in other ways that support the public sector workforce.<sup>10</sup> These include:
  - **Providing additional funding for employees who experienced pay reductions or were furloughed** since the onset of the pandemic, up to the difference in the employee's pay, taking into account unemployment benefits received.
  - **Maintaining current compensation levels to prevent layoffs.** SLFRF funds may be used to maintain current compensation levels, with adjustments for inflation, in order to prevent layoffs that would otherwise be necessary.
  - **Providing worker retention incentives, including reasonable increases in compensation** to persuade employees to remain with the employer as compared to other employment options. Retention incentives must be entirely additive to an employee's regular compensation, narrowly tailored to need, and should not exceed incentives traditionally offered by the recipient or compensation that alternative employers may offer to compete for the employees. Treasury presumes that retention incentives that are less than 25 percent of the rate of base pay for an individual employee or 10 percent for a group or category of employees are reasonably proportional to the need to retain employees, as long as other requirements are met.
- **Covering administrative costs associated with administering the hiring, support, and retention programs above.**

### Effective Service Delivery

SLFRF funding may be used to improve the efficacy of public health and economic programs through tools like program evaluation, data, and outreach, as well as to address administrative needs caused or exacerbated by the pandemic. Eligible uses include:

- **Supporting program evaluation, data, and outreach through:**

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<sup>10</sup> Recipients should be able to substantiate that these uses of funds are substantially due to the public health emergency or its negative economic impacts (e.g., fiscal pressures on state and local budgets) and respond to its impacts. See the final rule for details on these uses.



- ✓ Program evaluation and evidence resources
- ✓ Data analysis resources to gather, assess, share, and use data
- ✓ Technology infrastructure to improve access to and the user experience of government IT systems, as well as technology improvements to increase public access and delivery of government programs and services
- ✓ Community outreach and engagement activities
- ✓ Capacity building resources to support using data and evidence, including hiring staff, consultants, or technical assistance support
- **Addressing administrative needs, including:**
  - ✓ Administrative costs for programs responding to the public health emergency and its economic impacts, including non-SLFRF and non-federally funded programs
  - ✓ Address administrative needs caused or exacerbated by the pandemic, including addressing backlogs caused by shutdowns, increased repair or maintenance needs, and technology infrastructure to adapt government operations to the pandemic (e.g., video-conferencing software, data and case management systems)

**CAPITAL EXPENDITURES**

As described above, the final rule clarifies that recipients may use funds for programs, services, and capital expenditures that respond to the public health and negative economic impacts of the pandemic. Any use of funds in this category for a capital expenditure must comply with the capital expenditure requirements, in addition to other standards for uses of funds.

Capital expenditures are subject to the same eligibility standard as other eligible uses to respond to the pandemic's public health and economic impacts; specifically, they must be related and reasonably proportional to the pandemic impact identified and reasonably designed to benefit the impacted population or class.

For ease of administration, the final rule identifies enumerated types of capital expenditures that Treasury has identified as responding to the pandemic's impacts; these are listed in the applicable sub-category of eligible uses (e.g., public health, assistance to households, etc.). Recipients may also identify other responsive capital expenditures. Similar to other eligible uses in the SLFRF program, no pre-approval is required for capital expenditures.

To guide recipients' analysis of whether a capital expenditure meets the eligibility standard, recipients (with the exception of Tribal governments) must complete and meet the requirements of a written justification for capital expenditures equal to or greater than \$1 million. For large-scale capital expenditures, which have high costs and may require an extended length of time to complete, as well as most capital expenditures for non-enumerated uses of funds, Treasury requires recipients to submit their written justification as part of regular reporting. Specifically:

<b>If a project has total capital expenditures of</b>	<b>and the use is enumerated by Treasury as eligible, then</b>	<b>and the use is beyond those enumerated by Treasury as eligible, then</b>
Less than \$1 million	No Written Justification required	No Written Justification required
Greater than or equal to \$1 million, but less than \$10 million	Written Justification required but recipients are not required to submit as part of regular reporting to Treasury	Written Justification required and recipients must submit as part of regular reporting to Treasury
\$10 million or more	Written Justification required and recipients must submit as part of regular reporting to Treasury	

A Written Justification includes:

- *Description of the harm or need to be addressed.* Recipients should provide a description of the specific harm or need to be addressed and why the harm was exacerbated or caused by the public health emergency. Recipients may provide quantitative information on the extent and the type of harm, such as the number of individuals or entities affected.

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- *Explanation of why a capital expenditure is appropriate.* For example, recipients should include an explanation of why existing equipment and facilities, or policy changes or additional funding to pertinent programs or services, would be inadequate.
- *Comparison of proposed capital project against at least two alternative capital expenditures and demonstration of why the proposed capital expenditure is superior.* Recipients should consider the effectiveness of the capital expenditure in addressing the harm identified and the expected total cost (including pre-development costs) against at least two alternative capital expenditures.

Where relevant, recipients should consider the alternatives of improving existing capital assets already owned or leasing other capital assets.

Treasury presumes that the following capital projects are generally ineligible:

- |   |   |
|---|---|
| ✖ Construction of new correctional facilities as a response to an increase in rate of crime | ✖ Construction of convention centers, stadiums, or other large capital projects intended for general economic development or to aid impacted industries |
| ✖ Construction of new congregate facilities to decrease spread of COVID-19 in the facility  |   |

In undertaking capital expenditures, Treasury encourages recipients to adhere to strong labor standards, including project labor agreements and community benefits agreements that offer wages at or above the prevailing rate and include local hire provisions. Treasury also encourages recipients to prioritize in their procurements employers with high labor standards and to prioritize employers without recent violations of federal and state labor and employment laws.

**FRAMEWORK FOR ELIGIBLE USES BEYOND THOSE ENUMERATED**

As described above, recipients have broad flexibility to identify and respond to other pandemic impacts and serve other populations that experienced pandemic impacts, beyond the enumerated uses and presumed eligible populations. Recipients should undergo the following steps to decide whether their project is eligible:

Step	1. Identify COVID-19 public health or economic impact	2. Design a response that addresses or responds to the impact
Analysis	<ul style="list-style-type: none"> <li>Can identify impact to a specific household, business or nonprofit or to a class of households, businesses or nonprofits (i.e., group)</li> <li>Can also identify disproportionate impacts, or more severe impacts, to a specific beneficiary or to a class</li> </ul>	<ul style="list-style-type: none"> <li>Types of responses can include a program, service, or capital expenditure</li> <li>Response should be related and reasonably proportional to the harm</li> <li>Response should also be reasonably designed to benefit impacted individual or class</li> </ul>

**1. Identify a COVID-19 public health or negative economic impact on an individual or a class.**

Recipients should identify an individual or class that is “impacted” or “disproportionately impacted” by the COVID-19 public health emergency or its negative economic impacts as well as the specific impact itself.

- “Impacted” entities are those impacted by the disease itself or the harmful consequences of the economic disruptions resulting from or exacerbated by the COVID-19 public health emergency. For example, an individual who lost their job or a small business that saw lower revenue during a period of closure would both have experienced impacts of the pandemic.
- “Disproportionately impacted” entities are those that experienced disproportionate public health or economic outcomes from the pandemic; Treasury recognizes that pre-existing disparities, in many cases, amplified the impacts of the pandemic, causing more severe impacts in underserved communities. For example, a household living in a neighborhood with limited access to medical care and healthy foods may have faced health disparities before the pandemic, like a higher rate of chronic health conditions, that contributed to more severe health outcomes during the COVID-19 pandemic.

The recipient may choose to identify these impacts at either the individual level or at a class level. If the recipient is identifying impacts at the individual level, they should retain documentation supporting the impact the individual experienced (e.g., documentation of lost revenues from a small business). Such documentation can be streamlined in many cases (e.g., self-attestation that a household requires food assistance).

Recipients also have broad flexibility to identify a “class” – or a group of households, small businesses, or nonprofits – that experienced an impact. In these cases, the recipients should

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first identify the class and the impact that it faced. Then, recipients only need to document that the individuals served fall within that class; recipients do not need to document a specific impact to each individual served. For example, a recipient could identify that restaurants in the downtown area faced substantial declines in revenue due to decreased foot traffic from workers; the recipient could develop a program to respond to the impact on that class and only needs to document that the businesses being served are restaurants in the downtown area.

Recipients should keep the following considerations in mind when designating a class:

- **There should be a relationship between the definition of the class and the proposed response.** Larger and less-specific classes are less likely to have experienced similar harms, which may make it more difficult to design a response that appropriately responds to those harms.
- **Classes may be determined on a population basis or on a geographic basis,** and the response should be appropriately matched. For example, a response might be designed to provide childcare to single parents, regardless of which neighborhood they live in, or a response might provide a park to improve the health of a disproportionately impacted neighborhood.
- **Recipients may designate classes that experienced disproportionate impact,** by assessing the impacts of the pandemic and finding that some populations experienced meaningfully more severe impacts than the general public. To determine these disproportionate impacts, recipients:
  - May designate classes based on academic research or government research publications (such as the citations provided in the supplementary information in the final rule), through analysis of their own data, or through analysis of other existing data sources.
  - May also consider qualitative research and sources to augment their analysis, or when quantitative data is not readily available. Such sources might include resident interviews or feedback from relevant state and local agencies, such as public health departments or social services departments.
  - Should consider the quality of the research, data, and applicability of analysis to their determination in all cases.
- **Some of the enumerated uses may also be appropriate responses to the impacts experienced by other classes of beneficiaries.** It is permissible for recipients to provide these services to other classes, so long as the recipient determines that the response is also appropriate for those groups.
- **Recipients may designate a class based on income level, including at levels higher than the final rule definition of "low- and moderate-income."** For example, a recipient may identify that households in their community with incomes above the final rule threshold for low-income nevertheless experienced disproportionate impacts from the pandemic and provide responsive services.

2. **Design a response that addresses or responds to the impact.** Programs, services, and other interventions must be reasonably designed to benefit the individual or class that experienced

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the impact. They must also be related and reasonably proportional to the extent and type of impact experienced. For example, uses that bear no relation or are grossly disproportionate to the type or extent of the impact would not be eligible.

“Reasonably proportional” refers to the scale of the response compared to the scale of the harm, as well as the targeting of the response to beneficiaries compared to the amount of harm they experienced; for example, it may not be reasonably proportional for a cash assistance program to provide a very small amount of aid to a group that experienced severe harm and a much larger amount to a group that experienced relatively little harm. Recipients should consider relevant factors about the harm identified and the response to evaluate whether the response is reasonably proportional. For example, recipients may consider the size of the population impacted and the severity, type, and duration of the impact. Recipients may also consider the efficacy, cost, cost-effectiveness, and time to delivery of the response.

For disproportionately impacted communities, recipients may design interventions that address broader pre-existing disparities that contributed to more severe health and economic outcomes during the pandemic, such as disproportionate gaps in access to health care or pre-existing disparities in educational outcomes that have been exacerbated by the pandemic.



## Premium Pay

The Coronavirus State and Local Fiscal Recovery Funds may be used to provide premium pay to eligible workers performing essential work during the pandemic. Premium pay may be awarded to eligible workers up to \$13 per hour. Premium pay must be in addition to wages or remuneration (i.e., compensation) the eligible worker otherwise receives. Premium pay may not exceed \$25,000 for any single worker during the program.

Recipients should undergo the following steps to provide premium pay to eligible workers.

1. **Identify an “eligible” worker.** Eligible workers include workers “needed to maintain continuity of operations of essential critical infrastructure sectors.” These sectors and occupations are eligible:

- |  |   |
|--|---|
| ✓ Health care  | ✓ State, local, or Tribal government workforce  |
| ✓ Emergency response   | ✓ Workers providing vital services to Tribes  |
| ✓ Sanitation, disinfection & cleaning  | ✓ Educational, school nutrition, and other work required to operate a school facility           |
| ✓ Maintenance  | ✓ Laundry   |
| ✓ Grocery stores, restaurants, food production, and food delivery                      | ✓ Elections   |
| ✓ Pharmacy   | ✓ Solid waste or hazardous materials management, response, and cleanup                          |
| ✓ Biomedical research  | ✓ Work requiring physical interaction with patients   |
| ✓ Behavioral health  | ✓ Dental care   |
| ✓ Medical testing and diagnostics  | ✓ Transportation and warehousing  |
| ✓ Home and community-based health care or assistance with activities of daily living   | ✓ Hotel and commercial lodging facilities that are used for COVID-19 mitigation and containment |
| ✓ Family or child care   |   |
| ✓ Social services  |   |
| ✓ Public health  |   |
| ✓ Mortuary   |   |
| ✓ Critical clinical research, development, and testing necessary for COVID-19 response |   |

Beyond this list, the chief executive (or equivalent) of a recipient government may designate additional non-public sectors as critical so long as doing so is necessary to protecting the health and wellbeing of the residents of such jurisdictions.

2. **Verify that the eligible worker performs “essential work,”** meaning work that:

- Is not performed while teleworking from a residence; and
- Involves either:
  - a. regular, in-person interactions with patients, the public, or coworkers of the individual that is performing the work; or
  - b. regular physical handling of items that were handled by, or are to be handled by, patients, the public, or coworkers of the individual that is performing the work.





**3. Confirm that the premium pay “responds to” workers performing essential work during the COVID-19 public health emergency.** Under the final rule, which broadened the share of eligible workers who can receive premium pay without a written justification, recipients may meet this requirement in one of three ways:

- Eligible worker receiving premium pay is earning (with the premium included) at or below 150 percent of their residing state or county’s average annual wage for all occupations, as defined by the Bureau of Labor Statistics’ [Occupational Employment and Wage Statistics](#), whichever is higher, on an annual basis; or
- Eligible worker receiving premium pay is not exempt from the Fair Labor Standards Act overtime provisions; or
- If a worker does not meet either of the above requirements, the recipient must submit written justification to Treasury detailing how the premium pay is otherwise responsive to workers performing essential work during the public health emergency. This may include a description of the essential worker’s duties, health, or financial risks faced due to COVID-19, and why the recipient determined that the premium pay was responsive. Treasury anticipates that recipients will easily be able to satisfy the justification requirement for front-line workers, like nurses and hospital staff.

Premium pay may be awarded in installments or lump sums (e.g., monthly, quarterly, etc.) and may be awarded to hourly, part-time, or salaried or non-hourly workers. Premium pay must be paid in addition to wages already received and may be paid retrospectively. A recipient may not use SLFRF to merely reimburse itself for premium pay or hazard pay already received by the worker, and premium pay may not be paid to volunteers.



## Water & Sewer Infrastructure

The Coronavirus State and Local Fiscal Recovery Funds may be used to make necessary investments in water and sewer infrastructure. State, local, and Tribal governments have a tremendous need to address the consequences of deferred maintenance in drinking water systems and removal, management, and treatment of sewage and stormwater, along with additional resiliency measures needed to adapt to climate change.

Recipients may undertake the eligible projects below:

### PROJECTS ELIGIBLE UNDER EPA'S CLEAN WATER STATE REVOLVING FUND (CWSRF)

Eligible projects under the CWSRF, and the final rule, include:

- ✓ Construction of publicly owned treatment works
- ✓ Projects pursuant to implementation of a nonpoint source pollution management program established under the Clean Water Act (CWA)
- ✓ Decentralized wastewater treatment systems that treat municipal wastewater or domestic sewage
- ✓ Management and treatment of stormwater or subsurface drainage water
- ✓ Water conservation, efficiency, or reuse measures
- ✓ Development and implementation of a conservation and management plan under the CWA
- ✓ Watershed projects meeting the criteria set forth in the CWA
- ✓ Energy consumption reduction for publicly owned treatment works
- ✓ Reuse or recycling of wastewater, stormwater, or subsurface drainage water
- ✓ Security of publicly owned treatment works

Treasury encourages recipients to review the EPA handbook for the [CWSRF](#) for a full list of eligibilities.

### PROJECTS ELIGIBLE UNDER EPA'S DRINKING WATER STATE REVOLVING FUND (DWSRF)

Eligible drinking water projects under the DWSRF, and the final rule, include:

- ✓ Facilities to improve drinking water quality
- ✓ Transmission and distribution, including improvements of water pressure or prevention of contamination in infrastructure and lead service line replacements
- ✓ New sources to replace contaminated drinking water or increase drought resilience, including aquifer storage and recovery system for water storage
- ✓ Green infrastructure, including green roofs, rainwater harvesting collection, permeable pavement
- ✓ Storage of drinking water, such as to prevent contaminants or equalize water demands
- ✓ Purchase of water systems and interconnection of systems
- ✓ New community water systems

Treasury encourages recipients to review the EPA handbook for the [DWSRF](#) for a full list of eligibilities.

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**ADDITIONAL ELIGIBLE PROJECTS**

With broadened eligibility under the final rule, SLFRF funds may be used to fund additional types of projects— such as additional stormwater infrastructure, residential wells, lead remediation, and certain rehabilitations of dams and reservoirs — beyond the CWSRF and DWSRF, if they are found to be “necessary” according to the definition provided in the final rule and outlined below.

- ✓ Culvert repair, resizing, and removal, replacement of storm sewers, and additional types of stormwater infrastructure
- ✓ Infrastructure to improve access to safe drinking water for individual served by residential wells, including testing initiatives, and treatment/remediation strategies that address contamination
- ✓ Dam and reservoir rehabilitation if primary purpose of dam or reservoir is for drinking water supply and project is necessary for provision of drinking water
- ✓ Broad set of lead remediation projects eligible under EPA grant programs authorized by the Water Infrastructure Improvements for the Nation (WIIN) Act, such as lead testing, installation of corrosion control treatment, lead service line replacement, as well as water quality testing, compliance monitoring, and remediation activities, including replacement of internal plumbing and faucets and fixtures in schools and childcare facilities

A “necessary” investment in infrastructure must be:

- (1) responsive to an identified need to achieve or maintain an adequate minimum level of service, which may include a reasonable projection of increased need, whether due to population growth or otherwise,
- (2) a cost-effective means for meeting that need, taking into account available alternatives, and
- (3) for investments in infrastructure that supply drinking water in order to meet projected population growth, projected to be sustainable over its estimated useful life.

Please note that DWSRF and CWSRF-eligible projects are generally presumed to be necessary investments. Additional eligible projects generally must be responsive to an identified need to achieve or maintain an adequate minimum level of service. Recipients are only required to assess cost-effectiveness of projects for the creation of new drinking water systems, dam and reservoir rehabilitation projects, or projects for the extension of drinking water service to meet population growth needs. Recipients should review the supplementary information to the final rule for more details on requirements applicable to each type of investment.

**APPLICABLE STANDARDS & REQUIREMENTS**

Treasury encourages recipients to adhere to strong labor standards, including project labor agreements and community benefits agreements that offer wages at or above the prevailing rate and include local hire provisions. Treasury also encourages recipients to prioritize in their procurements employers with high labor standards and to prioritize employers without recent violations of federal and state labor and employment laws.

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## Broadband Infrastructure

The Coronavirus State and Local Fiscal Recovery Funds may be used to make necessary investments in broadband infrastructure, which has been shown to be critical for work, education, healthcare, and civic participation during the public health emergency. The final rule broadens the set of eligible broadband infrastructure investments that recipients may undertake.

Recipients may pursue investments in broadband infrastructure meeting technical standards detailed below, as well as an expanded set of cybersecurity investments.

### BROADBAND INFRASTRUCTURE INVESTMENTS

Recipients should adhere to the following requirements when designing a broadband infrastructure project:

1. **Identify an eligible area for investment.** Recipients are encouraged to prioritize projects that are designed to serve locations without access to reliable wireline 100/20 Mbps broadband service (meaning service that reliably provides 100 Mbps download speed and 20 Mbps upload speed through a wireline connection), but are broadly able to invest in projects designed to provide service to locations with an identified need for additional broadband investment. Recipients have broad flexibility to define need in their community. Examples of need could include:
  - ✓ Lack of access to a reliable high-speed broadband connection
  - ✓ Lack of affordable broadband
  - ✓ Lack of reliable service

If recipients are considering deploying broadband to locations where there are existing and enforceable federal or state funding commitments for reliable service of at least 100/20 Mbps, recipients must ensure that SLFRF funds are designed to address an identified need for additional broadband investment that is not met by existing federal or state funding commitments. Recipients must also ensure that SLFRF funds will not be used for costs that will be reimbursed by the other federal or state funding streams.

2. **Design project to meet high-speed technical standards.** Recipients are required to design projects to, upon completion, reliably meet or exceed symmetrical 100 Mbps download and upload speeds. In cases where it is not practicable, because of the excessive cost of the project or geography or topography of the area to be served by the project, eligible projects may be designed to reliably meet or exceed 100/20 Mbps and be scalable to a minimum of symmetrical 100 Mbps download and upload speeds.

Treasury encourages recipients to prioritize investments in fiber-optic infrastructure wherever feasible and to focus on projects that will achieve last-mile connections. Further, Treasury encourages recipients to prioritize support for broadband networks owned, operated by, or affiliated with local governments, nonprofits, and co-operatives.



3. **Require enrollment in a low-income subsidy program.** Recipients must require the service provider for a broadband project that provides service to households to either:

- ✓ Participate in the FCC’s Affordable Connectivity Program (ACP)
- ✓ Provide access to a broad-based affordability program to low-income consumers that provides benefits commensurate to ACP

Treasury encourages broadband services to also include at least one low-cost option offered without data usage caps at speeds sufficient for a household with multiple users to simultaneously telework and engage in remote learning. Recipients are also encouraged to consult with the community on affordability needs.

### CYBERSECURITY INVESTMENTS

SLFRF may be used for modernization of cybersecurity for existing and new broadband infrastructure, regardless of their speed delivery standards. This includes modernization of hardware and software.

### APPLICABLE STANDARDS & REQUIREMENTS

Treasury encourages recipients to adhere to strong labor standards, including project labor agreements and community benefits agreements that offer wages at or above the prevailing rate and include local hire provisions. Treasury also encourages recipients to prioritize in their procurements employers with high labor standards and to prioritize employers without recent violations of federal and state labor and employment laws.



## Restrictions on Use

While recipients have considerable flexibility to use Coronavirus State and Local Fiscal Recovery Funds to address the diverse needs of their communities, some restrictions on use of funds apply.

### OFFSET A REDUCTION IN NET TAX REVENUE

- **States and territories may not use this funding to directly or indirectly offset a reduction in net tax revenue resulting from a change in law, regulation, or administrative interpretation beginning on March 3, 2021, through the last day of the fiscal year in which the funds provided have been spent.** If a state or territory cuts taxes during this period, it must demonstrate how it paid for the tax cuts from sources other than SLFRF, such as by enacting policies to raise other sources of revenue, by cutting spending, or through higher revenue due to economic growth. If the funds provided have been used to offset tax cuts, the amount used for this purpose must be repaid to the Treasury.

