TOWN OF LOS GATOS
FINANCE COMMISSION SPECIAL MEETING AGENDA
MAY 03, 2021
110 EAST MAIN STREET
LOS GATOS, CA
5:00 PM

Ron Dickel, Commissioner
Loreen Huddleston, Commissioner
Kyle Park, Commissioner
Rick Tinsley, Commissioner
Vacant, Commissioner
Rob Rennie, Vice Mayor
Matthew Hudes, Council Member

IMPORTANT NOTICE REGARDING THE APRIL 26, 2021 FINANCE COMMISSION SPECIAL MEETING

This meeting is being conducted utilizing teleconferencing and electronic means consistent with State of California Executive Order N-29- 20 dated March 17, 2020, regarding the COVID- 19 pandemic. In accordance with Executive Order N-29- 20, the public may only view the meeting online and not in the Council Chamber.

PARTICIPATION

If you are interested in providing oral comments real-time during the meeting, you must join the Zoom webinar.

- Join from a PC, Mac, iPad, iPhone or Android device: Please click this URL to join. https://losgatosca-gov.zoom.us/j/87323214041?pwd=clhSVDBwaTFEK09tT21WQmZZQWJNZz09
  Passcode: 541096
- Or Telephone: Dial: USA 877 336 1829 US Toll-free or USA 636 651 0002 US Toll
  Conference code: 986172

During the meeting:

- 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, 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 Commission meeting.

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

TOWN OF LOS GATOS
FINANCE COMMISSION SPECIAL MEETING AGENDA
MAY 03, 2021
110 EAST MAIN STREET
LOS GATOS, CA
5:00 PM

REMOTE LOCATION PARTICIPANTS *The following Committee 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, VICE 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 and may be approved by one motion. Any member of the Finance Commission or public may request to have an item removed from the Consent Items for comment and action. A member of the public may request to remove an item from Consent by following 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. Unless there are separate discussions and/or actions requested by the Finance Commission, staff, or a member of the public, it is requested that items under the Consent Items be acted on simultaneously.)*

1. Approve Minutes of the April 26, 2021 Finance Commission Special Meeting.

VERBAL COMMUNICATIONS *(Members of the public are welcome to address the Commission on any matter that is not listed on the agenda consistent with the Participation Instructions contained 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 consistent with the Participation Instructions contained on Page 1 of this agenda.)*

2. Discussion and Recommendation to the Town Council for Programming Measure G Funds per Measures G and A for FY 2020/21, FY 2021/22, and the Five-Year Forecast Fiscal Years 2022/23 through 2026/27.
3. Commissioner Questions and Comments Regarding the Proposed Operating and Capital Budgets.
4. Discussion and Commission Recommendations to the Town Council regarding the Proposed FY 2021/22 Operating and Capital Budgets.

ADJOURNMENT

TOWN OF LOS GATOS
FINANCE COMMISSION
AGENDA REPORT

MEETING DATE: 5/3/2021

ITEM NO: 1

DRAFT
Minutes of the Finance Commission Meeting
April 26, 2021

The Finance Commission of the Town of Los Gatos conducted a special meeting via teleconference via COVID-10 Shelter in Place Guidelines on Monday, April 26, 2021, at 5:00 p.m.

MEETING CALLED TO ORDER AT 5:00 P.M.

ROLL CALL

Present: Chair Ron Dickel, Vice Chair Kyle Park, Commissioner Stacey Dell, Commissioner Loreen Huddleston, Commissioner Rick Tinsley, Vice Mayor Rob Rennie, and Council Member Matthew Hudes. (All participating remotely.)
Absent: None

Staff Present: Town Manager Laurel Prevetti, Town Attorney Rob Schultz, Assistant Town Manager Arn Andrews, Finance Director Stephen Conway, Parks and Public Works Director Matt Morley, Finance and Budget Manager Gitta Ungvari, Town Engineer WooJae Kim, Transportation and Mobility Manager Ying Smith, Senior Administrative Analyst Bobby Gonzalez, and Human Resources Director Lisa Velasco.

CONSENT ITEM (TO BE ACTED UPON BY A SINGLE MOTION)

1. Approve Minutes of the April 19, 2021 Finance Commission Meeting

MOTION: **Motion** by **Commissioner Loreen Huddleston** to approve consent item. **Seconded** by **Vice Chair Kyle Park.**

VOTE: **Motion passed unanimously.**

VERBAL COMMUNICATIONS

No one spoke.

OTHER BUSINESS

2. Discussion of the Proposed FY 2021/22 Operating and Capital Budgets.

Parks and Public Works Director Matt Morley presented the Capital Improvement Program development process and the summary of the FY 2021/22 Capital Program. Commissioners asked questions regarding capital budget development, available capital funding sources, and processes. In addition, staff presented answers to questions raised by the Finance Commissioners during their individual review of the documents. The Commission acknowledged that there is no dedicated ongoing capital source.

Opened Public Comment.

Rob Stump
- Commented that the Town has many priorities and asked the Finance Commission to recommend to the Town Council to allocate an additional $250,000 for fuel reduction from the Winchester property sale proceeds.

Catherine Somers
- Commented that ARPA funding should be used for destination marketing to help the hotel industry recover and asked what the Town would have cut if there was no ARPA funding.

Closed Public Comment.

MOTION: **Motion** by **Commissioner Rick Tinsley** to recommend to Council: (a) the allocation of the Surplus Property Reserve (Winchester property sale proceeds of $1.2 M) to the Capital/Special Project Reserve for capital budgeting purposes as determined by the Town Council's priorities, and (b) the allocation of the accumulated Measure G funds ($2M) for capital spending. **Seconded** by **Chair Ron Dickel.