### DEPOSITS INTO PENSION FUNDS

- **No recipients except Tribal governments may use this funding to make a deposit to a pension fund.** Treasury defines a “deposit” as an extraordinary contribution to a pension fund for the purpose of reducing an accrued, unfunded liability. While pension deposits are prohibited, recipients may use funds for routine payroll contributions connected to an eligible use of funds (e.g., for public health and safety staff). Examples of extraordinary payments include ones that:
  - ✖ Reduce a liability incurred prior to the start of the COVID-19 public health emergency and occur outside the recipient's regular timing for making the payment
  - ✖ Occur at the regular time for pension contributions but is larger than a regular payment would have been

### ADDITIONAL RESTRICTIONS AND REQUIREMENTS

Additional restrictions and requirements that apply across all eligible use categories include:

- **No debt service or replenishing financial reserves.** Since SLFRF funds are intended to be used prospectively, recipients may not use SLFRF funds for debt service or replenishing financial reserves (e.g., rainy day funds).
- **No satisfaction of settlements and judgments.** Satisfaction of any obligation arising under or pursuant to a settlement agreement, judgment, consent decree, or judicially confirmed debt restructuring in a judicial, administrative, or regulatory proceeding is itself not an eligible use. However, if a settlement requires the recipient to provide services or incur other costs that are an eligible use of SLFRF funds, SLFRF may be used for those costs.
- **Additional general restrictions.** SLFRF funds may not be used for a project that conflicts with or contravenes the purpose of the American Rescue Plan Act statute (e.g., uses of funds that

*Coronavirus State & Local Fiscal Recovery Funds: Overview of the Final Rule*



undermine COVID-19 mitigation practices in line with CDC guidance and recommendations) and may not be used in violation of the Award Terms and Conditions or conflict of interest requirements under the Uniform Guidance. Other applicable laws and regulations, outside of SLFRF program requirements, may also apply (e.g., laws around procurement, contracting, conflicts-of-interest, environmental standards, or civil rights).



## Program Administration

The Coronavirus State and Local Fiscal Recovery Funds final rule details a number of administrative processes and requirements, including on distribution of funds, timeline for use of funds, transfer of funds, treatment of loans, use of funds to meet non-federal match or cost-share requirements, administrative expenses, reporting on use of funds, and remediation and recoupment of funds used for ineligible purposes. This section provides a summary for the most frequently asked questions.

### TIMELINE FOR USE OF FUNDS

Under the SLFRF, funds must be used for costs incurred on or after March 3, 2021. Further, costs must be obligated by December 31, 2024, and expended by December 31, 2026.

### TRANSFERS

Recipients may undertake projects on their own or through subrecipients, which carry out eligible uses on behalf of a recipient, including pooling funds with other recipients or blending and braiding SLFRF funds with other sources of funds. Localities may also transfer their funds to the state through section 603(c)(4), which will decrease the locality's award and increase the state award amounts.

### LOANS

Recipients may generally use SLFRF funds to provide loans for uses that are otherwise eligible, although there are special rules about how recipients should track program income depending on the length of the loan. Recipients should consult the final rule if they seek to utilize these provisions.

### NON-FEDERAL MATCH OR COST-SHARE REQUIREMENTS

Funds available under the "revenue loss" eligible use category (sections 602(c)(1)(C) and 603(c)(1)(C) of the Social Security Act) generally may be used to meet the non-federal cost-share or matching requirements of other federal programs. However, note that SLFRF funds may not be used as the non-federal share for purposes of a state's Medicaid and CHIP programs because the Office of Management and Budget has approved a waiver as requested by the Centers for Medicare & Medicaid Services pursuant to 2 CFR 200.102 of the Uniform Guidance and related regulations.

SLFRF funds beyond those that are available under the revenue loss eligible use category may not be used to meet the non-federal match or cost-share requirements of other federal programs, other than as specifically provided for by statute. As an example, the Infrastructure Investment and Jobs Act provides that SLFRF funds may be used to meet the non-federal match requirements of authorized Bureau of Reclamation projects and certain broadband deployment projects. Recipients should consult the final rule for further details if they seek to utilize SLFRF funds as a match for these projects.

### ADMINISTRATIVE EXPENSES

SLFRF funds may be used for direct and indirect administrative expenses involved in administering the program. For details on permissible direct and indirect administrative costs, recipients should refer to Treasury's [Compliance and Reporting Guidance](#). Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs.

*Coronavirus State & Local Fiscal Recovery Funds: Overview of the Final Rule*





## REPORTING, COMPLIANCE & RECOUPMENT

Recipients are required to comply with Treasury's [Compliance and Reporting Guidance](#), which includes submitting mandatory periodic reports to Treasury.

Funds used in violation of the final rule are subject to remediation and recoupment. As outlined in the final rule, Treasury may identify funds used in violation through reporting or other sources. Recipients will be provided with an initial written notice of recoupment with an opportunity to submit a request for reconsideration before Treasury provides a final notice of recoupment. If the recipient receives an initial notice of recoupment and does not submit a request for reconsideration, the initial notice will be deemed the final notice. Treasury may pursue other forms of remediation and monitoring in conjunction with, or as an alternative to, recoupment.

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### REVISIONS TO THE OVERVIEW OF THE FINAL RULE:

- January 18, 2022 (p. 4, p. 16): Clarification that the revenue loss standard allowance is “up to” \$10 million under the Replacing Lost Public Sector Revenue eligible use category; addition of further information on the eligibility of general infrastructure, general economic development, and worker development projects under the Public Health and Negative Economic Impacts eligible use category.

*Coronavirus State & Local Fiscal Recovery Funds: Overview of the Final Rule*

*U.S. Department of the Treasury*



**TOWN OF LOS GATOS**  
**FINANCE COMMISSION REPORT**

MEETING DATE: 02/14/2022

ITEM NO: 6

Item 6.

DATE: February 10, 2022  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Review and Provide Comments to the Town Council Regarding Mid-Year Budget Report

**RECOMMENDATION:**

Review and provide comments to the Town Council regarding Mid-Year Budget Report.

**DISCUSSION:**

With the passage of Measure A, the Finance Commission has been tasked with several mandated duties as described in the provisions of the adopted Ordinance. Section 2.50.225. – Duties states that:

- (a) The Finance Commission shall:  
Serve as an on-going, substantive and expert advisory body to the Town and Town Council so that the Town and Town Council can make informed decisions about the Town's financial, budgetary and investment matters and operations related thereto.

On February 15, 2022, the Town Council will consider the FY 2012/22 Mid-Year Budget Report and recommendations for budget adjustments (see Attachment 1). Since Finance Commission regular meeting is scheduled on February 14, 2022, staff will provide the Finance Commission comments to the Town Council in a Desk Item on February 15, 2022.

**Attachment:**

1. Town Council FY 2021/22 Mid-Year Budget Report with Attachments

**PREPARED BY:** Stephen Conway  
Finance Director

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



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/15/2022

ITEM NO: 11

Item 6.

DATE: February 9, 2022  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Mid-Year Budget Report - July 1 - December 31, 2021:  
a. Receive FY 2021/22 Mid-Year Budget Report;  
b. Authorize Budget Adjustments as Recommended in the Mid-Year Budget Report; and  
c. Adopt the Town Council and Management Classifications Salary Schedule Updated with the Urban Forest Manager Position.

**RECOMMENDATION:**

Staff recommends that the Town Council take the following actions regarding the Mid-Year Budget Performance Report - July 1 - December 31, 2021:

- a. Receive FY 2021/22 Mid-Year Budget Report (Attachment 1);
- b. Authorize budget adjustments as recommended in the Mid-Year Budget Report; and
- c. Adopt the Town Council and Management Classifications Salary Schedule updated with the Urban Forest Manager Position (Attachment 2).

**REMARKS:**

The purposes of the Mid-Year Report (Attachment 1) are to provide the Town Council with a status of the adopted Fiscal Year (FY) 2021/22 Operating Budget after the first six months and to make any adjustments to ensure the continuity of municipal services and operations for the remainder of the fiscal year. The Report is one of several periodic updates to the Town Council on the status of the current year's revenues and expenditures and the projected financial condition of all Town funds compared with the Adopted Operating Budget. The updates primarily focus on the Town's General Fund. The analysis and recommendations are contained in Attachment 1.

**PREPARED BY:** Stephen Conway  
Finance Director

**ATTACHMENT 1**

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

PAGE 2 OF 4

SUBJECT: Mid-Year Budget Performance Report – Six Months Ending December 31, 2021

DATE: February 9, 2022

REMARKS (continued):

Highlights of the Mid-Year Budget Report include:

Financial Overview and Executive Summary

As discussed in the Report, the projected deficit for FY 2021/22 is less than originally estimated due to projected increases in Educational Revenue Augmentation Funds (ERAF) property tax distributions and Transient Occupancy Tax (TOT). In addition to the slight improvement in revenue projections, staff is estimating that there will be year-end operating expenditure savings. Staff anticipates savings attributable to Departmental vacancies and lower cost structures associated with retiree replacements. In addition, for FY 2021/22, salaries were again budgeted at actual salary plus a one step increase, which was a significant budgeting methodology change from previous practice. Current fiscal year-end projections for FY 2021/22 reflect an anticipated \$1.4 million deficit of operating revenues over expenditures compared to the anticipated \$1.9 million deficit in the Adopted Budget.

General Fund Revenue Analysis

The current forecast expects decreases in economically sensitive revenues such as sales tax, property tax, and franchise fee; however, transient occupancy tax, and revenues related to development activities are performing significantly better. Business license tax for the current fiscal year was budgeted anticipating the continued impact of lower gross retail activities and additional business license closures due to the pandemic and no adjustments are needed at this time. The combined recommended mid-year revenue adjustments total a net increase of \$1.0 million. While staff conducted a detailed analysis of all General Fund revenues and provided the expected year-end estimates, only major revenue sources are recommended for adjustment at this time.

General Fund Expenditure Analysis

General Fund expenditure totals are trending in accordance with the Adjusted Budget, with total operational expenditures at the end of the second quarter at or about 47% of the Adjusted Budget. With six months of data now available, staff expects that the next six months of expenditures will be within the Adjusted Budget, although unexpected costs can still occur which may require future Council action. The staff analysis examines potential salary and other expenditure savings; however, budget adjustments are only recommended in certain instances as outlined in the next section of the Report. The recommended General Fund mid-year expenditure adjustments total a net increase of \$0.5 million.

PAGE 3 OF 4

SUBJECT: Mid-Year Budget Performance Report – Six Months Ending December 31, 2021

DATE: February 9, 2022

REMARKS (continued):

*FY 2021/22 Recommended Budget Adjustments and Summary of Key Recommended Budget Adjustments*

All recommended revenue and expenditure adjustments are contained in these sections along with a description of the major adjustments.

*General Fund Financial Summaries and Estimates*

This section introduces the *Schedule of General Fund Operating Revenues Versus Operating Expenditures* for the second quarter of FY 2021/22 which includes comparison information from the prior year.

*Financial Summaries of Other Funds*

This section provides financial summaries and presents data by governmental, proprietary, and fiduciary fund types. For each, the fund information starts with a beginning fund balance, adds current year revenues, and subtracts current year expenditures, resulting in an ending fund balance.

COORDINATION:

All Town Departments participated in the data collection and analysis that informed the preparation of the Mid-Year Report and proposed budget adjustments.

CONCLUSION AND NEXT STEPS:

Staff is continuing to monitor all revenues and expenditures during the preparation of the Proposed Operating and Capital Budgets for FY 2022/23. Should any additional budget adjustments be necessary to balance operating revenue and expenditures prior to the FY 2021/22 close, staff will advise the Council accordingly. The Draft FY 2022/23 Operating and Capital Budgets will be available in May with the budget hearing tentatively scheduled for May 17, 2022.

Staff recommends that the Town Council approve the proposed revenue and expenditure budget adjustments as described in Attachment 1 and adopt the updated Town Council and Management Classifications Salary Schedule (Attachment 2). In addition, staff looks forward to answering the Town Council's questions.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

SUBJECT: Mid-Year Budget Performance Report – Six Months Ending December 31, 2021

DATE: February 9, 2022

Attachments:

1. Mid-Year Budget Report - July 1 - December 31, 2021.
2. Town Council and Management Classifications Salary Schedule



**TOWN OF LOS GATOS  
MID-YEAR BUDGET REPORT  
JULY 1 - DECEMBER 31, 2021**

**February 10, 2022**

**FINANCIAL OVERVIEW AND EXECUTIVE SUMMARY: STATUS OF FY 2021/22  
ADOPTED BUDGET**

The purposes of the Mid-Year Report are to provide the Town Council with a status of the Adopted Fiscal Year (FY) 2021/22 Operating Budget after the first six months and to make any adjustments to ensure the continuity of municipal services and operations for the remainder of the fiscal year. The Report is one of several periodic updates to the Town Council on the status of the current year's revenues and expenditures and the projected financial condition of all Town funds compared with the Adopted Operating Budget. The updates typically focus on the Town's General Fund.

On January 25, 2022, the Town Council determined the Strategic Priorities for 2022-2024, providing guidance to Town staff and Commissions on workload prioritization. The Town Council reaffirmed its Core Goals, including: Community Character, Good Governance, Fiscal Stability, Quality Public Infrastructure, Civic Enrichment, and Public Safety. In addition, the Council affirmed its ongoing commitments to the Strategic Priorities of Safety, Quality of Life, Traffic/Transportation, and Prudent Financial Management. Even with budgetary challenges associated with the COVID-19 pandemic, many of Council's primary goals and priorities will continue to be programed in the FY 2022/23 Operating and Capital Budgets. Specifically, the Council would like continued progress on wildfire protection safety; emergency preparedness; semi-permanent parklets; diversity, equity, and inclusion; community policing; parking study implementation; and the General Plan update (see the following page).

Based on the Town Council's identified Strategic Priorities, staff has started budget development work, including an update of the Five-Year Financial Forecast, identification of critical Town needs, contractual obligations, unfunded mandates, potential adjustments to the Fee and Fine Schedule, and other analyses. Staff is actively engaged in the FY 2022/23 budget process with the primary focus of ensuring that the available Town resources are allocated to meet the priority service needs of the community. The Town Council is scheduled to hold a public hearing on the Proposed FY 2022/23 Budget on May 17, 2022.

Current fiscal year-end projections for FY 2021/22 reflect an anticipated \$1.4 million deficit of operating revenues over expenditures compared to the anticipated \$1.9 million deficit in the Adopted Budget.

ATTACHMENT 1



# Ongoing Strategic Priorities 2022-2024

## **SAFETY**

- Community Policing
- Emergency Preparedness
  - CERT Recruitment & Training
  - EOC Readiness & Emergency Plan Development
- Fire Protection
  - Vegetation Management
  - Implementation of Ad Hoc Wildfire Mitigation Plan

## **PRUDENT FINANCIAL MANAGEMENT**

- Address Pension & OPEB Obligations
- Explore New Revenue Opportunities
- Sell or Lease Certain Town Properties

## **QUALITY OF LIFE**

- Community Vitality
  - Diversity, Equity & Inclusion Efforts
  - Community Where Older Adults Thrive & Senior Road Map
  - Events & Other Town-Wide Efforts
  - Community Engagement
  - Environmental Sustainability/Climate Resiliency
- Economic Vitality & Pandemic Recovery
  - Policies & Ordinances
  - Semi-Permanent Parklets
- Land Use Planning
  - General Plan 2040
  - Housing Element
  - Affordable Housing
  - Dittos Lane Affordable Housing
  - Objective Standards
  - SB9 Implementation

## **TRAFFIC/TRANSPORTATION**

- Comprehensive Parking Study
  - Short, Medium, and Long-Term Actions
- Transportation Demand Management
  - Measure B Transportation Projects
  - Bicycle & Pedestrian Improvements
  - Community Shuttle
  - Summer/Rush Hour/School Traffic
  - Regional Transportation Issues



As discussed in greater detail later in this Report, the primary drivers of the reduction in the projected deficit is projected increases in Educational Revenue Augmentation Funds (ERAF) property tax distributions and Transient Occupancy Tax (TOT). In addition to the slight improvement in revenue projections, staff is estimating that there will be year-end operating expenditure savings. Staff anticipates savings attributable to Departmental vacancies and lower cost structures associated with retiree replacements. In addition, for FY 2021/22, salaries were again budgeted at actual salary plus a one step increase, which was a significant budgeting methodology change from previous practice.

On June 1, 2021, the Town Council, under advisement from the Finance Commission, adopted the use of \$1,912,536 in American Recovery Plan Act (ARPA) funding to balance the FY 2021/22 budget. With the slight reduction in projected deficits into the close of FY 2021/22, staff recommends maintaining one-time ARPA revenue loss funding in the amount of \$1,444,021 for budget balancing.

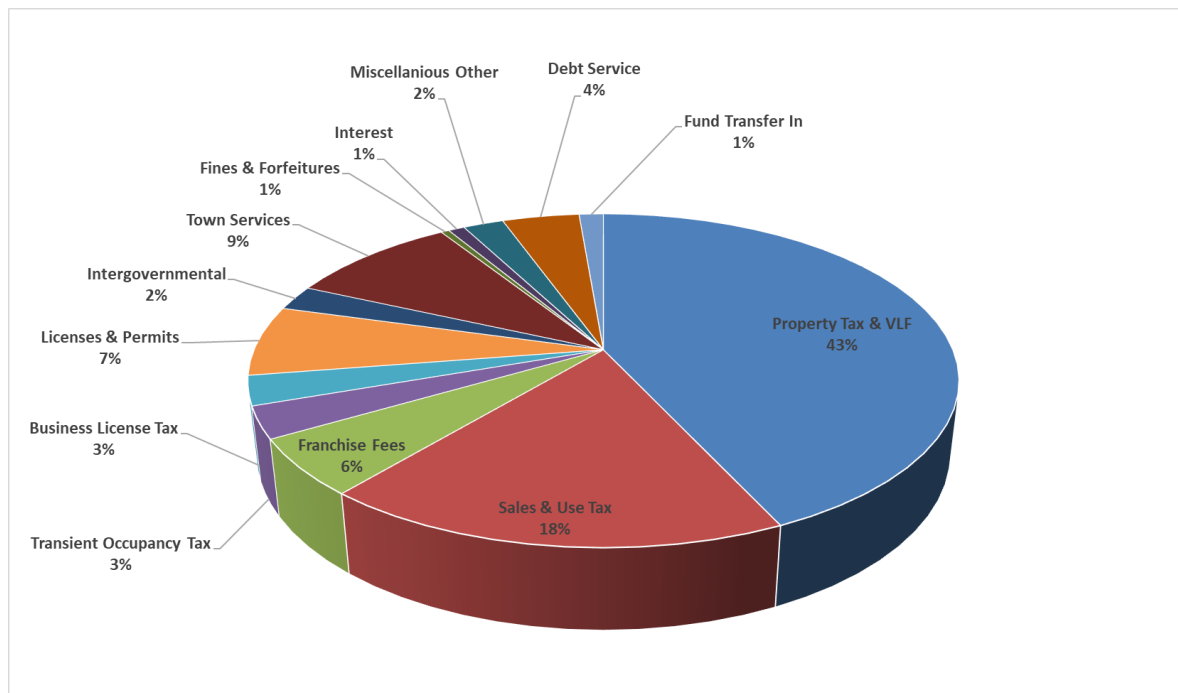
Providing services to the community in this and future fiscal years will require a strong return to pre-pandemic performance of the Town's economically sensitive revenues to offset continued projected cost increases. The FY 2022/23 budget development process will endeavor to maintain essential public services while controlling operational costs in light of the five-year fiscal forecast, which predicts operating revenue shortfalls in subsequent fiscal years.

## CONTENT OVERVIEW

The remainder of this Report focuses on the General Fund and provides analyses of key revenues and expenditures, including historic data by Town Department/Service Area. The next section contains descriptions of recommended revenue and expenditure budget adjustments. The Report also includes financial summaries of other funds as well as a table of General Fund Operating Revenues Versus Operating Expenditures for the second quarter of FY 2021/22 which includes comparison information from the prior year.

## GENERAL FUND - KEY REVENUE ANALYSIS FY 2021/22

The following information provides a recap of the General Fund budgeted significant revenue sources, including estimated year end collection as of the second quarter ending December 31, 2021. Staff is monitoring developments in each major revenue source closely for potential adjustments to budgeted revenues as recommended in this Report.



### Property Tax and Motor Vehicle in Lieu Fee (VLF)

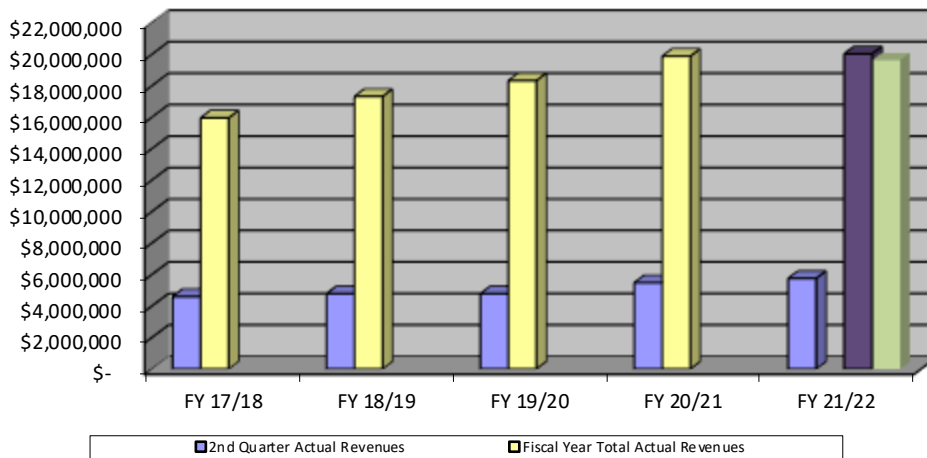
Property tax and VLF are the single largest revenue source for the Town and comprised approximately 43% of total Town General Fund projected revenues for FY 2021/22. Property tax is levied by the Santa Clara County Assessor's Office at 1% of a property's assessed value, of which the Town receives approximately 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.

The County of Santa Clara provides property tax collection updates and projections throughout the year. The current County estimate indicates a modest deviation from budget of approximately \$400,000. The decrease is attributed to the combination of lower than expected secured property tax estimates and increases to VLF, property transfer tax, and Educational Revenue Augmentation Fund (ERAF) estimates.

The Town has been monitoring ongoing developments regarding the distribution of excess ERAF funds. A portion of property tax revenue goes to the ERAF to support local school districts. When the amount contributed to ERAF is more than the minimum cost of funding local schools, excess funds have traditionally been returned to the county, cities, and special districts. Five counties, including Santa Clara, have been using a redistribution allocation formula that has been contested by the State. The Town received the full amount for FY 2020/21; however, the Santa Clara County Assessor's Office recommends budgeting only 70% of the FY 2021/22 projected number. The Adopted FY 2021/22 Budget included a \$1.45 million ERAF estimate, 70% of the current ERAF base revenue estimate is \$1.5 million.

Property tax distributions are largely received in the third and fourth quarters. Second quarter receipts are trending similar to those received during the second quarter of the previous fiscal year and are at 27% of budgeted totals. Based on current County projections, staff recommends a \$405,333 decrease in estimated General Property Tax and Motor Vehicle in Lieu Fee collections.

### Property Tax and VLF - Quarterly and Annual Revenues 5-Year History



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 4,604,788	\$ 4,785,479	\$ 4,785,479	\$ 5,481,928	\$ 5,761,081
Fiscal Year Total Actual Revenues	\$ 15,958,406	\$ 17,321,346	\$ 18,330,427	\$ 19,878,834	
Fiscal Year Total Estimated Revenues					\$ 19,630,853
Fiscal Year Budgeted Revenues					\$ 20,036,186
2nd Quarter Percent of Total	29%	28%	26%	28%	29%
<b>Recommended Budget Revision</b>					<b>\$ 405,333</b>

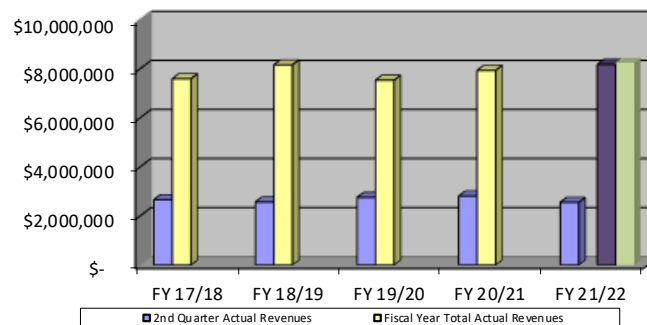
## Sales Tax

Sales tax is the second largest revenue source for the Town's General Fund, accounting for 18% of budgeted General Fund projected revenues for FY 2021/22. The Town currently receives 1.125 cents for every 9.125 cents of sales tax paid per dollar on retail sales and taxable services transacted within Los Gatos, including the Town of Los Gatos residents' approved ballot Measure G enacting a one-eighth cent (0.125%) district sales tax for 20 years.

Sales tax estimates are based on actual sales tax data and annual sales tax estimates for five years provided by the Town's consultant, MuniServices. In addition to brick-and-mortar sales tax generation, the MuniServices estimates include several online sales tax projections. The 2018 Wayfair Decision resulted in e-commerce vendors utilizing the Amazon platform to collect sales tax based on destination; however, items shipped directly from Amazon fulfillment centers are collecting sales tax based on the point of distribution. Regular sales tax collected through online transactions are distributed through the Santa Clara County pool for which the Town receives a pro rata share of the sales tax generated in Santa Clara County for that particular quarter. The Town directly receives the one-eighth district tax portion of the sales tax generated by the residents of Los Gatos. Current total sales tax estimates include \$7,069,045 (\$144,495 decrease) in proceeds from regular sales tax and \$1,173,733 (\$209,404 increase) in proceeds from the Measure G one-eighth cent district tax. Actual receipts net of administrative fees collected by the State will be confirmed at the close of the fiscal year and per prior Council direction, the Measure G funds are allocated 50 % for capital improvement projects and 50% for operating expenses.

While FY 2021/22 second quarter receipts are trending slightly lower than in the same period last fiscal year, staff recommends a \$64,919 budget increase to reflect the MuniServices current estimates.

**Sales Tax & Measure G Tax - Quarterly and Annual Revenues**  
**5-Year History**



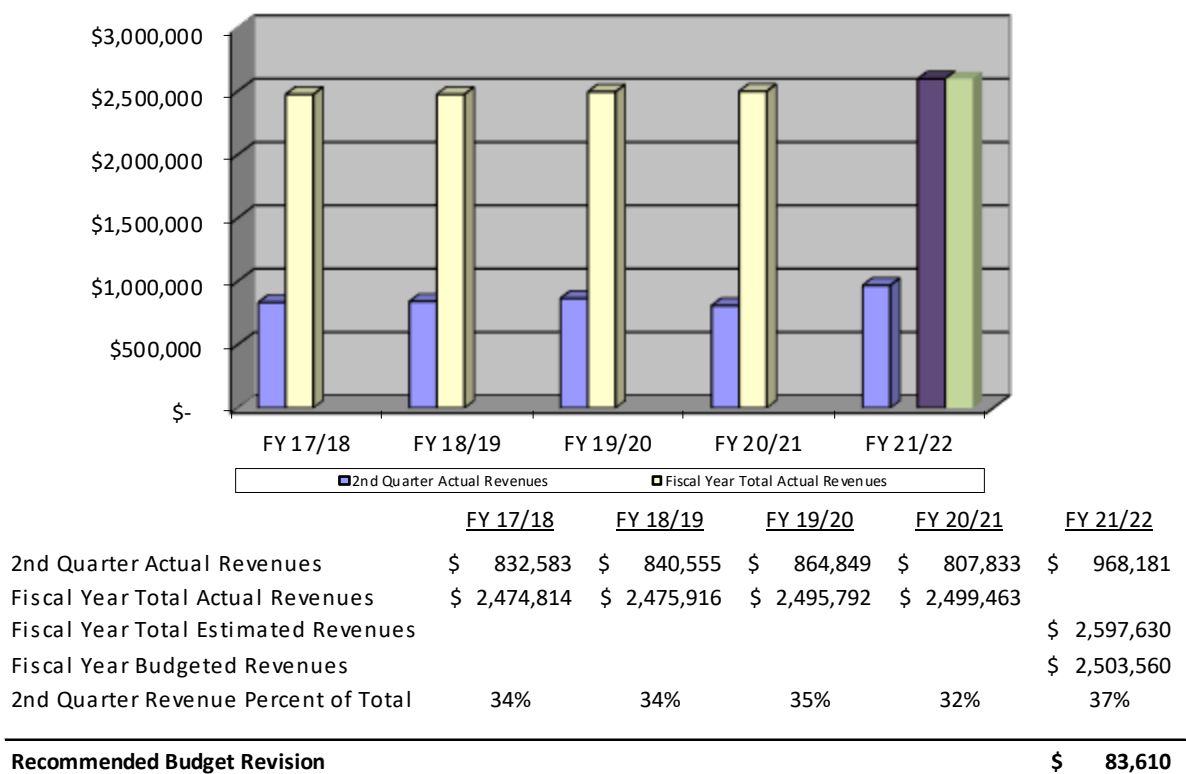
	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 2,662,601	\$ 2,568,415	\$ 2,755,208	\$ 2,813,652	\$ 2,556,341
Fiscal Year Total Actual Revenue	\$ 7,592,206	\$ 8,158,152	\$ 7,531,425	\$ 7,933,604	
Fiscal Year Total Estimated Revenues					\$ 8,242,778
Fiscal Year Budgeted Revenues					\$ 8,177,859
2nd Quarter Percent of Total	35%	31%	37%	35%	31%
<b>Recommended Budget Revision</b>					<b>\$ 64,919</b>

## 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 6% of projected General Fund revenues in FY 2021/22.

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 lower than those of the second quarter in FY 2020/21 especially in the cable franchise fee category. This decrease reflects the current trend of customers using multiple streaming platforms instead of traditional cable broadcast services. Staff recommends a \$83,610 budget decrease to this revenue source.

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

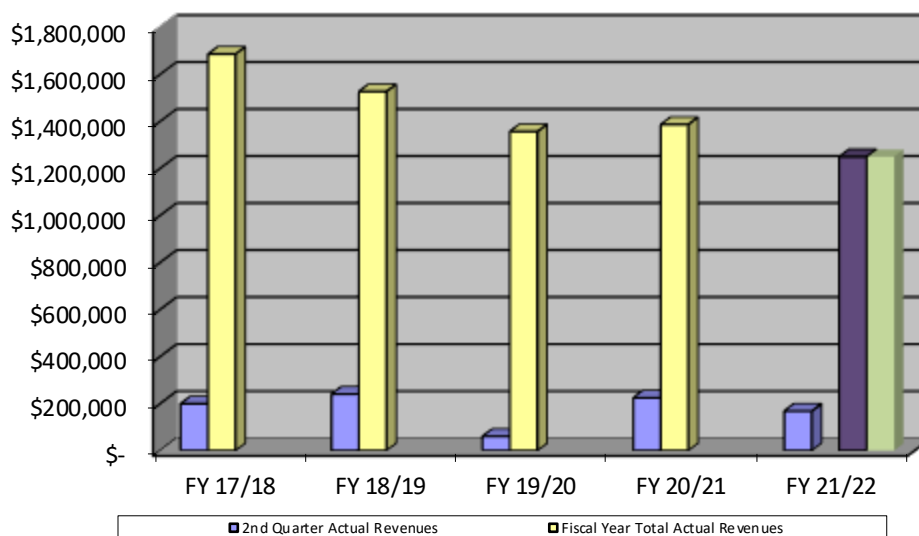


## Business License Tax

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, with retail being capped at \$975. These gross receipt 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 prorated by quarter.

Business license tax revenue for the current fiscal year was budgeted anticipating the continued impact of lower gross retail activities and additional business license closures due to the pandemic. In addition, Council authorized the omission of late business license penalties for all businesses in 2021. Staff anticipates collecting the majority of the business license revenue during the third quarter. Staff is closely monitoring the activities and will return with any recommended adjustments in May, and does not recommend any changes to this revenue source this time.

**Business License Tax - Quarterly and Annual Revenues  
5-Year History**

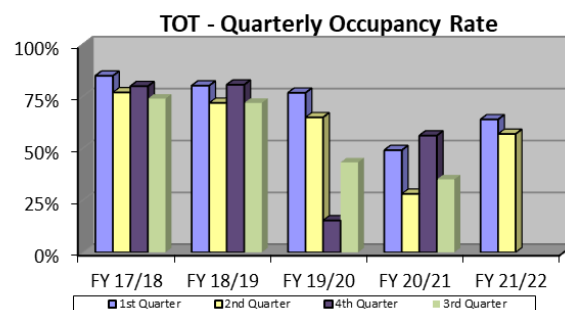


	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 199,045	\$ 240,293	\$ 60,500	\$ 224,388	\$ 167,942
Fiscal Year Total Actual Revenues	\$ 1,686,251	\$ 1,526,894	\$ 1,357,080	\$ 1,386,943	
Fiscal Year Total Estimated Revenues					\$ 1,250,000
Fiscal Year Budgeted Revenues					\$ 1,250,000
2nd Quarter Revenue Percent of Total	53%	53%	59%	16%	13%
<b>Recommended Budget Revision</b>					<b>\$ -</b>

## Transient Occupancy Tax

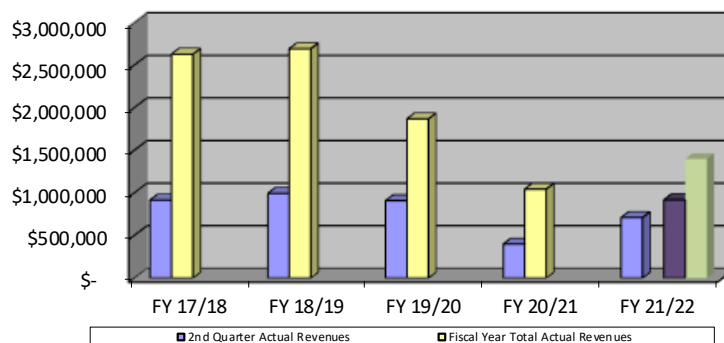
TOT is an important revenue source for the Town and comprises approximately 3% of total Town adjusted estimated revenues of \$1.4 million for FY 2021/22. The Town levies a 12% transient occupancy tax (TOT) on all hotel and motel rooms within the municipal limits of Los Gatos. The 12% rate has been in effect since January 1, 2017, after the voters approved a ballot measure to increase in the TOT from 10% to 12% at the November 8, 2016 election.

The FY 2021/22 Adopted Budget modeled a slight increase to \$900,000 in anticipated TOT revenues from \$700,000 the prior year. The slight increase reflected significant uncertainty around the return of corporate travel and a continuation of slower leisure travel. Due to a significant rebound in leisure “staycation” travel, current TOT collections are trending higher than anticipated and average occupancy rates are rebounding as well.



Staff will continue to monitor this revenue source since current estimates do not fully reflect what effect, if any, the Omicron variant may have had on occupancy in late December and January. However, based on the current trend and occupancy data analysis staff is recommending a \$479,960 budget increase.

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



	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
2nd Quarter Actual Revenues	\$ 917,019	\$ 994,581	\$ 910,806	\$ 399,620	\$ 711,861
Fiscal Year Total Actual Revenues	\$ 2,628,927	\$ 2,692,043	\$ 1,869,685	\$ 1,044,820	
Fiscal Year Total Estimated Revenues					\$ 1,400,000
Fiscal Year Budgeted Revenues					\$ 920,040
2nd Quarter Revenue Percent of Total	35%	37%	49%	38%	77%
<b>Recommended Budget Revision</b>					<b>\$ 479,960</b>

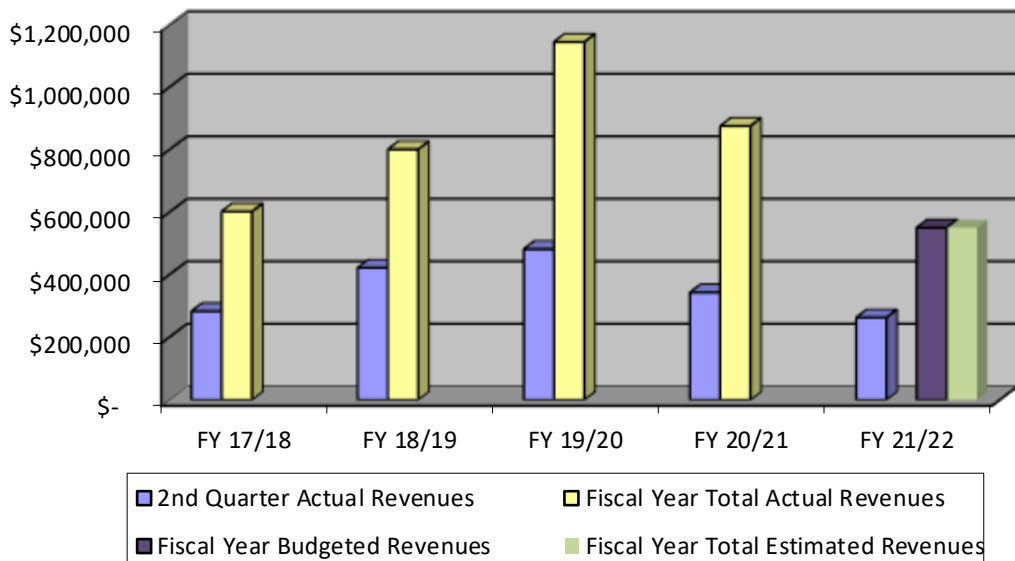
## Interest Income

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 and State regulation. The Town's investment goal is to achieve a competitive rate of return while maintaining sufficient liquidity and 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.

As of December 31, 2021, the Town's weighted portfolio yield was 1.20% which trended approximately 100 basis points above the Local Agency Investment Fund (LAIF) yield of 0.21%. This favorable yield differential to LAIF was primarily due to the LAIF portfolio's lower weighted average maturity (WAM) of 338 days versus the Town's longer WAM of 471 days. The Town's weighted average rate of return of 1.20% at the close of the Second quarter was 42 basis points lower when compared to the Second quarter return of 1.62% in 2020.

Staff recommends no change to this revenue source at this time.

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



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 284,009	\$ 422,729	\$ 482,517	\$ 343,813	\$ 263,702
Fiscal Year Total Actual Revenues	\$ 603,017	\$ 801,729	\$1,145,538	\$ 876,640	
Fiscal Year Total Estimated Revenues					\$ 551,233
Fiscal Year Budgeted Revenues					\$ 551,233
2nd Quarter Revenue Percent of Total	47%	53%	42%	39%	48%

### Recommended Budget Revision

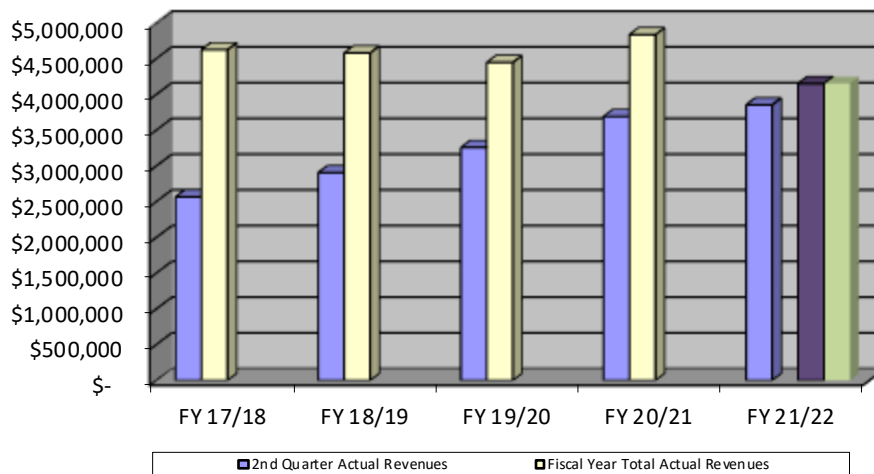


## Charges for Services

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 cost recovery formulas, which reflect approximate costs of providing these regulatory services. This category includes charges for the School Resource Officer and crossing guard services.

Second quarter Town Service revenues, specifically Charges for Services, are trending higher than in the second quarter compared to the previous fiscal year, with 93% 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 \$287,660 budget increase to reflect increased activities in planning and engineering services.

**Charges for Services - Quarterly and Annual Revenues  
5-Year History**



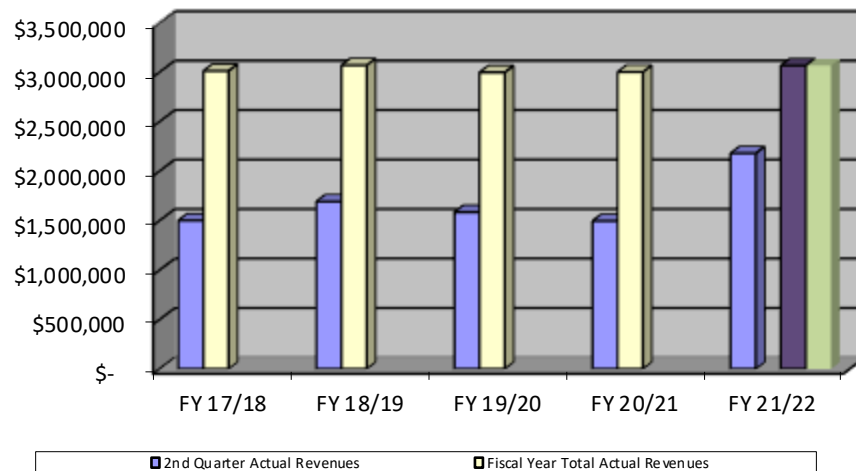
	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 2,567,814	\$ 2,905,238	\$ 3,258,027	\$ 3,691,233	\$ 3,854,415
Fiscal Year Total Actual Revenues	\$ 4,625,136	\$ 4,580,511	\$ 4,447,213	\$ 4,835,962	
Fiscal Year Total Estimated Revenues					\$ 4,152,549
Fiscal Year Budgeted Revenues					\$ 3,860,490
2nd Quarter Revenue Percent of Total	56%	63%	73%	76%	93%
<b>Recommended Budget Revision</b>					<b>\$ 287,660</b>

## 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 Permits revenue was budgeted slightly lower than FY 2020/21 in anticipation of slower development activity; however, actual development activities are higher in the current fiscal year.

Second quarter License and Permit revenue is trending 83% of budgeted revenue and higher than second quarter results from the previous fiscal year. Staff recommends a \$433,128 increase to this revenue source.

**Licenses & Permits - Quarterly and Annual Revenues  
5-Year History**



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
2nd Quarter Actual Revenues	\$ 1,498,864	\$ 1,692,252	\$ 1,584,098	\$ 1,494,487	\$ 2,180,000
Fiscal Year Total Actual Revenues	\$ 3,011,309	\$ 3,067,994	\$ 2,996,457	\$ 2,999,711	
Fiscal Year Total Estimated Revenues					\$ 3,065,997
Fiscal Year Budgeted Revenues					\$ 2,641,779
2nd Quarter Revenue Percent of Total	50%	55%	53%	50%	83%
<b>Recommended Budget Revision</b>					<b>\$ 433,128</b>

## GENERAL FUND – EXPENDITURE ANALYSIS

For FY 2021/22, General Fund Operating expenditures (not including debt payment and transfers out) are programmed at \$44.7 million. The delivery of Town services is highly dependent on talent which comprises 64% of budgeted General Fund expenditures for FY 2021/22. General Fund expenditure totals are trending in accordance with the Adjusted Budget, with total operational expenditures at the end of the second quarter at or about 47% of the Adjusted Budget. With six months of data now available, staff expects that the next six months of expenditures will be within the Adjusted Budget, although unexpected costs can still occur which may require future Council action.

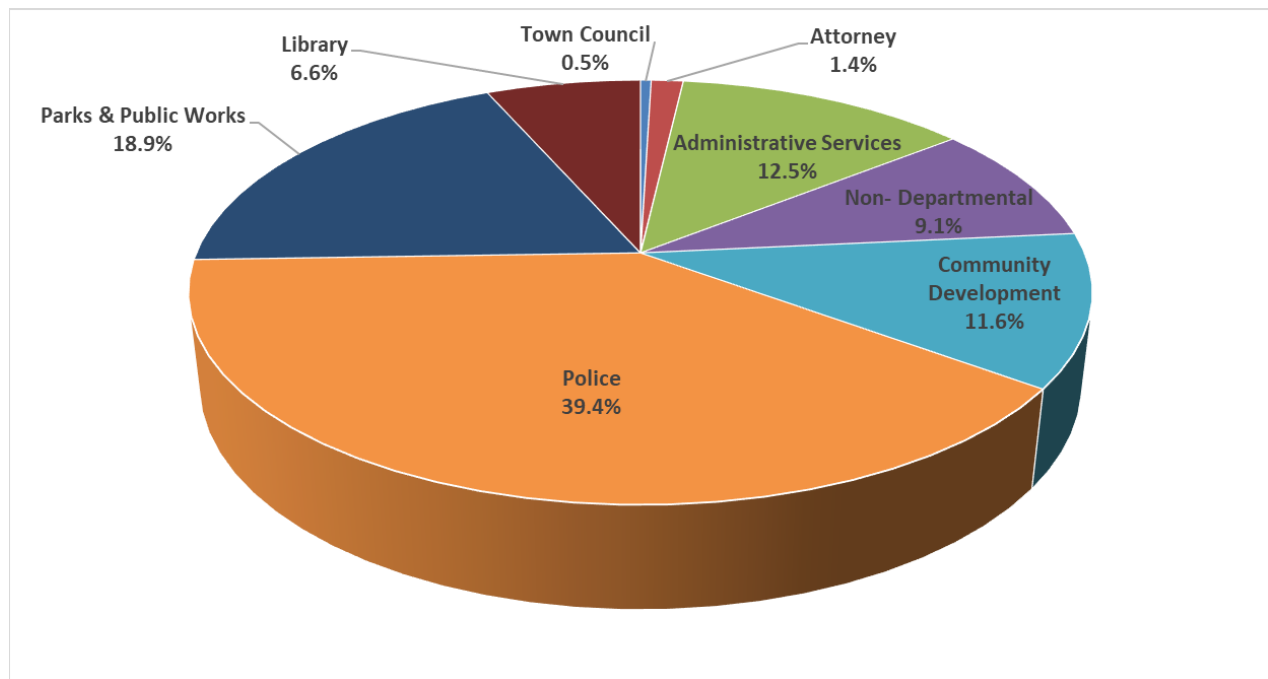
As with most municipalities, services are provided directly by employees to the Town's residents, businesses, and visitors. As a service delivery enterprise, the cost of salaries and benefits are a significant portion of the budget. As the table below illustrates, at mid-year, actual salaries are trending at 47% of budgeted salaries, while pension benefits and other benefits are trending at 45% and 44% respectively to the adjusted budget. The Town submits its entire annual amortization payment of the Town's unfunded pension liability upfront in July as a cost savings measure, saving approximately \$145,000 in interest expense. The Town traditionally booked the entire lump sum payment in July to reflect the unfunded liability payment. Starting in the current fiscal year, staff continued disbursement of the lump sum payment in July to take advantage of the interest savings; however, the expense will be booked monthly to accurately reflect staffing costs throughout the year.

General Fund Salaries & Benefits							
	FY 2020/21 Actuals	FY 2020/21 2Q	Q2% of FY 2020/21 Actuals	Q2% of FY 2021/22 Adjusted Budget	FY 2021/22 2Q	FY 2021/22 Estimated	FY 2021/22 Adjusted Budget
Salaries	\$ 20,213,047	\$ 9,977,252	49%	47%	\$ 9,805,293	\$ 20,599,803	\$ 20,812,013
Pension Benefits	\$ 6,374,120	\$ 5,127,995	80%	45%	\$ 3,259,216	\$ 6,630,301	\$ 7,316,731
Other Benefits	\$ 3,710,337	\$ 1,853,907	50%	44%	\$ 1,868,661	\$ 3,760,575	\$ 4,228,303
Total Salary & Benefit	\$ 30,297,504	\$ 16,959,154	56%	46%	\$ 14,933,170	\$ 30,990,679	\$ 32,357,047
FY 2020/21 Upfront Annual Payment to CalPERS in July 2020 \$3,954,819 (not including ADP) - Booked in July 2020							
FY 2021/22 Upfront Annual Payment to CalPERS in July 2021 \$4,231,602 (not including ADP) - Booked Monthly							

Salaries and benefits savings are anticipated due to vacancies and reduced cost structure due to retirements. In addition, vacant positions are often filled with temporary unbenefitted positions, which translate into additional benefit savings. Actual vacancies during the course of the first half of fiscal year are illustrated in the table below.

Department	Position	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Town Attorney	Legal Administrative Asisstant	Vacant					Filled with Temp
Administrative Services	Emergency Manager	Vacant					
Administrative Services	Administrative Technician	Filled - Permanent				Vacant	Filled
Community Development	Planning Manager	Vacant	Filled Interim			Filled - Permanent	
Community Development	Assistant Planner	Filled - Permanent			Vacant		Filled with Temp
Community Development	Senior Planner	Filled - Permanent				Vacant	Filled
Community Development	Associate Planner	Filled - Permanent					Vacant
Police	Police Dispatcher	Vacant					
Police	Police Dispatcher	Vacant					
Police	Police Dispatcher	Vacant					Filled
Police	Police Dispatcher	Filled - Permanent		Vacant			
Police	Police Officer	Vacant					
Police	Police Officer	Vacant					
Police	Police Officer	Filled - Permanent					Filled
Police	Police Officer	Filled - Permanent					Vacant
Police	Police Officer	Filled - Permanent					Vacant
Police	Police Officer	Filled - Permanent					Vacant
Police	Police Chief	Filled - Permanent			Vacant		
Police	Police Records & Communication Manager	Filled - Permanent			Vacant		
Police	Police Record Specialist	Filled - Permanent					Vacant
Parks & Public Works	Streets Maintenance Worker	Filled with Temp		Filled with Trainee			
Parks & Public Works	Administrative Assistant	Filled - Permanent					Vacant
Library	Library Specialist	Vacant	Filled - Permanent				
Library	Librarian	Vacant			Filled - Permanent		
Library	Senior Library Page	Filled - Permanent			Vacant - Filled with Temp		

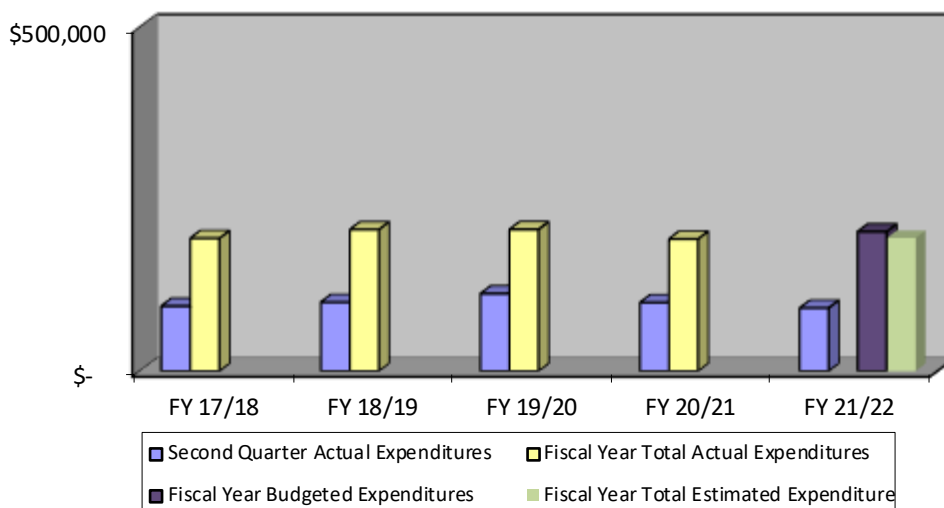
The pie chart below represents the Departmental proportion of Town General Fund estimated operating expenditures. The subsequent pages review program expenditures and any anticipated savings are provided for each program. Also provided are historical program costs, year over year (YOY) percentage changes in actual expenditures, and five-year average changes per the Finance Commission's suggestion. YOY percentage changes are, in many cases, impacted by the timing of one-time expenditures that occur during the fiscal year. Historical analysis has been provided in selected cases to provide explanations for some of the fluctuations between fiscal years. The FY 2021/22 Estimated figures also include analysis on potential salary and other expenditure savings; however, budget adjustments are only recommended as identified in this Report.



## Town Council

The Town Council is the elected legislative body that represents the residents and provides policy direction for the delivery of services and capital improvements for the Town of Los Gatos. Town Council expenditures are trending lower than the same quarter in prior year. Staff anticipates less than \$10,000 in expenditures savings in this program. Savings are anticipated in office supplies and medical benefits. Staff does not recommend any expenditure budget adjustment in this program.

**Town Council - Quarterly and Annual Expenditures  
5-Year History**



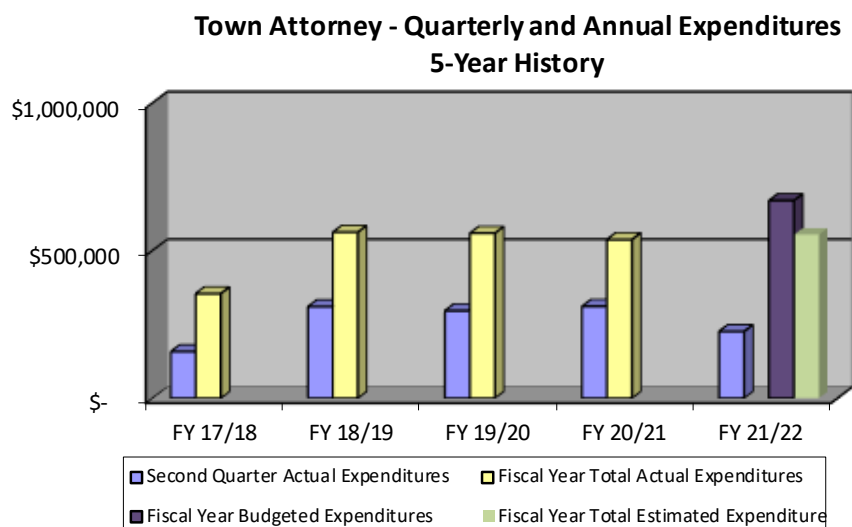
	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
Second Quarter Actual Expenditures	\$ 94,520	\$ 100,209	\$ 112,711	\$ 99,787	\$ 91,800
Fiscal Year Total Actual Expenditures	\$ 193,183	\$ 205,903	\$ 206,163	\$ 192,280	
Fiscal Year Total Estimated Expenditure					\$ 193,559
Fiscal Year Budgeted Expenditures					\$ 202,891
Second Quarter Percentage of Total	49%	49%	55%	52%	45%

### Recommended Budget Revision

YOY Percentage Changes	-0.21%	6.58%	0.13%	-6.73%	0.67%
5-year Average Percentage Change					0.09%

## Town Attorney

The Town Attorney is the legal advisor to the Town Council, Successor Agency to the former Redevelopment Agency, and Town staff. In this capacity, the office of the Town Attorney provides a wide range of legal services to ensure that Town actions and activities are legally sound. Town Attorney program expenditures are trending lower than the same quarter in the prior year. This program had a Deputy Attorney position that was vacated in March 2021 which remained unfilled and was reclassified to Legal Administrative Assistant which was filled as of 12/31/2021. The Town Attorney position was vacated as of January 1, 2022 with an anticipated filling of the position in Spring. Staff estimates approximately \$115,000 expenditures savings in this program. Savings is anticipated in staff salaries and benefits, travel and training, and office supplies. Staff does not recommend any expenditure budget adjustment in this program.



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
Second Quarter Actual Expenditures	\$ 158,095	\$ 310,219	\$ 296,424	\$ 311,520	\$ 226,341
Fiscal Year Total Actual Expenditures	\$ 354,205	\$ 562,542	\$ 559,010	\$ 537,296	
Fiscal Year Total Estimated Expenditure					\$ 554,137
Fiscal Year Budgeted Expenditures					\$ 669,733

Second Quarter Percentage of Total	45%	55%	53%	58%	34%
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### Recommended Budget Revision

YOY Percentage Changes	-16.96%	58.82%	-0.63%	-3.88%	3.13%
5-year Average Percentage Change					8.10%

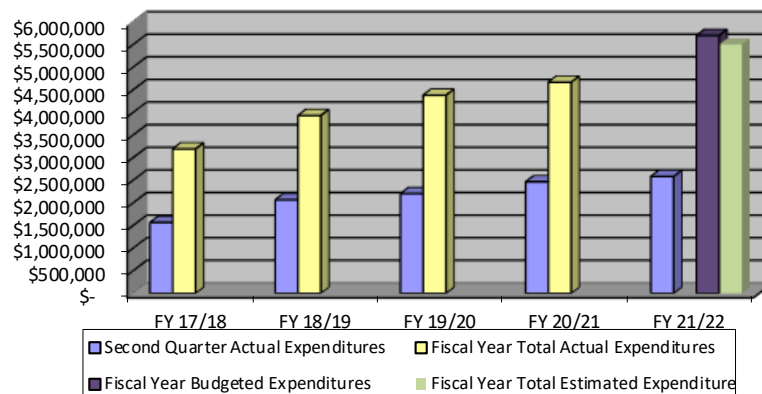
The decrease from FY 2016/17 to FY 2017/18 is attributable to the Town's legal expenses related to the North 40 lawsuit in FY 2016/17. In addition, beginning in FY 2018/19, all personnel costs that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a General Fund expense.

## Administrative Services

The Town Manager provides overall management, administration, and direction for the entire Town organization, reporting to the full Town Council. Administrative Services incorporates five key programs: Town Manager's Office, Clerk Department, Finance Department, Human Resources Department, and Information Technology.

Administrative Services program expenditures are trending lower than same quarter expenditures in prior year. While this program had some vacancies during the course of the first half of the fiscal year there is only one vacancy (Temporary Emergency Services Coordinator) as of December 31, 2021. That position is scheduled to be filled in late February. The Finance Director position was vacated as of January 1, 2022, and staff anticipates filling the position in March/April. Staff estimates approximately \$200,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, travel and training, and office supplies. Staff recommends \$28,400 budget adjustments to cover additional executive recruitment expenses.

**Administrative Services - Quarterly and Annual Expenditures  
5-Year History**



	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
Second Quarter Actual Expenditures	\$1,567,002	\$2,069,839	\$2,204,552	\$2,467,813	\$2,584,905
Fiscal Year Total Actual Expenditures	\$3,193,995	\$3,931,807	\$4,380,504	\$4,667,995	
Fiscal Year Total Estimated Expenditure					\$5,501,110
Fiscal Year Budgeted Expenditures					\$5,701,385
Second Quarter Percentage of Total	49%	53%	50%	53%	45%
<b>Recommended Budget Revision</b>					<b>\$ 28,400</b>
YOY Percentage Changes	11.55%	23.10%	11.41%	6.56%	17.85%
5-year Average Percentage Change					14.09%

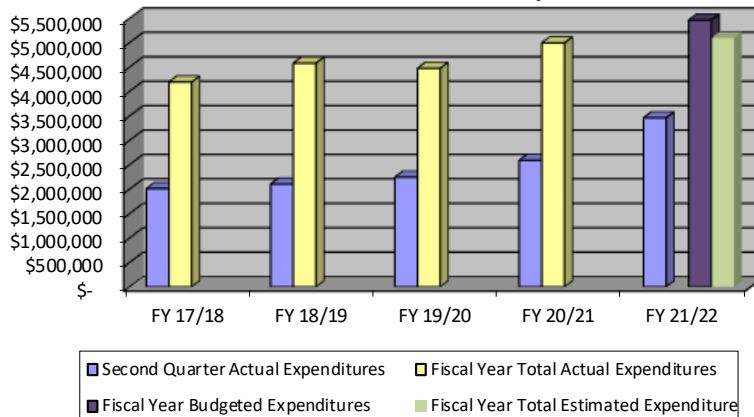
Beginning in FY 2018/19, all personnel that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a General Fund expense. This program budget includes a limited temporary position to assist the Town with its emergency preparedness and response operations since FY 2019/20.

## Community Development Services

The Community Development Department works with elected and appointed officials, other Departments, and the community to guide the physical growth, development, and preservation of the Town.

Community Development program expenditures are trending higher than the same quarter expenditures in prior year due to increased development activities in the Department Pass Through program. The Pass Through program collects the required developer deposits for various review services. The Town provides those services through consultants and the consultants are paid out of the applicant's account. At the close of a project, all remaining fees collected will be refunded to the applicant. This program has one vacancy (Associate Planner) as of December 31, 2021; however, the Planning Manager, Assistant Planner, Senior Planner positions were all partially vacant during the first half of the fiscal year. Staff anticipates approximately \$360,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, travel and training, and office supplies. Staff does not recommend any expenditure budget adjustment in the Community Development Department expenditure budget.

**Community Development - Quarterly and Annual Expenditures  
5-Year History**



	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
Second Quarter Actual Expenditures	\$2,012,335	\$2,104,258	\$2,245,767	\$2,589,502	\$3,460,301
Fiscal Year Total Actual Expenditures	\$4,192,165	\$4,577,495	\$4,473,790	\$4,994,391	\$5,094,473
Fiscal Year Total Estimated Expenditure					\$5,094,473
Fiscal Year Budgeted Expenditures					\$5,461,716
Second Quarter Percentage of Total	48%	46%	50%	52%	63%

### Recommended Budget Revision

YOY Percentage Changes	9.50%	9.19%	-2.27%	11.64%	2.00%
5-year Average Percentage Change					6.01%

Community Development Department expenditures varies year to year based on the development activity and pass through services. FY 2020/21 and FY 2021/22 include one-time special project related services to the General Plan update.

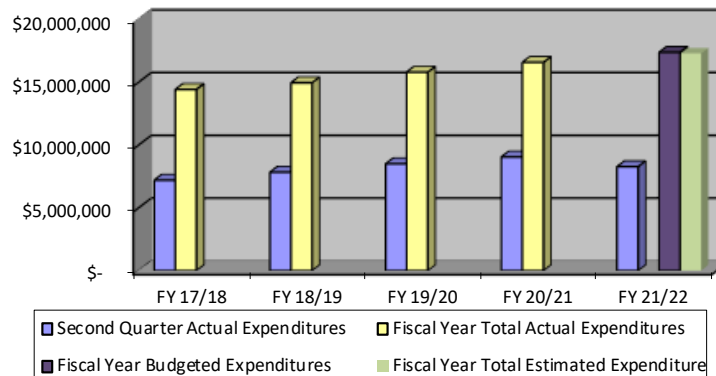


## Police Services

The Los Gatos-Monte Sereno Police Department provides Police services to the Town of Los Gatos and contractually to the City of Monte Sereno. The Department is committed to ensuring public safety with integrity, compassion, and professionalism, by providing exceptional law enforcement services, building community partnerships, and engaging the community in problem solving.

Staff is continuing to monitor Police service program revenues and expenditures. Staffing levels remain a challenge for the Police Department with dedicated ongoing recruitment for open positions. Whenever feasible, open positions are filled with trainees, per diems, and temporary employees until positions are filled. The Police Department does not anticipate any budgetary concerns at mid-year. Staff recommends \$14,636 expenditure budget increase related to crossing guard services as explained in the next section of this report.

**Police - Quarterly and Annual Expenditures  
5-Year History**



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
Second Quarter Actual Expenditures	\$ 7,197,220	\$ 7,832,251	\$ 8,504,636	\$ 9,041,998	\$ 8,266,574
Fiscal Year Total Actual Expenditures	\$ 14,423,554	\$ 14,948,952	\$ 15,793,815	\$ 16,570,836	
Fiscal Year Total Estimated Expenditure					\$ 17,289,979
Fiscal Year Budgeted Expenditures					\$ 17,376,333
Second Quarter Percentage of Total	50%	52%	54%	55%	48%
<b>Recommended Budget Revision</b>					<b>\$ 14,636</b>
YOY Percentage Changes	8.13%	3.64%	5.65%	4.92%	4.34%
5-year Average Percentage Change					5.34%

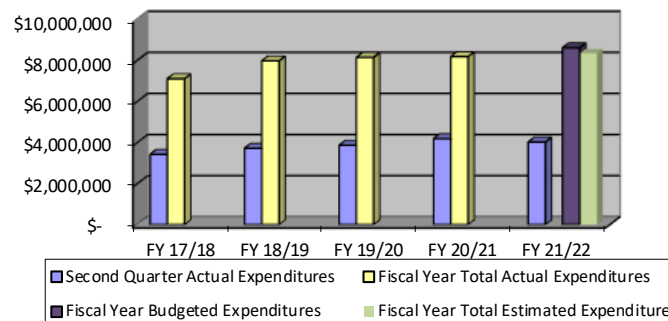
## Parks and Public Works Services

The Parks and Public Works Department constructs and maintains the Town's public parks, facilities, roadways, right-of-way, and other infrastructure. Six organizational units work in coordination to achieve the Department's overarching goal of ensuring the Town's facilities are safe, functional, and attractive.

The Parks and Public Works services program expenditures are trending lower than prior year same quarter expenditures. This program had one vacancy (Maintenance Worker) that was filled with a temporary replacement in order to deliver services until vacancies were filled permanently. In addition, an Administrative Assistant position opened up during December due to a staff promotion. Staff is requesting the addition of an Urban Forest Manager position to manage the Town's urban forest and fire safety program. Funding for the current fiscal year of the position is available from the tree replacement deposit fund while in future years the Department is proposing to reclassify the Town Arborist position as it becomes vacant.

Staff anticipates approximately \$270,000 expenditures savings in this program. Savings are anticipated in fuel expenditures, travel and training, and office supplies. Staff recommends an expenditure budget increase of \$171,936 attributed to the additional Urban Forest Manager position, increased costs in underground utility locator services, emergency storm responses, and safety measures as explained in the next section of this Report.

**Parks and Public Works - Quarterly and Annual Expenditures  
5-Year History**



	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
Second Quarter Actual Expenditures	\$3,422,553	\$3,717,900	\$3,864,874	\$4,185,306	\$4,020,953
Fiscal Year Total Actual Expenditures	\$7,099,527	\$7,969,631	\$8,139,106	\$8,175,987	
Fiscal Year Total Estimated Expenditure					\$8,332,422
Fiscal Year Budgeted Expenditures					\$8,605,418
Second Quarter Percentage of Total	48%	47%	47%	51%	47%
<b>Recommended Budget Revision</b>					<b>\$ 171,936</b>
YOY Percentage Changes	7.07%	12.26%	2.13%	0.45%	1.91%
5-year Average Percentage Change					4.76%

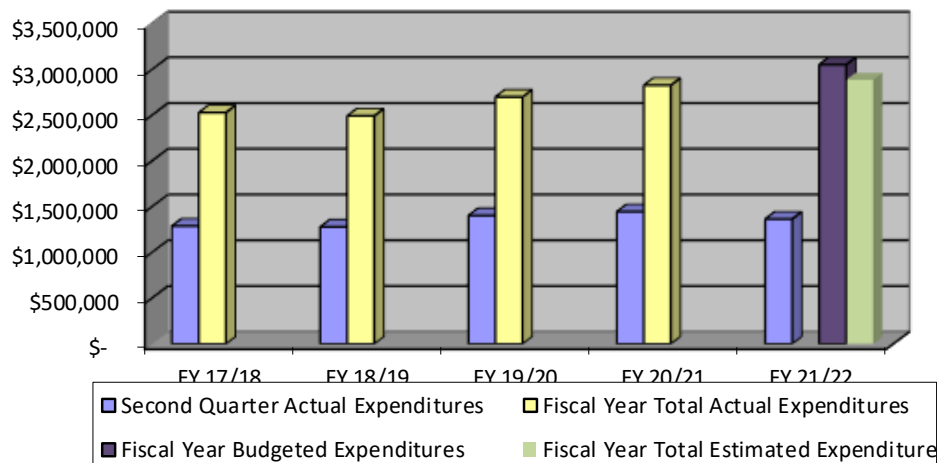
Beginning in FY 2018/19, all personnel that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a General Fund expense.

## Library Services

The Los Gatos Library fosters curiosity and community connection and strives to be at the heart of an engaged and vibrant community.

Library services program expenditures are trending lower than prior year same quarter expenditures. This program has one vacancy (Senior Library Page) as of as of December 31, 2021. Staff anticipates approximately \$160,000 expenditures savings in this program. Savings are anticipated in temporary employee salaries, travel and training, and office supplies. Staff recommends a \$9,000 budget increase to authorize spending of a State Library Grant received by the Department and no other adjustments at this time.

**Library - Quarterly and Annual Expenditures  
5-Year History**



	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>
Second Quarter Actual Expenditures	\$1,289,625	\$1,280,179	\$1,404,285	\$1,445,899	\$1,365,415
Fiscal Year Total Actual Expenditures	\$2,529,017	\$2,493,617	\$2,700,802	\$2,828,873	
Fiscal Year Total Estimated Expenditure					\$2,886,606
Fiscal Year Budgeted Expenditures					\$3,053,708

Second Quarter Percentage of Total	51%	51%	52%	51%	45%
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<b>Recommended Budget Revision</b>	<b>\$ 9,000</b>				
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YOY Percentage Changes	0.80%	-1.40%	8.31%	4.74%	2.04%
5-year Average Percentage Change	2.90%				

## FY 2021/22 RECOMMENDED BUDGET ADJUSTMENTS

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

### FY 2021/22 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUNDS

Fund	Program	Account	General Fund Revenues		
111	1201	411XX	Property Tax	\$ (480,475)	Based on Santa Clara County Property Tax Estimates 2/6/2022
111	1201	41141	Motor Vehicle In Lieu Fee	75,142	Based on Santa Clara County Property Tax Estimates 2/6/2022
111	1201	41211	Sales & Use Tax	(144,495)	Based on MuniServices Most Probable Sales Tax Estimates
111	1221	41214	Measure G - District Sales Tax	209,414	Based on MuniServices Most Probable Sales Tax Estimates
111	1201	41311	Transient Occupancy Tax	479,960	Funds Received
111	1201	41612	Cable Franchise Fees	(83,610)	Funds are not Received
111	3201	42413	Planning Permit	100,000	Funds Anticipated
111	3201	44412	Plan Check	25,000	Funds Anticipated
111	3301	45111	Planning Administration Citation	10,000	Funds Received
111	4202	43336	Prop 172 - Public Safety Sales Tax	65,400	Based on MuniServices Most Probable Sales Tax Estimates
111	4302	44512	Crossing Guards' Services	11,660	Funds Anticipated
111	4815	43525	Tobacco Grant	7,000	Funds Anticipated
111	5202	42514	Encroachment Permits	300,000	Funds Anticipated
111	5202	45127	Engineering Services	150,000	Funds Anticipated
111	5202	44417	Engineering Review Services	50,000	Funds Anticipated
111	5202	42511	Grading Inspection	35,000	Funds Anticipated
111	5301	42511	OMP- Reservation Fees	53,128	Funds Anticipated
111	5301	42512	OMP- Parking Fee	(20,000)	Funds are not Received
111	5401	44627	Arborist Reimbursement Fee	16,000	Funds Anticipated
111	5401		From Tree Replacement Deposit	105,000	Funds are Available
111	7801	43343	Public Library Fund Grant	9,000	Matching Expenditure
<b>TOTAL GENERAL FUND REVENUES</b>				<b>\$ 973,124</b>	
Fund	Program	Account	General Fund Expenditures		
111	1201	62113	Town Share of Retiree Medical	\$ 220,000	Funds are not Expended
111	1201	63219	Special Studies - Business Tax Ordinance Review	20,000	Funds are not Expended
111	1201	63219	Special Studies - Council Retreat	20,000	Funds are not Expended
111	1201	63219	Special Studies - NUMU Antique Map	20,000	Funds are not Expended
111	1201	63219	Compensation Study	15,300	Funds are not Expended
111	2201	63213	Additional Executive Recruitment Services	28,400	Funds are not Expended
111	4302	63342	Crossing Guards' Services	14,636	Funds are Partially Expended
111	5202	63356	Underground Utility Locator	15,000	Funds are not Expended
111	5401	63364	Underground Utility Locator	10,000	Funds are Partially Expended
111	5301	61224	Playground Safety Equipment	3,027	Funds are Expended
111	5301	62379	Civic Center Fountain - Safety Enhancements	25,638	Funds are not Expended
111	5401	62379	Emergency Storm Responses	13,271	Funds are Expended
111	5401	5****	Urban Forest Manager	105,000	Funds are not Expended
111	7801	61172	Youth Collections	9,000	Matching Revenue
<b>TOTAL GENERAL FUND EXPENDITURES</b>				<b>\$ 519,272</b>	

### FY 2021/22 MID-YEAR BUDGET ADJUSTMENT REQUESTS - OTHER FUNDS

Fund	Program	Account	Other Fund Revenues		
<b>711</b>			<b>Library Trust</b>		
711	7301	45452	Additional Donation Received	15,000	Funds Received
				<b>\$ 15,000</b>	
<b>TOTAL OTHER FUNDS REVENUES</b>				<b>\$ 15,000</b>	
<b>411</b>			<b>GFAR</b>		
411	411-xxx-xxxx	82405	Recreation Center HVAC Update	160,000	From Available GFAR balance
411	411-812-0130	82405	224 West Main to Below Market Housing Fund	1,498,776	From Available GFAR balance
				<b>\$ 1,658,776</b>	
<b>612</b>			<b>Workers Compensation</b>		
	2202	63323	Increase to Excess Claim Experience	42,000	Balance
				<b>\$ 42,000</b>	
<b>633</b>			<b>Facilities Maintenance</b>		
633	5404	62371	Theatre Needs	20,000	From Available Facilities Maintenance Internal Service Fund
				<b>\$ 20,000</b>	
<b>711</b>			<b>Library Trust Fund</b>		
711	7301	62424	Additional Donation Received	5,000	Funds are not Expended
				<b>\$ 5,000</b>	
<b>TOTAL OTHER FUNDS EXPENDITURES</b>				<b>\$ 1,725,776</b>	

## SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

- General Property Tax and Motor Vehicle in Lieu Fee: Staff recommends a decrease in projected revenues of approximately \$480,475 in General Property Tax and an increase of \$75,142 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 \$144,495 budget decrease to reflect current sales tax trends based on MuniServices most likely projections.
- Measure G – District Sales Tax: Staff recommends a \$209,414 budget increase to reflect the current trends of the one-eight cent sales tax based on MuniServices most likely projections.
- Transient Occupancy Tax (TOT): Staff recommends a \$479,960 budget increase based on the current trends.
- Cable Franchise Fee: Staff recommends a decrease in projected revenues of approximately \$83,610 in cable franchise fee based on current activities and trends.
- Planning Permit Fee: Staff recommends a \$100,000 budget increase based on the current planning activities.
- Plan Check Fee: Staff recommends a \$25,000 budget increase based on the current plan check activities.
- Planning Administration Citation: Staff recommends a \$10,000 budget increase based on the current administrative citation revenue received.
- Prop 172 – Public Safety Sales Tax: Staff recommends a \$65,400 budget increase to reflect the current trends of the Prop 172- Public Safety Sales Tax based on MuniServices projections.
- Crossing Guard Services: The Town Council approved an agreement with All City Management Services, Inc. (ACMS) to provide crossing guard services at selected school crossing locations in the Town of Los Gatos. The Town contracts with ACMS and the expenses for Crossing Guard services are shared between the Town, Los Gatos Union School District, and Union School District. Town expenditures for the contract account for approximately twenty percent of the annual cost. Staff recommends a revenue budget increase of \$11,660 and a corresponding expenditure increase of \$14,636.
- Tobacco Enforcement Grant: Staff recommends a \$7,000 revenue budget increase to recognize the receipt of Tobacco Enforcement Grant funds.
- Encroachment Permits: Staff recommends a revenue budget increase of \$300,000 to recognize increased developments happening in Town.
- Engineering Services: Staff recommends a revenue budget increase of \$150,000 to recognize increased developments happening in Town.

- Engineering Review Surcharge: Staff recommends a revenue budget increase of \$50,000 to recognize increased developments happening in Town.
- Grading Inspection: Staff recommends a revenue budget increase of \$35,000 to recognize increased developments happening in Town.
- Oak Meadow Park Reservation Fees: Staff recommends a revenue budget increase of \$53,128 to recognize the ongoing increased parks reservations during COVID.
- Oak Meadow Park Parking Fee: Staff recommends a decrease in the Oak Meadow Park Parking fee revenue in the amount of \$20,000 to recognize the inability to fill a booth attendant position. Staff is in the process of procuring a pay station that will integrate with the Town's current parking enforcement efforts.
- Arborist Reimbursement Fee: Staff recommends a revenue budget increase of \$16,000 to recognize increased arborist review related to development projects.
- Town Share of Retiree Medical: Staff recommends an expenditure budget increase of \$220,000 to recognize increased cost related the retiree medical services due to additional recent retirements.
- Special Studies: Staff recommends an expenditure budget increase of \$75,730 to cover the cost for special studies related to the Business Tax Ordinance Review, Council Retreat, NUMU Antique Map, and Compensation Study.
- Executive Recruitments Services: Staff recommends an expenditure budget increase of \$28,400 to cover additional executive recruitment services.
- Arborist Reimbursement Fee: Staff recommends a revenue budget increase of \$16,000 to recognize increased arborist review related to development projects.
- Underground Utility Locator: Staff recommends an expenditure budget increase of \$25,000 in multiple programs to recognize the increased construction activities in the first half of the fiscal year.
- Playground Safety Equipment: Staff recommends an expenditure budget increase of \$3,027 to recognize the playground equipment installation needed to replace broken/hazardous equipment at Bachman Park.
- Civic Center Fountain – Safety Enhancements: Staff recommends an expenditure budget increase of \$25,638 to recognize an increase in the contract amount and also for extra charges for the Plaza Fountain due to re-starting it after the COVID shutdown.
- Emergency Storm Responses: Staff recommends an expenditure budget increase of \$13,271 to recognize urgent expenditures during late December storms.

- Urban Forest Manager: Staff recommends an expenditure budget increase of \$105,000 for the addition of an Urban Forest Manager position to manage the Town's urban forest and fire safety program. Funding for the current fiscal year of the position is available from the tree replacement deposit fund while in future years the Department is proposing to reclassify the Town Arborist position as it becomes vacant. The Salary Schedule with the Urban Forest Manager classification is a separate attachment to this agenda item.

#### Other Fund Revenues and Expenditures

- Adult Recreation Center HVAC Cooling System: Staff recommends a \$160,000 expenditure budget increase from available General Fund Appropriated Reserve balance for replacing failing HVAC units in the Adult Recreational Center.
- 224 West Main Property: Staff recommends an expenditure budget increase of \$1,498,776 to transfer the original Redevelopment money utilized for the purchase of the 224 West Main Property for development for low and moderate housing. Since low/mod housing has not been developed on the property as of 12/31/2021, staff recommends transferring the \$1,498,776 to the Below Market Housing Deposit account for future development of low/mod housing. Funds are being drawn down from the available \$1,460,210 Reserve for Parking and an additional \$29,568 GFAR balance.
- Workers Compensation Activities: The Town is self-insured for workers' compensation claims up to the first \$250,000 of expenses per employee claim related to medical treatment and disability payments. Individual employee claims that exceed \$250,000 in cost are fully insured through the Town's excess insurance carrier. The annual premium cost is determined by the history of claim payments for the Town and also by the other local agencies that participate in the joint powers authority pool for the same amount of excess insurance. Based on the recent claims experience and increased costs related to two older claims for former Town employees, the annual premium was more than anticipated when preparing the annual budget. Staff is requesting an adjustment of \$42,000 to replenish the workers' compensation program insurance premium from the available Workers Compensation Fund balance.
- Theatre Needs: Staff recommends a \$20,000 expenditure budget increase from available Facilities Maintenance Internal Service Fund balance for additional expenses related to the Los Gatos Theatre Building for startup of the facility – roof repair, fire system inspection, elevator inspection, fire and building alarm costs.
- Library Trust programming: Library Trust consists of funds that are received from philanthropic donation from the non-profit fundraising organization Friends of the Los Gatos Library. Due to impacts from COVID-19, the Friends normal fundraising operations were greatly reduced resulting in lower anticipated donated amount in the budget; however, the Friends were able to donate an additional of \$15,000 this year. Staff anticipated spending \$5,000 of the additional donation in the current fiscal year.

American Rescue Plan Act (ARPA) Fund:

The FY 2001/22 budget was adopted prior to the receipt of American Rescue Plan Act (ARPA) funds. Accounting procedures require the revenue to be recognized in the newly established ARPA Special Revenue Fund. ARPA adopted revenue and usage budgeted for FY 2021/22 is being reclassified to the ARPA Fund. Council approved ARPA funded expenses will be recorded as an expenditure in the ARPA Fund and as ARPA income replacement in the program ultimately receiving the revenue with the appropriate budget adjustments. The table below summarize the budget adjustment required to reclassify this revenue.

FY 2021/22 MID-YEAR BUDGET ADJUSTMENT REQUESTS - ARPA RECLASSIFICATION					
Fund	Program	Account	American Rescue Plan Act (ARPA) Fund		
111	1201	43217	ARPA - Intergovernmental Revenue	(2,844,315)	Reclassification to ARPA Fund
111	5301	43217	ARPA - Intergovernmental Revenue	(45,070)	Reclassification to ARPA Fund
633	5404	43217	ARPA - Intergovernmental Revenue	(261,382)	Reclassification to ARPA Fund
731	7301	43217	ARPA - Intergovernmental Revenue	(35,000)	Reclassification to ARPA Fund
241	1241	43217	ARPA - Intergovernmental Revenue	3,185,767	Reclassification from General Fund
				\$ -	
111	1201	67109	ARPA - Grant Expense	(296,382)	Reclassification to ARPA Fund
241	1241	68219	ARPA - Income Replacement Expense	296,382	Reclassification from General Fund
				\$ -	



## GENERAL FUND FINANCIAL SUMMARIES AND ESTIMATES

The following table is the *Schedule of General Fund Operating Revenues Versus Operating Expenditures* for the second quarter of FY 2021/22 which includes comparison information from the prior year.

The FY 2021/22 Adjusted Budget column includes the adopted budget and items that Council approved during the course of the first two quarters of the fiscal year, such as additional funding for special studies, salary adjustments for Police Dispatchers, and miscellaneous carry over grants from prior fiscal year.

The FY 2021/22 Estimated column contains projections of final balances for the current fiscal year based upon staff analysis, the early trends observed through the second quarter in sales tax and property tax projections, and the proposed mid-year adjustments as listed in this report.

The FY 2021/22 Estimated figures also include analysis on potential salary and other expenditure savings; however, budget adjustments are only recommended as identified in this Report.

Staff continues to fine tune the detailed analysis of the FY 2021/22 year-end estimated revenue and expenditure numbers and an update will be provided with the presentation of the Proposed Fiscal Year 2022/23 Operating Budget.

**GENERAL FUND**  
**SUMMARY OF REVENUES AND EXPENDITURES**

	FY 2020/21 Actuals	FY 2020/21 Q2	Q2% of FY 2019/20 Actuals	Q2% of FY 2020/21 Adjusted Budget	FY 2021/22 Q2	FY 2021/22 Adjusted Budget	FY 2021/22 Estimated YE Including Mid-Year Proposed
<b>Revenues</b>							
Property Tax	\$ 15,826,162	\$ 5,481,928	34.6%	36.3%	\$ 5,761,081	\$ 15,881,866	\$ 15,401,391
VLF Backfill Property Tax	4,052,672	-	0.0%	0.0%	-	4,154,320	4,229,462
Sales & Use Tax	6,794,218	2,429,968	35.8%	29.7%	2,143,460	7,213,540	7,069,045
Measure G Sales & Use Tax	1,139,386	383,684	33.7%	42.8%	412,881	964,319	1,173,733
Franchise Fees	2,499,463	807,883	32.3%	37.3%	968,181	2,597,630	2,503,560
Transient Occupancy Tax	1,044,820	399,620	38.2%	77.4%	711,861	920,040	1,400,000
Business License Tax	1,386,943	224,388	16.2%	13.4%	167,942	1,250,000	1,250,000
Licenses & Permits	2,999,711	1,494,487	49.8%	82.5%	2,180,000	2,641,779	3,065,997
Intergovernmental	1,573,697	818,352	52.0%	9.5%	370,615	3,881,836	1,130,125
Town Services	4,835,962	3,691,233	76.3%	100.5%	3,854,415	3,834,579	4,152,549
Fines & Forfeitures	103,467	31,638	30.6%	58.4%	118,809	203,450	218,120
Interest	876,460	(1,485,278)	-169.5%	-15.4%	(85,001)	551,233	551,233
GASB 31 to Market	(780,399)	517,744	-66.3%	114.7%	(126,168)	(110,000)	(110,000)
Use of Property	36,372	-	0.0%	-	-	-	-
Miscellaneous Other	335,906	1,367,206	407.0%	24.4%	153,036	626,631	964,163
Park Construction Tax	14,921	-	-	-	7,680	7,000	8,280
Debt Service - Entry Eliminated for ACFR	1,908,494	-	0.0%	0.0%	-	1,899,850	1,899,850
ARPA Income Replacement - Entry Eliminated for ACFR	79,176	-	-	-	-	-	-
Proceeds for Sales of Assets	1,201,369	-	0.0%	-	-	-	-
Fund Transfer In	652,056	104,659	16.1%	16.5%	104,659	633,352	633,352
<b>Total Revenues &amp; Transfers In</b>	<b>\$ 46,580,856</b>	<b>\$ 16,267,512</b>	<b>35%</b>	<b>36%</b>	<b>\$ 16,743,451</b>	<b>\$ 47,151,425</b>	<b>\$ 45,540,860</b>
<b>Use of Other Funding Sources:</b>							
Use of Reserves - Capital/Special Projects - Capital	\$ 3,401,479	\$ -	0.0%	0.0%	\$ -	\$ 550,000	\$ 550,000
Use of Reserves - Capital/Special Projects - Other	-	-	-	-	-	\$ 250,596	\$ 250,596
Use of Reserve - Pension/OPEB	\$ 4,532,500	-	-	-	-	-	-
Use of Reserve - Accumulated Measure G	-	-	-	-	-	590,581	590,581
Use of Reserves - Surplus Property	-	-	-	-	-	1,200,000	1,200,000
Use of ARPA - Income Replacement	-	-	-	-	-	-	1,444,021
Use of ARPA - Community Grants	-	-	-	-	-	550,000	-
<b>Total Other Funding Sources</b>	<b>\$ 7,933,979</b>	<b>\$ -</b>	<b>0%</b>	<b>0%</b>	<b>\$ -</b>	<b>\$ 3,141,177</b>	<b>\$ 4,035,198</b>
<b>Total Revenues and Use of Reserves</b>	<b>\$ 54,514,835</b>	<b>\$ 16,267,512</b>	<b>30%</b>	<b>33%</b>	<b>\$ 16,743,451</b>	<b>\$ 50,292,602</b>	<b>\$ 49,576,058</b>
<b>Expenditures</b>							
Town Council	\$ 192,280	\$ 99,787	51.9%	45.2%	91,800	\$ 202,891	\$ 193,559
Attorney	537,296	311,520	58.0%	33.8%	226,341	669,733	554,137
Administrative Services	4,667,995	2,467,813	52.9%	45.3%	2,584,905	5,701,385	5,501,110
Non- Departmental	8,642,563	4,437,554	51.3%	32.0%	1,159,874	3,628,466	4,046,008
Community Development	4,994,391	2,589,502	51.8%	63.4%	3,460,301	5,461,716	5,094,473
Police	16,570,836	9,041,998	54.6%	47.6%	8,266,574	17,376,333	17,289,979
Parks & Public Works	8,175,987	4,185,306	51.2%	46.7%	4,020,953	8,605,418	8,332,422
Library	2,828,873	1,445,899	51.1%	44.4%	1,356,415	3,053,708	2,886,606
Capital Outlay	2,365	-	-	-	-	-	-
<b>Total Department Expenditures</b>	<b>\$ 46,612,586</b>	<b>\$ 24,579,379</b>	<b>53%</b>	<b>47%</b>	<b>\$ 21,167,163</b>	<b>\$ 44,699,650</b>	<b>\$ 43,898,294</b>
Debt Service - Entry Eliminated for ACFR	\$ 1,908,494	\$ -	0.0%	0.0%	\$ -	\$ 1,899,850	\$ 1,899,850
ARPA Income Replacement - Entry Eliminated for ACFR	\$ 79,176	-	-	-	-	-	-
Transfers Out	3,401,479	-	0.0%	0.0%	-	2,801,047	2,801,047
<b>Total Additional Non-Departmental Expenditures</b>	<b>\$ 5,389,149</b>	<b>\$ -</b>	<b>0%</b>	<b>0%</b>	<b>\$ -</b>	<b>\$ 4,700,897</b>	<b>\$ 4,700,897</b>
<b>Total Operating Expenditures</b>	<b>\$ 52,001,735</b>	<b>\$ 24,579,379</b>	<b>47%</b>	<b>43%</b>	<b>\$ 21,167,163</b>	<b>\$ 49,400,547</b>	<b>\$ 48,599,191</b>
Allocate to Budget Stabilization/Catastrophis Reserve	65,764	-	-	-	-	-	-
Allocate to Compensated Absences	110,509	-	-	-	-	-	-
Allocate to Surplus Property Reserve	1,200,000	-	-	-	-	-	-
Allocate to Sale of Property Reserve	5,302	-	-	-	-	-	-
Allocate to Pension/OPEB Reserve	300,000	-	-	-	-	-	-
Allocate to Measure G - Capital	-	-	-	-	-	482,160	586,867
Allocate to Restricted Pension Trust	-	-	-	-	-	390,000	390,000
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 831,525</b>	<b>\$ (8,311,867) *</b>			<b>\$ (4,423,712) *</b>	<b>\$ 19,895</b>	<b>\$ -</b>

\*FY 2020/21 and FY 2021/22 Q2 Net Operating Revenues are negative because some revenues budgeted for the entire fiscal year are received in the third or fourth quarters and fund expended in the first or second quarters.

\*\* FY 2021/22 General Fund Budget included the ARPA revenue receipt, now the ARPA revenue is budgeted in a Special Revenue Fund.

## FINANCIAL SUMMARIES OF OTHER FUNDS

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 Lighting District (LLD) Funds, and the Newly established American Recovery Program Act (ARPA) Fund. Staff recommends designating ARPA funding as a special revenue fund instead of the recognizing it in the General Fund. This requires revenue budget decreases/increases in the amount of \$3,185,767 for General Fund and In the ARPA Special Revenue Fund respectively and expenditure budget decreases/increases in the amount of \$296,382 for the General Fund and ARPA Special Revenue Fund respectively.

#### Special Revenue Funds Budget to Actuals Comparisons

	CDBG Grants	Non-Point Source	LLD's	ARPA
<b>Beginning Fund Balance</b>	\$ 166,654	\$ 371,240	\$ 172,355	\$ -
Budgeted Revenues	-	231,323	39,680	3,185,767
<b>Total Actual Revenues - 2nd Qtr</b>	<b>\$ -</b>	<b>\$ 96,385</b>	<b>\$ -</b>	<b>\$ 3,413,961</b>
Budgeted Expenditures	-	221,044	100,199	296,382
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>-</b>	<b>97,568</b>	<b>11,896</b>	<b>-</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ 166,654</b>	<b>\$ 370,057</b>	<b>\$ 160,459</b>	<b>\$ 3,413,961</b>

### 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. Staff recommends budget adjustment in the amount of \$160,000 for the Adult Recreation Center HVAC Improvements and the Redevelopment funding of \$1,658,776 used for the purchase of the 224 W Main Property to be transferred to the Below Market Housing Program deposit account. Staff will continue to monitor these revenues and 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
<b>Beginning Fund Balance</b>	<b>\$ 15,433,836</b>	<b>\$ 2,322,525</b>	<b>\$ (699,244)</b>	<b>\$ 2,917,689</b>	<b>\$ 3,201,310</b>	<b>\$ 1,425,095</b>
Budgeted Revenues	7,393,484	1,026,219	7,907,473	104,540	52,490	1,401,865
<b>Total Actual Revenues - 2nd Qtr</b>	<b>1,742,745</b>	<b>159,207</b>	<b>895,330</b>	<b>177,314</b>	<b>34,562</b>	<b>598,329</b>
Budgeted Expenditures	20,620,538	1,441,246	7,854,224	659,447	348,003	2,650,576
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>4,558,512</b>	<b>159,207</b>	<b>1,200,646</b>	<b>39,248</b>	<b>427</b>	<b>868,215</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ 12,618,069</b>	<b>\$ 2,322,525</b>	<b>\$ (1,004,560)</b>	<b>\$ 3,055,755</b>	<b>\$ 3,235,445</b>	<b>\$ 1,155,209</b>

\* GFAR, Traffic Mitigation, and Grant Funds balances are combined in the ACFR. The combined balance of \$15,115,912 is presented as an Appropriated Reserve. The Traffic Mitigation Fund balance includes \$1,951,205 deferred revenue.

### 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, Joint Powers Authority Pooled Liability Network (PLAN) Self-Insurance Fund, Information Technology Fund, and the Facilities Maintenance Fund.

Staff recommends a \$20,000 expenditure budget adjustment to cover additional expenses related to the donated Los Gatos Theatre building. In addition, staff recommends expenditure adjustments in amount of \$42,000 from the available Workers' Compensation Fund to provide for the excess insurance premium due to increased claim activities. Staff will continue to monitor expenditures and propose a revised cost allocation if needed during the FY 2022/23 budget preparation.

#### Internal Service Funds Budget to Actuals Comparisons

	Equipment Replacem	Workers Compensation	Self Insurance	Information Technology	Facility Maint.
<b>Beginning Fund Balance</b>	<b>\$ 1,889,536</b>	<b>\$ 1,673,019</b>	<b>\$ 1,021,082</b>	<b>\$ 2,870,823</b>	<b>\$ 156,341</b>
Budgeted Revenues	570,957	1,007,620	423,332	914,018	1,181,297
<b>Total Actual Revenues - 2nd Qtr</b>	<b>317,925</b>	<b>602,947</b>	<b>200,987</b>	<b>509,809</b>	<b>475,412</b>
Budgeted Expenditures	808,083	1,782,569	850,716	1,064,959	1,203,193
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>46,960</b>	<b>1,039,436</b>	<b>703,807</b>	<b>644,963</b>	<b>362,656</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ 2,160,501</b>	<b>\$ 1,236,530</b>	<b>\$ 518,262</b>	<b>\$ 2,735,669</b>	<b>\$ 269,097</b>

Trust and Agency Funds (Fiduciary Fund Type)

Town Trust and Agency Funds have estimated fund balances as of December 31, 2021 of \$570,185 for the Library Trust Funds and \$243,825 for the Successor Agency (SA) Trust Fund. 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.

Staff recommends a \$15,000 revenue budget increase and a \$5,000 expenditure budget increase in the Library Trust to recognize and partially spend the additional donation received in the current fiscal year.

**Trust & Agency Funds  
Budget to Actuals Comparisons**

	<b>Library Trust</b>	<b>SA Trust</b>
<b>Beginning Fund Balance</b>	<b>\$ 552,877</b>	<b>\$ 247,344</b>
Budgeted Revenues	59,100	3,500
<b>Total Actual Revenues - 2nd Qtr</b>	<b>30,167</b>	<b>1</b>
Budgeted Expenditures	88,955	1,501,540
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>12,859</b>	<b>4,343</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ 570,185</b>	<b>\$ 243,002</b>

*\* Certification of Participation Long Term Debt (\$14,423,890) and net land and building value (\$6,579,430) are not presented in the Fund Balance. FY 2022 transfer of Successor Agency property to the Town's BMP Housing Program not presented in the Fund Balance.*

**Town of Los Gatos Town Council and Management Classifications**  
**Salary Schedule for Fiscal Year 2021/22**  
**Effective June 27, 2021 (unless otherwise noted)**  
**Adopted by Town Council February 15, 2022**

Item 6.

Class Code	Classification Title	Annual Salary Minimum	Annual Salary Maximum
2615	Assistant Parks & Public Works Director/Town Engineer	\$ 141,787	\$ 191,413
2110	Assistant Town Manager	\$ 168,540	\$ 227,529
2420	Chief Building Official	\$ 128,453	\$ 173,411
2400	Community Development Director	\$ 164,425	\$ 221,974
2180	Community Outreach Coordinator	\$ 88,692	\$ 119,734
2130	Economic Vitality Manager	\$ 122,262	\$ 165,054
2310	Finance and Budget Manager	\$ 128,453	\$ 173,411
2300	Finance Director	\$ 160,419	\$ 216,565
2200	Human Resources Director	\$ 148,965	\$ 201,103
2900	Information Technology Manager	\$ 128,453	\$ 173,411
2800	Library Director	\$ 148,965	\$ 201,103
2820	Library Division Manager	\$ 97,899	\$ 132,163
2600	Parks & Public Works Director	\$ 164,425	\$ 221,974
2645	Parks & Public Works Operations Manager	\$ 110,764	\$ 149,531
2630	Parks & Public Works Superintendent	\$ 128,453	\$ 173,411
2412	Planning Manager	\$ 128,453	\$ 173,411
2510	Police Captain	\$ 152,689	\$ 206,130
2500	Police Chief	\$ 172,753	\$ 233,217
2545	Police Records & Communication Manager	\$ 119,280	\$ 161,028
2140	Senior Administrative Analyst	\$ 95,511	\$ 128,940
2650	Senior Civil Engineer	\$ 122,262	\$ 165,054
2000	Town Attorney - Council Appointed ( <i>Effective 9/19/21, Adopted by Town Council 11/16/21</i> )		\$ 249,900
2190	Town Clerk	\$ 128,453	\$ 173,411
2100	Town Manager - Council Appointed ( <i>Effective 8/22/21, Adopted by Town Council 11/16/21</i> )		\$ 267,750
2655	Transportation & Mobility Manager	\$ 119,280	\$ 161,028
2905	Urban Forest Manager ( <i>Classification Added 2/15/22</i> ) *	\$ 110,764	\$ 149,531
1000	Town Council ( <i>Effective 1/1/19 Pursuant to Ordinance Adopted by Town Council on 2/6/18</i> )	\$570 Stipend per month, for a total compensation of \$6,840 per year	

**Management salaries reflect a spread of 35% to the top of the range.**

**Reflects a General Increase of 2%**

*\*Proposed New Classification*



**TOWN OF LOS GATOS  
FINANCE COMMISSION REPORT**

MEETING DATE: 02/14/2022

Item 6.

ITEM NO: 6

DESK ITEM

---

DATE: February 14, 2022  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Review and Provide Comments to the Town Council Regarding Mid-Year Budget Report

**REMARKS:**

Attachment 2 contains public comment received between 11:01 a.m. Friday, February 11 and 11:00 a.m. Monday, February 14, 2022.

**Attachment previously received with the Staff Report:**

1. Town Council FY 2021/22 Mid-Year Budget Report with Attachments

**Attachment received with this Desk Item:**

2. Public Comment Received Between 11:01 a.m. Friday, February 11 and 11:00 a.m. Monday, February 14, 2022.

**PREPARED BY:** Stephen Conway  
Finance Director

---

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

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**From:** Phil Koen

**Sent:** Sunday, February 13, 2022 10:27 AM

**To:** Ron Dickel; Kyle Park; Rob Rennie <RRennie@losgatosca.gov>; Matthew Hudes <MHudes@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>; Shelley Neis <sneis@losgatosca.gov>; Rick Tinsley; Loreen Huddleston; Stacey Dell

**Cc:** Jak Van Nada; Rick Van Hoesen; Lee Fagot

**Subject:** Item #6 - Mid Year Budget Report

EXTERNAL SENDER

Dear Chairman Dickel and Finance Commission Members,

An analysis of the mid-year forecast suggests that the General Fund is facing a **structural deficit** of \$3.1m for FY 2022. This is based on a normalized revenue forecast of \$43.6m (the debt service source of \$1.9m has been eliminated) and total operating expenditures of \$43.9m **plus transfers to fund the GFAR capital expenditure of \$2.8m.**

It is important to review the mid-year update based on a **normalized** view of **operating revenues, operating expenditures and transfers to the GRAR to fund necessary capital expenditures.** As an example, the staff report mentions the possibility of “operating expenditure savings” due to staffing vacancies. Such mentioned “savings” should not be viewed as a true “savings”. A savings only occurs when the cost to provide a service has been reduced. An approved position that is vacant is not a “savings”. It would be inappropriate to call open positions in the police department “savings” when the intent is to fill these positions as quickly as possible.

The mid-year report also does not disclose the financial impact from the most likely increase in salary and benefits that are currently under discussion with the Town’s representative labor groups. The report has projected salary increases for FY 2022 to be limited to “actual salary plus a one-step increase” which is approximately a 2% increase. Such an increase seems highly conservative given the current level of inflation, what other local jurisdictions have already approved for similar represented labor groups and historical salary adjustments.

Lastly, the inclusion of one-time revenue benefits, such as the \$1.4m ARPA funds, should be excluded to determine the normalized operating revenues for the Town. If the current level of sales tax revenue, TOT revenue and ERAF funds is the “new normal”, the Town must adjust spending levels to reflect this new reality.

The mid-year report concludes with this dire warning – “providing services to the community **in this and future fiscal years** will require a **strong return to pre-pandemic performance** of the Town’s economically sensitive revenues **to offset the continue to projected cost increases**”. This raises the question, what happens if this doesn’t happen and the cost of providing critical services such as safety services continues to accelerate? What then is the plan?

Thank you.

Phil Koen

ATTACHMENT 2

GENERAL FUND  
SUMMARY OF REVENUES AND EXPENDITURES

	FY 2020/21 Actuals	FY 2020/21 Q2	Q2% of FY 2019/20 Actuals	Q2% of FY 2020/21 Adjusted Budget	FY 2021/22 Q2	FY 2021/22 Adjusted Budget	FY 2021/22 Estimated YE Including Mid-Year Proposed
<b>Revenues</b>							
Property Tax	\$ 15,826,162	\$ 5,481,928	34.6%	36.3%	\$ 5,761,081	\$ 15,881,866	\$ 15,401,391
VLF Backfill Property Tax	4,052,672	-	0.0%	0.0%	-	4,154,320	4,229,462
Sales & Use Tax	6,794,218	2,429,968	35.8%	29.7%	2,143,460	7,213,540	7,069,045
Measure G Sales & Use Tax	1,139,386	383,684	33.7%	42.8%	412,881	964,319	1,173,733
Franchise Fees	2,499,463	807,883	32.3%	37.3%	968,181	2,597,630	2,503,560
Transient Occupancy Tax	1,044,820	399,620	38.2%	77.4%	711,861	920,040	1,400,000
Business License Tax	1,386,943	224,388	16.2%	13.4%	167,942	1,250,000	1,250,000
Licenses & Permits	2,999,711	1,494,487	49.8%	82.5%	2,180,000	2,641,779	3,065,997
Intergovernmental	1,573,697	818,352	52.0%	9.5%	370,615	3,881,836	1,130,125
Town Services	4,835,962	3,691,233	76.3%	100.5%	3,854,415	3,834,579	4,152,549
Fines & Forfeitures	103,467	31,638	30.6%	58.4%	118,809	203,450	218,120
Interest	876,460	(1,485,278)	-169.5%	-15.4%	(85,001)	551,233	551,233
GASB 31 to Market	(780,399)	517,744	-66.3%	114.7%	(126,168)	(110,000)	(110,000)
Use of Property	36,372	-	0.0%	-	-	-	-
Miscellaneous Other	335,906	1,367,206	407.0%	24.4%	153,036	626,631	964,163
Park Construction Tax	14,921	-	-	-	7,680	7,000	8,280
Debt Service - Entry Eliminated for ACFR	1,908,494	-	0.0%	0.0%	-	1,899,850	1,899,850 ②
ARPA Income Replacement - Entry Eliminated for ACFR	79,176	-	-	-	-	-	-
Proceeds for Sales of Assets	1,201,369	-	0.0%	-	-	-	-
Fund Transfer In	652,056	104,659	16.1%	16.5%	104,659	633,352	633,352
<b>Total Revenues &amp; Transfers In</b>	<b>\$ 46,580,856</b>	<b>\$ 16,267,512</b>	<b>35%</b>	<b>36%</b>	<b>\$ 16,743,451</b>	<b>\$ 47,151,425</b>	<b>\$ 45,540,860 ①</b>
<b>Use of Other Funding Sources:</b>							
Use of Reserves - Capital/Special Projects - Capital	\$ 3,401,479	\$ -	0.0%	0.0%	\$ -	\$ 550,000	\$ 550,000
Use of Reserves - Capital/Special Projects - Other	-	-	-	-	-	\$ 250,596	\$ 250,596
Use of Reserve - Pension/OPEB	\$ 4,532,500	-	-	-	-	-	-
Use of Reserve - Accumulated Measure G	-	-	-	-	-	590,581	590,581
Use of Reserves - Surplus Property	-	-	-	-	-	1,200,000	1,200,000
Use of ARPA - Income Replacement	-	-	-	-	-	-	1,444,021
Use of ARPA - Community Grants	-	-	-	-	-	550,000	-
<b>Total Other Funding Sources</b>	<b>\$ 7,933,979</b>	<b>\$ -</b>	<b>0%</b>	<b>0%</b>	<b>\$ -</b>	<b>\$ 3,141,177</b>	<b>\$ 4,035,198</b>
<b>Total Revenues and Use of Reserves</b>	<b>\$ 54,514,835</b>	<b>\$ 16,267,512</b>	<b>30%</b>	<b>33%</b>	<b>\$ 16,743,451</b>	<b>\$ 50,292,602</b>	<b>\$ 49,576,058</b>
<b>Expenditures</b>							
Town Council	\$ 192,280	\$ 99,787	51.9%	45.2%	91,800	\$ 202,891	\$ 193,559
Attorney	537,296	311,520	58.0%	33.8%	226,341	669,733	554,137
Administrative Services	4,667,995	2,467,813	52.9%	45.3%	2,584,905	5,701,385	5,501,110
Non- Departmental	8,642,563	4,437,554	51.3%	32.0%	1,159,874	3,628,466	4,046,008
Community Development	4,994,391	2,589,502	51.8%	63.4%	3,460,301	5,461,716	5,094,473
Police	16,570,836	9,041,998	54.6%	47.6%	8,266,574	17,376,333	17,289,979
Parks & Public Works	8,175,987	4,185,306	51.2%	46.7%	4,020,953	8,605,418	8,332,422
Library	2,828,873	1,445,899	51.1%	44.4%	1,356,415	3,053,708	2,886,606
Capital Outlay	2,365	-	-	-	-	-	-
<b>Total Department Expenditures</b>	<b>\$ 46,612,586</b>	<b>\$ 24,579,379</b>	<b>53%</b>	<b>47%</b>	<b>\$ 21,167,163</b>	<b>\$ 44,699,650</b>	<b>\$ 43,898,294 ③</b>
Debt Service - Entry Eliminated for ACFR	\$ 1,908,494	\$ -	0.0%	0.0%	\$ -	\$ 1,899,850	\$ 1,899,850
ARPA Income Replacement - Entry Eliminated for ACFR	\$ 79,176	-	-	-	-	-	-
Transfers Out	3,401,479	-	0.0%	0.0%	-	2,801,047	2,801,047 ④
<b>Total Additional Non-Departmental Expenditures</b>	<b>\$ 5,389,149</b>	<b>\$ -</b>	<b>0%</b>	<b>0%</b>	<b>\$ -</b>	<b>\$ 4,700,897</b>	<b>\$ 4,700,897</b>
<b>Total Operating Expenditures</b>	<b>\$ 52,001,735</b>	<b>\$ 24,579,379</b>	<b>47%</b>	<b>43%</b>	<b>\$ 21,167,163</b>	<b>\$ 49,400,547</b>	<b>\$ 48,599,191</b>
Allocate to Budget Stabilization/Catastrophis Reserve	65,764	-	-	-	-	-	-
Allocate to Compensated Absences	110,509	-	-	-	-	-	-
Allocate to Surplus Property Reserve	1,200,000	-	-	-	-	-	-
Allocate to Sale of Property Reserve	5,302	-	-	-	-	-	-
Allocate to Pension/OPEB Reserve	300,000	-	-	-	-	-	-
Allocate to Measure G - Capital	-	-	-	-	-	482,160	586,867
Allocate to Restricted Pension Trust	-	-	-	-	-	390,000	390,000
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 831,525</b>	<b>\$ (8,311,867) *</b>			<b>\$ (4,423,712) *</b>	<b>\$ 19,895</b>	<b>\$ -</b>

\* FY 2020/21 and FY 2021/22 Q2 Net Operating Revenues are negative because some revenues budgeted for the entire fiscal year are received in the third or fourth quarters and fund expended in the first or second quarters.

\*\* FY 2021/22 General Fund Budget included the ARPA revenue receipt, now the ARPA revenue is budgeted in a Special Revenue Fund.

adj Rev  
adj Exp  
Structural Deficit

① - ② = 43,641,010  
③ + ④ = 46,699,341  
(3,058,331)

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# Achieving a Structurally Balanced Budget

Adopt rigorous policies, for all operating funds, aimed at achieving and maintaining a structurally balanced budget

Most state and local governments are subject to a requirement to pass a balanced budget. However, a budget that may fit the statutory definition of a "balanced budget" may not, in fact, be financially sustainable. For example, a budget that is balanced by such standards could include the use of non-recurring resources, such as asset sales or reserves, to fund ongoing expenditures, and thus not be in structural balance. A true structurally balanced budget is one that supports financial sustainability for multiple years into the future. A government needs to make sure that it is aware of the distinction between satisfying the statutory definition and achieving a true structurally balanced budget.

**GFOA recommends that governments adopt rigorous policies, for all operating funds, aimed at achieving and maintaining a structurally balanced budget. The policy should include parameters for achieving and maintaining structural balance where recurring revenues are equal to recurring expenditures in the adopted budget.**

As a first step, the government should identify key items related to structural balance. These include: *recurring and non-recurring revenues, recurring and non-recurring expenditures, and reserves.*

*Recurring revenues* are the portion of a government's revenues that can reasonably be expected to continue year to year, with some degree of predictability. Property taxes are an example of recurring revenue. A settlement from a lawsuit is a good example of non-recurring revenue.

Some revenue sources may have both non-recurring and recurring components. These sources require finance officials to exercise judgment in determining how much of the source is truly recurring. For instance, a government may regularly receive sales tax revenues, but a large part of its base may be made up of retailers with highly volatile sales. In this case, it may be prudent to regard unusually high revenue yields as a non-recurring revenue under the assumption that such revenues are unlikely to continue, making it imprudent to use them for recurring expenditures. Another example might be building permit revenues in a period of high growth in the community. Governments should review their revenue portfolio to identify non-recurring revenues and revenues with potentially volatile components, such as the examples above.

*Recurring expenditures* appear in the budget each year. Salaries, benefits, materials and services, and asset maintenance costs are common examples of recurring expenditures. Capital asset acquisitions are typically not thought of as recurring because although some capital assets may be acquired every year, they are not the same assets year after year. In general, recurring expenditures should be those that you expect to fund every year in order to maintain current/status quo service levels. In general, a government has a greater degree of flexibility to defer non-recurring expenditures than recurring ones.

*Reserves* are the portion of fund balance that is set aside as hedge against risk. The government should define a minimum amount of funds it will hold in reserve.<sup>2</sup> This serves as a "bottom line measure" to help determine the extent to which structural balance goals are being achieved. If reserves are maintained at their desired levels, it is an indication that the organization is maintaining a structurally balanced budget. If reserves are declining, it may indicate an imbalance in the budget (e.g., if reserves are being used to fund on-going expenditures). It should be noted that reserves levels are not a perfect measure of structural balance, but are a good and readily available measure.

With the forgoing terms defined, a government should adopt a formal policy calling for structural balance of the budget. The policy should call for the budget to be structurally balanced, where recurring revenues equal or exceed recurring expenditures. The policy should also call for the budget presentation to identify how recurring revenues are aligned with or not aligned with recurring expenditures.<sup>3</sup>

For a variety of reasons, true structural balance may not be possible for a government at a given time. In such a case, using reserves to balance the budget may be considered but only in the context of a plan to return to structural balance, replenish fund balance, and ultimately remediate the negative impacts of any other short-term balancing actions that may be taken. Further, the plan should be clear about the time period over which returning to structural balance, replenishing reserves, and remediating the negative impacts of balancing actions are to occur.<sup>4</sup>

Notes:

- Note that this Best Practice excludes non-operating funds like capital and debt funds. While governments should ensure that these funds are financially sustainable as well, the specific recommendations found in this Best Practice may not always be a match to the circumstances of non-operating funds.
- Please note that the best practice is not advocating that recurring revenues be formally allocated or "earmarked" to recurring expenditures, but rather is advocating that the budget presentation provide transparency as to whether recurring revenues and recurring expenditures are balanced.

**Board approval date:** Tuesday, February 28, 2012

**Additional resources**

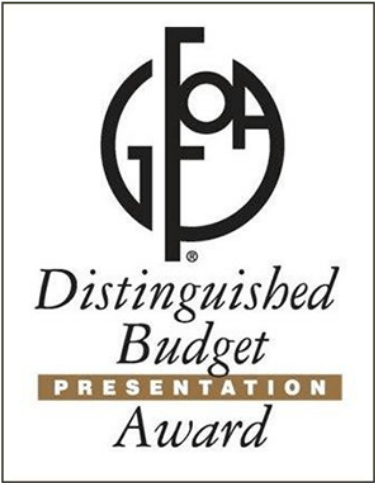


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Item 6.

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GFOA

Government Finance Officers Association

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**TOWN OF LOS GATOS  
FINANCE COMMISSION REPORT**

MEETING DATE: 02/14/2022

ITEM NO: 7

Item 7.

DATE: February 10, 2022  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Review and Provide Comments to the Town Council Regarding the Five-Year Forecast (FY 2022/23 – 2026/27) and Scenarios

**RECOMMENDATION:**

Review and provide comments to the Town Council regarding the Five Year Forecast (Fiscal Years 2022/23 – 2026/27) and Scenarios.

**DISCUSSION:**

With the passage of Measure A, the Finance Commission has been tasked with several mandated duties as described in the provisions of the adopted Ordinance. Section 2.50.225. – Duties states that:

- (a) The Finance Commission shall:  
Serve as an on-going, substantive and expert advisory body to the Town and Town Council so that the Town and Town Council can make informed decisions about the Town's financial, budgetary and investment matters and operations related thereto.

On February 15, 2022, the Town Council will consider the FY 2022/23 Five Year Forecast(Attachment 1). Since the Finance Commission regular meeting is scheduled on February 14, 2022, staff will provide the Finance Commission comments to the Town Council in a Desk Item on February 15, 2022.

The Commission is welcome to provide comments on the Forecast, its assumptions, and scenarios as well as any comments for consideration in the preparation of the FY 2022/23 Operating Budget. The Finance Commission will have an opportunity to discuss the Capital Program at its March meeting.

**PREPARED BY:** Stephen Conway  
Finance Director

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



PAGE 2 OF 2

SUBJECT: Five-Year Forecast

DATE: February 10, 2022

Attachment:

1. Town Council FY 2022/23 Five Year Forecast Report with Attachments



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/15/2021

ITEM NO: 13

Item 7.

DATE: February 10, 2022  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Discuss the Five-Year Forecast (Fiscal Years 2022/23 – 2026/27), Provide Direction on Budget Assumptions, and Provide any Specific Direction for the Preparation of the Town's Fiscal Year 2022/23 Operating Budget

**RECOMMENDATION:**

Discuss the Five-Year Forecast (Fiscal Years 2022/23 – 2026/27), provide direction on budget assumptions, and provide any specific direction for the preparation of the Town's Fiscal Year (FY) 2022/23 Operating Budget.

**EXECUTIVE SUMMARY:**

The base case Five-Year Forecast (FY 2022/23 – 2026/27) (Attachment 2) identifies deficits for all future years, using the 2% salary increase assumption approved by the Town Council for the FY 2021/22 budget and other assumptions (see Attachments 3 and 4). The deficits are on the order of approximately \$2M per year and can currently be resolved through expenditure controls and the use of one-time funds. The persistent presence of a deficit indicates that the Town needs to consider new revenue measures if it wants to maintain high levels of municipal services.

The sensitivity of the Forecast to its assumptions is demonstrated in this report. The Council may wish to modify the assumptions for the FY 2022/23 budget and provide other budget direction as appropriate. The Capital Program is scheduled for a separate discussion at the next Council meeting.

ATTACHMENT 1

**PREPARED BY:** Arn Andrews  
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, and Finance Director

PAGE 2 OF 15

SUBJECT: Five-Year Forecast (FY 2022/23 – 2026/27)

DATE: February 10, 2022

### BACKGROUND:

An important aspect of the Town's budget development process is taking a multi-year approach to understand revenue and expenditure trends over time. Serving as the foundation of the budget planning process (Attachment 1), the Town develops a Five-Year Financial Forecast ("Forecast") beginning in the winter of each year. The Forecast enables the Town to evaluate the Town's fiscal condition and to help guide policy, programmatic planning, and budget decisions. Development of a financial forecast as part of the budget development process has been identified as a best practice by the Government Financial Officers Association (GFOA).

The Forecast takes a forward look at the Town's General Fund revenues and expenditures and is updated regularly. Its purpose is to identify financial trends, potential shortfalls, and other issues so the Town can proactively address them and budget accordingly. It does so by projecting out into the future the fiscal results of continuing the Town's current service levels and policies. This process helps to provide a snapshot of what the future may look like as a result of the decisions made to date.

The initial Forecast (FY 2022/23 – 2026/27) is predicated on estimates derived from the FY 2021/22 Mid-Year review and includes updates to Town revenues and expenditures based on the Mid-Year end of year projections. Like any forecast, the Forecast's revenue estimates for the first year is the most critical in the process as they ultimately define the expenditure limitations for the upcoming budget year.

This report contains detailed information that contributes to the preparation of the annual budget, including the Town's "Base Case" Five Year Forecast, its data sources, and budget assumptions. This report also provides two additional forecast scenarios utilizing a sensitivity analysis for three of the major revenue assumptions. These additional forecast scenarios illustrate the effects on future budgets of a more optimistic revenue scenario ("Greater Growth") and a pessimistic revenue one ("Lower Growth").

The Five-Year Financial Forecast is not a budget, nor a proposed plan. The Five-Year Financial Forecast sets the stage for the upcoming budget process and is a tool in facilitating both the Town Council and Town Manager in establishing priorities and allocating resources appropriately.

### DISCUSSION:

#### National and Local Economic Backdrop

The UCLA Anderson School of Business publishes an annual economic forecast for the nation and California. The results of the forecast are utilized as a portion of the macroeconomic basis of the Five-Year Forecast development. The September 2021 report establishes data for a 2021-2023 forecast period.

PAGE 3 OF 15

SUBJECT: Five-Year Forecast (FY 2022/23 – 2026/27)

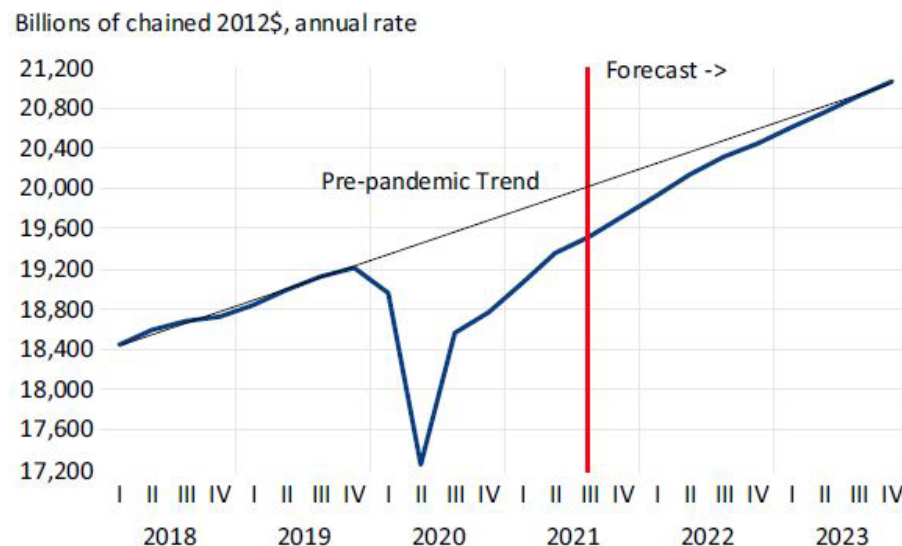
DATE: February 10, 2022

DISCUSSION (continued):

Because of plateauing vaccination rates and the emergence of variants, the UCLA Anderson Forecast is projecting slower growth in average annual Gross Domestic Product (GDP) for 2022 of 4.1%, down from their previous forecast of 5.0%. However, for 2023 they have increased their forecast to 3.1% from the previous forecast of 2.2%. The report states that the “...reduction in growth in 2022 and increase in growth in 2023 represent a shifting of consumption and investment further into the future.” Other forecast assumptions include that the economy remains constrained because of COVID, that consumers continue to spend on entertainment, leisure and hospitality, and services, but that they occasionally pull back if there are new variants or if cases increase rapidly. In addition, the report assumes that the impact of COVID on economic activity diminishes through 2023.

As the graph on the next page illustrates, the report states that real GDP surpassed its pre-COVID peak in Q2 2021. However, real GDP is still 2.2% below its pre-COVID trend and the report does not expect real GDP to reach its pre-COVID trend until the third quarter of 2023.

Exhibit 3: Real GDP Levels, 2018Q1-2023Q4



Source: U.S. Bureau of Economic Analysis, UCLA Anderson Forecast.

The Report notes, “although California began a significant recovery later than some other states due to the public health interventions in the state, they expect the California recovery to ultimately be, once again, faster than the U.S. The authors attribute this to two reasons. First, variants notwithstanding, the better public health outcomes should result in a more rapid return to normalcy. Second, the move to new ways of work and social interaction will disproportionately impact California through its technology laden sectors. The leisure and

SUBJECT: Five-Year Forecast (FY 2022/23 – 2026/27)

DATE: February 10, 2022

DISCUSSION (continued):

hospitality sector will be the last to recover due to the depth of the decline in this sector, the slower return of restaurant and bar services demand, and the sub-sectors dependent upon international tourism demand. The recovery will be considerably faster in higher income technical services and faster in residential construction as California's shortage of housing relative to demand drives new developments."

Operating Revenue Trends and Five-Year Forecast Scenarios

The Town is highly dependent on three economically sensitive revenues comprising 65% of General Fund forecasted revenues. Following are summaries of the Town's major revenues of property tax, sales tax, and transient occupancy tax (TOT). To provide context for the development of the Five-Year Forecast (FY 2022/23 – 2026/27), the prior year's growth assumptions and resulting revenue projections are provided. The Base Case Forecast can be found in Attachment 2.

With that context, updated growth assumptions are provided for each revenue source, and the resultant projected revenues for the new Forecast period. The revenue assumptions provided are informed by the County Tax Assessor, the Town's sales tax consultant, and direct communication with the Town's hospitality industry. In addition, alternative forecast scenarios are discussed in this report for these three revenue streams. Please see Attachment 3 for a description of all revenue categories with a comprehensive listing of revenue forecast assumptions.

Property Tax

Property tax is the single largest revenue source for the Town and comprised approximately 34% of total Town projected revenues for FY 2021/22. As the following table illustrates, Los Gatos has benefited from the economic expansion as evidenced by year-over-year (YOY) roll growth in property assessment since 2012. For the 10-year period, the average annual growth rate was 6.4%.

*Los Gatos Assessment Roll Growth*

(values in billions)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Roll</b>	8.68	9.46	9.99	10.63	11.54	12.29	13.15	13.84	14.90	15.6
<b>Percent Growth</b>	3.67	9.06	5.62	6.40	8.56	6.54	6.95	5.23	7.70	4.33

Source: Santa Clara County Assessors Annual Reports

SUBJECT: Five-Year Forecast (FY 2022/23 – 2026/27)

DATE: February 10, 2022

DISCUSSION (continued):

The County of Santa Clara provides property tax collection updates and projections throughout the year. The following table illustrates the most recent estimates relative to the Adopted FY 2021/22 Budget and FY 2020/21 actuals. The current County estimate indicates a modest deviation from budget of approximately \$400,000. The decrease is attributed to the combination of lower than expected secured property tax estimates and increases to Vehicle License Fees, property transfer tax, and Educational Revenue Augmentation Fund (ERAF) estimates.

	FY 2020/21 Actual	FY 2021/22 Adjusted Budget	County Estimate with 70% ERAF
Property Tax Revenue & Vehicle License Fee Backfill	\$19.9 M	\$20.0 M	\$19.6 M

The Town has been monitoring ongoing developments regarding the distribution of excess ERAF funds. A portion of property tax revenue goes to the ERAF to support local school districts. When the amount contributed to ERAF is more than the minimum cost of funding local schools, excess funds have traditionally been returned to the county, cities, and special districts. Five counties, including Santa Clara, have been using a redistribution allocation formula that has been contested by the State. The Town received the full amount for FY 2020/21; however, the Santa Clara County Assessor's Office recommends budgeting only 70% of the FY 2021/22 projected number. The Adopted FY 2021/22 Budget included a \$1.45 million ERAF estimate, 70% of the current ERAF base revenue estimate is \$1.5 million.

The following table illustrates the growth factors used in the development of the Five-Year Forecast (FY 2022/23 – 2026/27).

Property Tax	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Proposed Growth	3%	3%	3%	3%	3%

For purposes of the Forecast, the "Base Case" utilizes a growth factor of 3.0% and the "Greater Growth" and "Lower Growth" scenarios utilize a 2% differential from the Base Case. In addition to the growth factor, staff continues to assume \$372,000 additional North 40 revenue in FY 2021/22 and an additional \$711.320 in FY2022/23 due to the project's construction and sales schedule. Base non-residual excess ERAF revenue is forecasted at \$400,000 annually until

SUBJECT: Five-Year Forecast (FY 2022/23 – 2026/27)

DATE: February 10, 2022

DISCUSSION (continued):

further direction received annually from the County. FY 2022/23 also anticipates an additional \$500,000 Redevelopment Agency residual allocation representing the current allocation calculation of Santa Clara County.

Property Tax (Property Tax & VLF)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)
Greater Growth Scenario	\$20.2	\$21.0	\$22.0	\$23.0	\$24.2
Base Case Modest Growth	\$19.9	\$20.2	\$20.7	\$21.4	\$22.0
Less Growth Scenario	\$19.4	\$19.4	\$19.7	\$19.8	\$20.0

Sales Tax

Sales tax is the second largest revenue source for the Town and comprised approximately 12% of total Town projected revenues for FY 2021/22. The following table illustrates the most recent projections from the Town's sales tax consultant MuniServices relative to the Adjusted FY 2021/22 budget and FY 2020/21 actuals.

	FY 2020/21 Actual	FY 2020/21 Adjusted Budget	January 10, 2022 MuniServices Estimate
Base Sales Tax	\$6.8 M	\$7.2 M	\$7.0 M

	FY 2020/21 Actual	FY 2020/21 Adjusted Budget	January 10, 2022 MuniServices Estimate
Measure G – 1/8 District Tax	\$1.1 M	\$1.0 M	\$1.2 M

The current estimate indicates a total improvement from budget of approximately \$64,000; however, staff will continue to monitor MuniServices updates into the close of the fiscal year and adjust as appropriate. The table below provides the MuniServices Most Likely scenario which staff is utilizing for development of the FY 2022/23 Five-Year Forecast.

SUBJECT: Five-Year Forecast (FY 2022/23 – 2026/27)

DATE: February 10, 2022

DISCUSSION (continued):

Base Sales Tax & District Tax	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)
MuniServices COVID Scenario	\$8.7	\$8.9	\$9.2	\$9.4	\$9.6

The following tables illustrates MuniServices Most Likely scenario relative to their “Conservative” and “Optimistic” scenarios.

Base Sales Tax	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)
Conservative	\$ 6.7	\$6.9	\$7.1	\$7.3	\$7.4
Most Likely	\$7.5	\$7.7	\$7.9	\$8.1	\$8.2
Optimistic	\$8.2	\$8.5	\$8.7	\$8.9	\$9.1

Measure G 1/8 District Tax	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)
Conservative	\$1.1	\$1.1	\$1.1	\$1.2	\$1.2
Most Likely	\$1.2	\$1.2	\$1.3	\$1.3	\$1.4
Optimistic	\$1.3	\$1.3	\$1.3	\$1.4	\$1.5

Transient Occupancy Tax

TOT is an important revenue source for the Town and comprised approximately 3% of total Town projected revenues of \$1.4 million for FY 2021/22. The following table illustrates TOT FY 2020/21 actuals, the Adjusted FY 2021/22 Budget, and year-end collection estimates .



SUBJECT: Five-Year Forecast (FY 2022/23 – 2026/27)

DATE: February 10, 2022

DISCUSSION (continued):

	FY 2020/21 Actual	FY 2021/22 Adjusted Budget	Year-end Estimate
TOT	\$1.0 M	\$0.9 M	\$1.4 M

The FY 2021/22 Adjusted Budget modeled a slight increase to \$900,000 in anticipated TOT revenues from \$700,000 the prior year during the budget process; however, actual FY 2020/21 TOT proceed was \$1.0 M. The slight increase reflected significant uncertainty around the return of corporate travel and a continuation of slower leisure travel. Due to a significant rebound in leisure “staycation” travel, current TOT collections are trending higher than anticipated and average occupancy rates are rebounding as well.

The table below illustrates the growth projections utilized for development of the Five-Year Forecast (FY 2022/23 – 2026/27) for TOT and corresponding estimated revenues.

TOT	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Proposed Growth	3%	3%	3%	3%	3%
Estimated Revenues	\$1.4 M	\$1.5 M	\$1.5 M	\$1.6 M	\$1.6 M

Unlike sales tax forecasts which continue to predict a return to pre COVID levels in the next several years, the Town’s TOT revenue has historically been primarily driven by business travel. Given the uncertainty around physical business travel resuming at prior levels, as opposed to a continuation of remote work and online meeting forums, staff is recommending modest growth for base case development of the FY 2022/23 Five-Year Forecast. However, given the significant reduction to the revenue base compared to prior revenue history staff is providing a base growth scenario and an additional more optimistic growth scenario.

SUBJECT: Five-Year Forecast (FY 2022/23 – 2026/27)

DATE: February 10, 2022

DISCUSSION (continued):

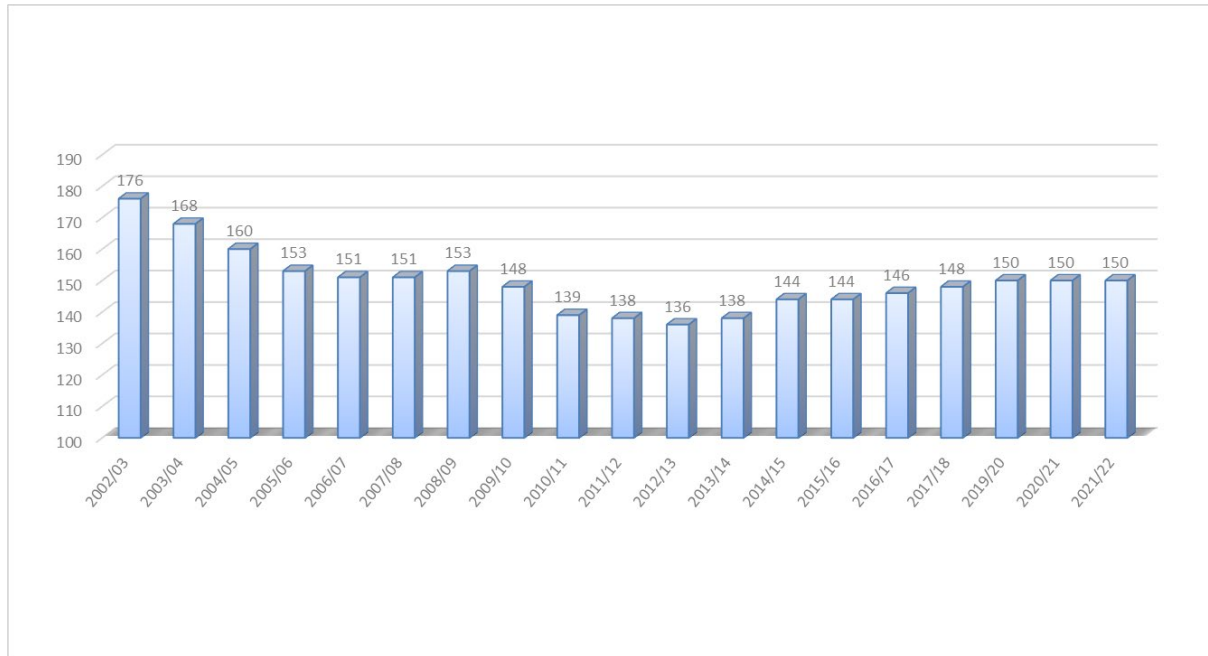
TOT	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Base Growth Scenario	20%	20%	3%	3%	3%
Estimated Revenues	\$1.7 M	\$2.0 M	\$2.1 M	\$2.1 M	\$2.2 M
Base Growth Scenario	30%	20%	3%	3%	3%
Estimated Revenues	\$1.8 M	\$2.2 M	\$2.2 M	\$2.3 M	\$2.4 M

Operating Expense Trends and Five-Year Forecast Scenarios

Forecasts of future operating expenditures take into account two key factors: cost escalation and new operating expenditures. New operating expenditures refer to costs created by new or enhanced service programs approved during the annual budget process. See Attachment 4 for the expenditure assumptions.

Cost escalation refers to largely unavoidable increases in the cost of doing business. It includes inflation, multi-year contract costs, health care costs, and unfunded State mandates. Cost escalation also includes other unavoidable cost increases unique to a government organization, such as a rise in wages consistent with collective bargaining agreements and annual pension payments mandated by CalPERS. The Town has three bargaining units, including the Town Employees' Association (TEA), the American Federation of State, County and Municipal Employees (AFSCME), and the Police Officers' Association (POA). The unrepresented groups are Management and Confidential.

For FY 2021/22, General Fund Estimated Operating expenditures (not including debt payment and transfers out) were programmed at \$43.8 million. The delivery of Town services is highly dependent on talent which comprises 64% of Estimated General Fund expenditures. Given the high dependence on labor for service delivery the Town has helped manage salary escalation (and benefits) through the maintenance of lower staffing levels. As the table below illustrates, since 2001 the Town has reduced its full-time employees by 16.7% to 150 FTE employees.

DISCUSSION (continued):

Mandated pension payments to CalPERS has consistently been one of the major cost drivers for the Town over the past decade with persistent unanticipated increases in pension costs. The Town's plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns, changes in actuarial assumptions, and demographic changes which have outweighed any positive plan experiences. The outcome of these unfavorable economic and demographic results is the development of unfunded pension and Other Post-Employment Benefit (OPEB) obligations for the Town. To address the escalation in pension costs, previous Councils have allocated additional discretionary pension funding, totaling \$10,400,000 million. These additional discretionary payments will ultimately yield an approximate additional \$12,700,000 in contribution savings.

The Town and its bargaining groups have also worked to contain benefit costs. The Town closed the CalPERS retiree Tier 1 benefit for non-safety employees and created a new Tier 2 for non-safety new employees in 2012, implemented the Public Employees' Pension Reform Act (PEPRA) for all new non-classic employees starting in 2013, and participates in the CalPERS discounted prepayment option. The Town's bargaining groups participated in wage freezes and unpaid furloughs for several years to assist in achieving balanced budgets after the 2008 recession.

In addition to the management of the Town's pension obligations, prior Councils and the Town's bargaining groups have worked to curb cost escalation in OPEB. In 2009, the Town initiated prefunding of the retiree healthcare benefit and has since established approximately \$27.4 million in OPEB assets from zero in 2009. In 2016, the Town's bargaining groups

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SUBJECT: Five-Year Forecast (FY 2022/23 – 2026/27)

DATE: February 10, 2022

DISCUSSION (continued):

approved the introduction of dependent cost sharing and a reimbursement cap to Medicare eligible employees, and in 2018 the elimination of the Town's existing retiree healthcare benefit prospectively.

While these collective measures have helped to slow the growth in salary and benefit expenses, the Forecast anticipates continued increases in the Town's pension obligations.

Provided below are the expense assumptions for salary and benefits and alternate case scenarios for pension contributions. The majority of other expenses are assumed to increase at 3% per annum. Detailed expenditure assumptions and factors can be found in Attachment 4.

Salary and Benefits

*Salary*

The Town has historically budgeted vacant and non-sworn positions at top step of the range for the position. Sworn and management positions are budgeted at one step higher of current step in anticipation of any merit increases expected to be awarded in the upcoming fiscal year. Based on Council's direction for FY 2021/22, salaries were budgeted at actual salary plus a one step increase, which was a significant budgeting methodology change from previous practice. This methodology will be continued for the development of FY 2022/23 budget.

For the Forecast, positions are budgeted at the actual rate of pay of employees including benefits as of December 2021. Then, by position, salary costs are updated in accordance with the applicable Memorandum of Understanding (MOU) between the Town and its bargaining units. The Memoranda of Understanding that outline the individual agreements between the Town and each unit related to compensation, health benefits, leave time, and grievance procedures will expire with TEA and AFSCME on June 30, 2022. POA's MOU expired on September 30, 2021 and negotiations are currently in process. The Management and Confidential groups are unrepresented.

In addition to the economic terms of the MOUs, the Forecast assumes step increases for employees in applicable positions, and merit increases for Management and Confidential employees. In addition, based on prior Council guidance, 2% cost of living wage adjustments (COLA) are included in the Forecast for each year starting in 2022/23.

SUBJECT: Five-Year Forecast (FY 2022/23 – 2026/27)

DATE: February 10, 2022

DISCUSSION (continued):

Salaries (Current MOUs)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)
Base Case with 2% COLA	\$20.6	\$21.2	\$21.8	\$22.3	\$22.8

In comparison, the table below illustrates what the salary forecast would be utilizing the prior practice of not including assumptions outside of current MOUs or 0%.

Salaries (Current MOUs)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)
Base Case with 0% COLA	\$20.2	\$20.4	\$20.6	\$20.7	\$20.8

*Pension and Other Benefits*

For purposes of the Forecast, staff utilizes estimates provided by each plan's most recent actuarial valuation received from CalPERS. Beginning in FY 2021/22, the estimates of employer contributions were credited with an anticipated reduction associated with the \$5.6M additional discretionary payment (ADP) toward the 2015 unfunded amortization base paid off in early FY 2020/21.

Pension & Other Benefits	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)
Base Case	\$10.9	\$11.4	\$11.9	\$11.9	\$12.3

As we move closer to the final development of the Proposed FY 2022/23 Operating Budget, staff will further refine these estimates taking into account CalPERS recent assumption changes, changes to the discount rate, and the 21.3% positive return experienced in FY 2020/21. Any update will not impact the initial years of the forecast due to lags in actuarial reporting but will be exhibited starting in the third year of the forecast.

Given that investment returns have one of the largest impacts on contribution variability, CalPERS provides projected employer Unfunded Actuarial Liability (UAL) contributions under alternate investment returns. The following alternative return scenarios assume that the return was experienced for FY 2020/21 through FY 2023/24. As the table below illustrates

SUBJECT: Five-Year Forecast (FY 2022/23 – 2026/27)

DATE: February 10, 2022

DISCUSSION (continued):

returns higher than the expected return of 7% result in lower future UAL contributions and returns lower than 7% result in higher future UAL contributions.

UAL Town Contributions (Misc & Safety)	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Greater Investment Return Scenario (12%)	\$5,037,000	\$5,065,000	\$4,428,000	\$3,903,000
Base Investment Return Case (7%)	\$5,213,000	\$5,598,000	\$5,518,000	\$5,769,000
Less Investment Return Scenario (1%)	\$5,446,000	\$6,297,000	\$6,919,000	\$8,105,000

CalPERS Actuarial Valuations as of June 30, 2020

For the year ending June 30, 2021, the Public Employees Retirement Fund (PERF) returned 21.3%. The table below illustrates the historic investment returns for five years, ten years, twenty years, and thirty years.

CalPERS Compound Annual Rates of Return (as of June 30, 2020)	5 Years	10 Years	20 Years	30 Years
Compound Annual Return	6.3%	8.5%	5.5%	8.0%

Five-Year Financial Forecast Alternative Scenarios

The tables below present the “Base Case” forecast contrasted against the two alternative revenue scenarios of “Greater Growth” and “Lower Growth.” As illustrated in the tables, even modest changes to the “Base Case” forecast can result in either additional surpluses or deficits during the forecast period.

Original 5 Year Forecast “Base Case” with 2% Salary Increase	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)
Total Revenues, Transfers & Use of Reserves	\$45.6	\$46.6	\$47.6	\$48.9	\$50.1
Total Expenses & Allocations	\$47.2	\$48.6	\$50.0	\$51	\$52.4
Original Surplus/Deficit	(\$1.6)	(\$2.0)	(\$2.4)	(\$2.1)	(\$2.3)

SUBJECT: Five-Year Forecast (FY 2022/23 – 2026/27)

DATE: February 10, 2022

DISCUSSION (continued):

Original 5 Year Forecast “Base Case” with 0% Salary Increase	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)
Total Revenues, Transfers & Use of Reserves	\$45.6	\$46.6	\$47.6	\$48.9	\$50.1
Total Expenses & Allocations	\$46.7	\$47.5	\$48.4	\$48.7	\$49.5
Original Surplus/Deficit	(\$1.1)	(\$0.9)	(\$0.8)	\$0.2	\$0.6

Alternative Scenario “Greater Growth” with 2% Salary Increase	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)
Total Revenues & Transfers	\$45.7	\$47.6	\$61.8	\$50.6	\$52.6
Total Expenses & Allocations	\$47.2	\$48.6	\$50.0	\$51	\$52.4
New Surplus/Deficit	(\$0.1)	\$0.4	\$1.6	\$1.1	\$1.7

Alternative Scenario “Lower Growth” with 2% Salary Increase	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)
Total Revenues & Transfers	\$44.1	\$44.9	\$45.6	\$46.3	\$47.0
Total Expenses & Allocations	\$47.2	\$48.6	\$50.0	\$51	\$52.4
New Surplus/Deficit	(\$3.0)	(\$3.7)	(\$4.4)	(\$4.6)	(\$5.3)

CONCLUSION:

The Town Council should review and discuss the elements and assumptions of the initial Five-Year Forecast and other budget considerations. While the “Base Case” Forecast estimates deficits at this time, it is based on assumptions that are subject to change given the significant unknowns related to COVID and as shown with the alternative growth scenarios. As the Forecast is not a budget, there are no specific budget balancing recommendations being

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SUBJECT: Five-Year Forecast (FY 2022/23 – 2026/27)

DATE: February 10, 2022

CONCLUSION (continued):

proposed at this time. The Town Manager will bring forward for Council consideration in May a balanced proposed FY 2022/23 budget.

At this time, the preparation of the FY 2022/23 Operating and Capital Budgets is taking into account the Town's current economic reality and long term fiscal picture, as well as maintaining the Town's high level of municipal services. This is considered a "status quo" approach with no major new initiatives or staffing. Key budget principles include:

- Develop and recommend a balanced budget that maintains service levels;
- Address projected deficits;
- Continue to make progress on Strategic Priorities identified by the Town Council; and
- Identify opportunities to maintain or enhance service delivery through new revenue sources and technology.

Staff looks forward to answering the Town Council's questions and receiving any direction for the preparation of the proposed FY 2022/23 Operating Budget that results from the discussion. The Capital Improvement Program and direction will be discussed separately at the next Town Council meeting. The Council may also discuss budget assumptions. The Finance Commission is meeting on February 14 and its comments on the Forecast will be provided to the Town Council in a Desk Item on February 15, 2022. The Draft FY 2022/23 Operating and Capital Budgets will be available in May with the budget hearing tentatively scheduled for May 17, 2022.

COORDINATION:

This Report was prepared by the Town Manager's Office in coordination with the Finance Department.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

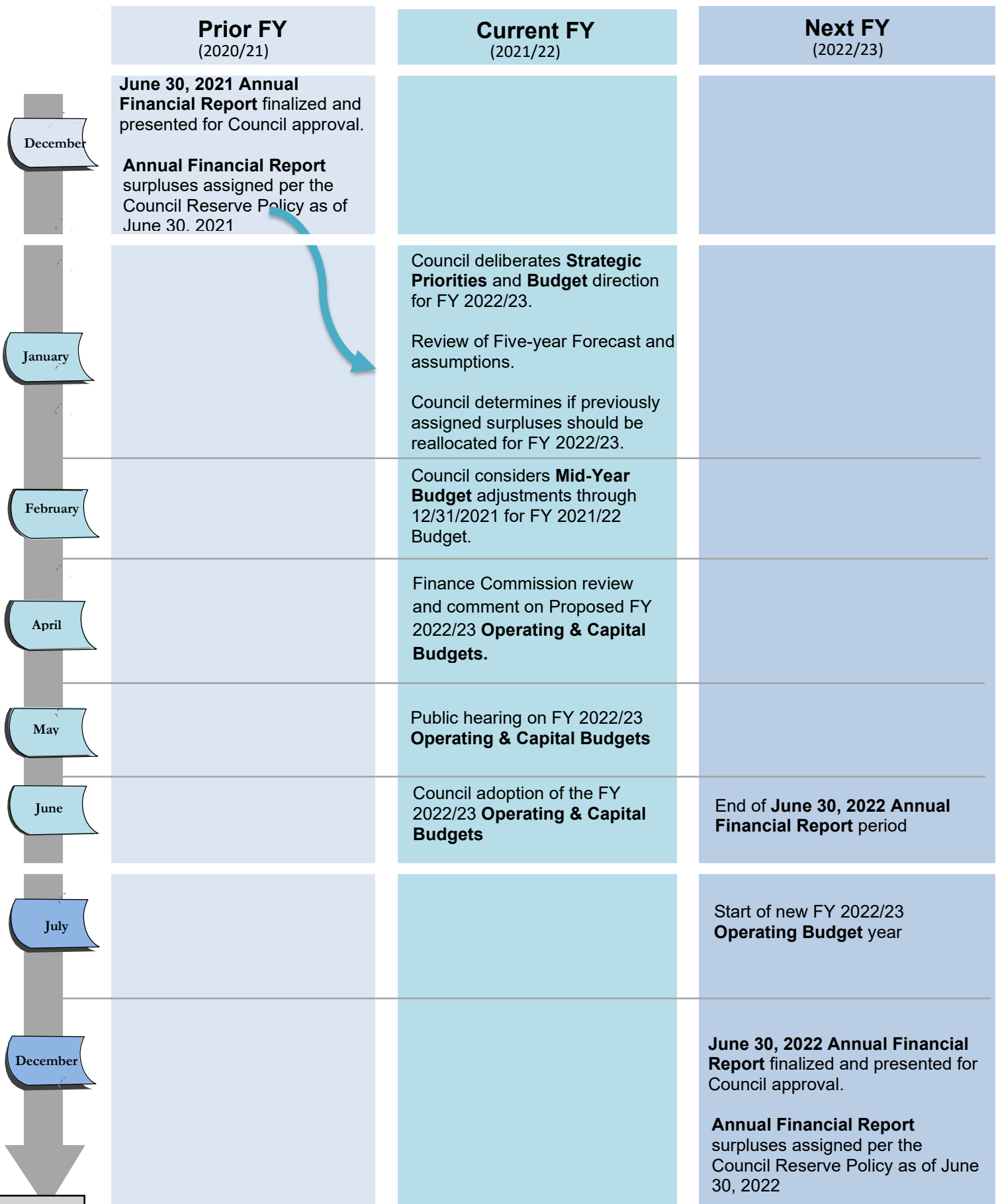
Attachments:

1. Annual Budget Process
2. Base Case Five-Year Forecast
3. Forecast Revenue Assumptions
4. Forecast Expense Assumptions



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## BUDGET PROCESS DIAGRAM



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## BASE CASE

**Town of Los Gatos General Fund 5-Year Forecast**  
(in \$ million)

Account	Revenue Category	2020/21 Actuals	2021/22 Adjusted Budget	2021/22 Estimates	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
4100	Property Tax	\$ 15.8	\$ 15.9	\$ 15.4	\$ 15.5	\$ 15.7	\$ 16.1	\$ 16.6	\$ 17.1
4110	VLF Backfill Property Tax	4.1	4.2	4.2	4.4	4.5	4.6	4.8	4.9
4200	Sales & Use Tax	6.8	7.2	7.0	7.5	7.7	7.9	8.1	8.2
4200	Measure G District Sales Tax	1.1	1.0	1.2	1.2	1.2	1.3	1.3	1.4
4250	Franchise Fees	2.5	2.6	2.5	2.6	2.7	2.7	2.8	2.9
4251	Transient Occupancy Tax	1.0	0.9	1.4	1.4	1.5	1.5	1.6	1.6
4400	Business License Tax	1.4	1.3	1.3	1.3	1.4	1.4	1.4	1.4
4400	Licenses & Permits	3.1	2.7	3.2	2.8	2.9	3.0	3.0	3.1
4500	Intergovernmental	1.6	4.4	1.6	1.0	1.0	1.0	1.0	1.1
4600	Town Services	4.6	3.6	3.9	3.4	3.5	3.6	3.7	3.7
4700	Fines & Forfeitures	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
4800	Interest	0.1	0.4	0.4	0.2	0.2	0.2	0.2	0.2
4850	Other Sources	3.7	2.3	2.5	2.2	2.2	2.2	2.2	2.3
4900	Fund Transfers In	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5
<b>TOTAL OPERATING REVENUES &amp; TRANSFERS*</b>		\$ 46.6	\$ 47.3	\$ 45.4	\$ 44.2	\$ 45.2	\$ 46.2	\$ 47.4	\$ 48.6
	Capital	3.4	0.6	0.6	0.8	0.8	0.8	0.8	0.8
	Use of Pension/OPEB Reserve	4.5	-	-	-	-	-	-	-
	Other	-	-	0.3	-	-	-	-	-
	Use of Property Surplus Reserve	-	1.2	1.2	-	-	-	-	-
	Use of Measure G Reserve	-	0.6	0.6	0.6	0.6	0.6	0.7	0.7
	ARPA Replacement Revenue	-	-	1.4	-	-	-	-	-
<b>TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES</b>		\$ 54.5	\$ 49.7	\$ 49.2	\$ 45.6	\$ 46.6	\$ 47.6	\$ 48.9	\$ 50.1
Account	Expenditure Category	2020/21 Actuals	2020/21 Budget	2021/22 Estimates	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
5110	Salary	20.2	20.8	20.6	20.6	21.2	21.8	22.3	22.8
5120	CalPERS Benefits	6.4	7.3	6.6	6.9	7.3	7.7	7.6	7.9
5200	All Other Benefits	3.7	4.2	3.8	4.0	4.1	4.2	4.3	4.4
6211	OPEB Pay as You Go	1.3	1.3	1.5	1.5	1.6	1.8	1.9	1.9
6000	Operating Expenditures	5.7	6.2	6.6	6.3	6.3	6.5	6.5	6.8
7200	Grants & Awards	0.3	1.0	1.1	0.2	0.2	0.3	0.3	0.3
7400	Utilities	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
8060	Internal Service Charges	2.3	2.7	2.6	2.9	3.1	3.2	3.5	3.6
8900	Debt Service	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9
<b>TOTAL OPERATING EXPENDITURES</b>		\$ 42.4	\$ 46.1	\$ 45.3	\$ 45.0	\$ 46.5	\$ 48.0	\$ 48.9	\$ 50.3
	GASB 45 Retiree Medical Actuarial	0.6	0.1	0.1	0.4	0.3	0.2	0.2	0.2
	Additional Discretionary Payment - Pension	5.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4
<b>TOTAL OPERATING &amp; DISCRETIONARY EXPENDITURES</b>		\$ 48.6	\$ 46.6	\$ 45.8	\$ 45.8	\$ 47.2	\$ 48.6	\$ 49.5	\$ 50.9
	Capital Transfers Out to GFAR	3.4	2.8	2.8	1.4	1.4	1.4	1.5	1.5
<b>AMOUNTS AVAILABLE FOR RESERVE ALLOCATIONS</b>									
	Stabilization/Catastrophic	0.1	-	-	-	-	-	-	-
	Allocate to Compensated Absences	0.1	-	-	-	-	-	-	-
	Allocate to Property Surplus Reserve	1.2	-	-	-	-	-	-	-
	Allocate to CalPERS/Pension	0.3	-	-	-	-	-	-	-
	Allocate to Measure G - Capital	-	0.5	0.6	-	-	-	-	-
	Allocate to ARPA Reserve	-	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES &amp; RESERVE ALLOCATIONS</b>		\$ 53.7	\$ 49.9	\$ 49.2	\$ 47.2	\$ 48.6	\$ 50.0	\$ 51.0	\$ 52.4
<b>NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES &amp; RESERVE ALLOCATIONS FOR FINAL ALLOCATION AFTER YEAR END CLOSE</b>		\$ 0.8	\$ (0.2)	\$ -	\$ (1.6)	\$ (2.0)	\$ (2.4)	\$ (2.1)	\$ (2.3)

\* Due to rounding of individual categories FY 2021/22 Total Expenditures and Reserve Allocations includes \$0.1 million.  
General Fund (111) Forecast does not include Pension Trusts activities. (\$37,810 in interest proceeds in FY 2020/21)

**Town of Los Gatos General Fund Historical Year-End Results**  
(in \$ million)

Account	Revenue Category	2015/16 Actuals	2016/17 Actuals	2017/18 Actuals	2018/19 Actuals	2019/20 Actuals
4100	Property Tax	\$ 10.8	\$ 11.5	\$ 12.5	\$ 13.6	\$ 14.5
4110	VLF Backfill Property Tax	3.0	3.2	3.4	3.7	3.9
4200	Sales & Use Tax	7.5	9.2	7.6	20.8	6.5
4200	Measure G District Sales Tax	-	-	-	0.2	1.0
4250	Franchise Fees	2.3	2.4	2.5	2.5	2.5
4251	Transient Occupancy Tax	1.9	2.3	2.6	2.7	1.9
4400	Business License Tax	1.5	1.7	1.7	1.5	1.4
4400	Licenses & Permits	3.5	3.0	3.0	3.1	2.8
4500	Intergovernmental	1.0	0.9	1.0	26.6	1.0
4600	Town Services	4.0	3.3	4.4	30.0	4.2
4700	Fines & Forfeitures	0.9	0.9	0.7	0.5	0.3
4800	Interest	0.6	0.2	0.2	1.4	2.2
4850	Other Sources	2.3	4.4	3.2	132.9	2.8
4900	Fund Transfers In	2.4	0.3	0.8	14.4	0.6
<b>TOTAL OPERATING REVENUES &amp; TRANSFERS*</b>		\$ 41.7	\$ 43.3	\$ 43.6	\$ 253.9	\$ 45.6
	Capital	-	1.4	3.2	2.8	8.0
	Use of Pension/OPEB Reserve	-	-	-	-	-
	Other	-	-	-	-	-
	Use of Almond Grove Reserve	-	5.9	-	-	-
<b>TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES</b>		\$ 41.7	\$ 50.6	\$ 46.8	\$ 256.7	\$ 53.6

Account	Expenditure Category	2015/16 Actuals	2016/17 Actuals	2017/18 Actuals	2018/19 Actuals	2019/20 Actuals
5110	Salary	14.5	14.8	16.0	17.9	19.3
5120	CalPERS Benefits	3.6	3.9	4.3	5.3	6.1
5200	All Other Benefits	3.2	3.2	3.3	3.6	3.6
6211	OPEB Pay as You Go	0.9	1.0	1.1	1.2	1.2
6000	Operating Expenditures	4.7	4.8	5.0	5.6	5.1
7200	Grants & Awards	0.7	0.2	0.2	0.3	0.3
7400	Utilities	0.4	0.6	0.5	0.5	0.5
8060	Internal Service Charges	3.5	3.6	3.9	2.5	2.2
8900	Debt Service	1.9	1.9	1.9	1.9	1.9
<b>TOTAL OPERATING EXPENDITURES</b>		\$ 33.6	\$ 34.0	\$ 36.2	\$ 38.8	\$ 40.2
	GASB 45 Retiree Medical Actuarial	1.5	2.6	1.6	1.1	1.1
<b>TOTAL OPERATING &amp; DISCRETIONARY EXPENDITURES</b>		\$ 35.1	\$ 36.6	\$ 37.8	\$ 39.9	\$ 41.3
	Capital Transfers Out to GFAR	0.5	7.3	2.6	2.3	7.0
	Operating Transfer Out	0.1	-	0.6	0.5	1.1
	Fixed Assets/ Equipment	0.4	-	-	-	0.1
	Fund	-	-	1.2	3.6	0.4
<b>AMOUNTS AVAILABLE FOR RESERVE ALLOCATIONS</b>		\$ 5.6	\$ 6.7	\$ 4.6	\$ 210.4	\$ 3.7
	Allocate to Almond Grove Reserve	2.5	-	-	-	-
	Allocate to Market Fluctuations Reserve	0.3	0.3	-	-	1.2
	Allocate to CalPERS/Pension Reserve	-	1.8	-	-	-
	Allocate to Measure G Reserve	-	-	-	-	1.2
	Allocate to VM & Stores Surplus Reserve	-	-	-	1.0	-
	Allocate to Authorized Carryforwards	0.1	-	-	-	-
	Sales Tax Prior - Year Adjustments	-	0.4	-	-	-
	Allocate to Property Surplus Reserve	-	-	-	1.9	-
<b>TOTAL EXPENDITURES &amp; RESERVE ALLOCATIONS</b>		\$ 39.0	\$ 46.4	\$ 42.2	\$ 49.2	\$ 52.2
<b>NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES &amp; RESERVE ALLOCATIONS FOR FINAL ALLOCATION AFTER YEAR END CLOSE</b>		\$ 2.7	\$ 4.2	\$ 4.6	\$ 207.5	\$ 1.4

\* Due to rounding of individual categories Total Expenditures and Reserve Allocations may include \$0.1 million.  
General Fund (111) Historical presentaiton does not include Pension Trusts activities.

## Revenue Baselines and Projection Factors

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Type of Revenue	Base Line Estimate	FY 2022/23 Forecast	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast
<b>Property Tax/VLF Backfill</b>	Current baseline set by SCC Assessor Office 2/4 2022 report	3%	3%	3%	3%	3%
<b>North 40 Property Sales</b>	Starting in 2021/22	North 40 Phase 1 Sales	3%	3%	3%	3%
<b>ERAF</b>	Current baseline set 70% of SCC Assessor Office 2/4 2022 report	\$400K	\$400K	\$400K	\$400K	\$400K
<b>Sales Tax</b>	MuniServices 1/11/2022 Most Likely Estimates	MuniServices 1/11/2022 Most Likely Estimates	MuniServices 1/11/2022 Most Likely Estimates	MuniServices 1/11/2022 Most Likely Estimates	MuniServices 1/11/2022 Most Likely Estimates	MuniServices 1/11/2022 Most Likely Estimates
<b>Sales Tax - Measure G</b>	MuniServices 1/11/2022 Most Likely Estimates	MuniServices 1/11/2022 Most Likely Estimates	MuniServices 1/11/2022 Most Likely Estimates	MuniServices 1/11/2022 Most Likely Estimates	MuniServices 1/11/2022 Most Likely Estimates	MuniServices 1/11/2022 Most Likely Estimates
<b>Franchise Fee</b>	Current baseline set by FY 2021/22 Estimates	3%	3%	3%	3%	3%
<b>Transient Occupancy Tax</b>	Current baseline set by FY 2021/22 actual estimated proceeds	3%	3%	3%	3%	3%
<b>Business License Tax</b>	Current baseline set by FY 2021/22 Estimates	5%	5%	0%	0%	0%
<b>License &amp; Permits</b>	Current baseline set by FY 2021/22 Estimates	3%	3%	3%	3%	3%

## Revenue Baselines and Projection Factors

Item 7.

<b>Town Services</b>	Current baseline set by FY 2021/22 Estimates	3%	3%	3%	3%	3%
<b>Fine &amp; Forfeitures</b>	Current baseline set by FY 2021/22 Estimates	Varies	Varies	Varies	Varies	Varies
<b>Interest</b>	Based on Portfolio Analysis and Current and Expected Yields during the forecast period	\$217K	\$222K	\$227K	\$232K	\$237K
<b>Other Sources</b>	Current baseline set by FY 2021/22 Estimates	Varies	Varies	Varies	Varies	Varies

## EXPENDITURE BASELINE AND PROJECTION FACTORS

Beginning in FY 2020/21, the Town started budgeting salaries at the actual salary plus a one-step increase. In the Five-Year Forecast, positions are forecasted at the actual rate of pay including salaries and benefits as of February 1, 2022, and rate is increasing in the actual anniversary date.

Type of Expenditure	FY 2022/23 Forecast	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast
<b>Salaries*</b>	2%	2%	2%	2%	2%
<b>Benefit - Medical**</b>	3%	3%	3%	3%	3%
<b>Operating Expenditures***</b>	3%	3%	3%	3%	3%
<b>Grants &amp; Awards</b>	0%	0%	0%	0%	0%
<b>Utilities***</b>	3%	3%	3%	3%	3%
<b>Internal Service Charges***</b>	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement
<b>Debt Service</b>	Debt Service Schedules				

\*Salary increases are based on actual step increases and approved Memoranda of Understanding with the bargaining units plus the Council's assumption of 2% per year cost of living adjustment.

\*\* Benefit increase estimates are provided by CalPERS/Public Employees' Medical and Hospital Care Act (PEMHCA)

\*\*\* Based on historical trends.



The Town's required employer contribution rate estimates were developed using estimates provided by each plan's most recent actuarial valuation received from CalPERS. The employer contribution rates illustrated below reflect percentages of covered payroll. Beginning in FY 2021/22, the estimates of employer contributions were credited with an anticipated reduction associated with the approximate \$5.6M 2015 unfunded amortization base were paid off in early FY 2020/21.

Type of Expenditure	FY 2022/23 Forecast	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast
<b>Safety POA</b>	69.44%	72.01%	74.61%	75.68%	76.66%
<b>Safety Management POA</b>	72.44%	75.01%	77.61%	78.68%	79.66%
<b>Safety POA - PEPR</b>	14.62%	14.65%	13.78%	13.75%	13.76%
<b>Miscellaneous TEA/Confidential/Management</b>	29.43%	30.04%	30.64%	28.45%	28.73%
<b>Miscellaneous TEA/Confidential/Management PEPR</b>	29.43%	30.04%	30.64%	28.45%	28.73%

*\*Safety Classic Rate reflects 3% decrease in employer's contribution rate to reflect 3% contribution as negotiated with the Town's POA during the collective bargaining process effective FY 2019/20.*



**TOWN OF LOS GATOS  
FINANCE COMMISSION**

MEETING DATE: 02/14/2022

ITEM NO: 8

Item 8.

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DATE: January 6, 2022  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Discuss Topics for Future Commission Agendas

**RECOMMENDATION:**

Discuss topics for future Commission agendas.

**PREPARED BY:** Arn Andrews  
Assistant Town Manager

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Reviewed by: Town Manager

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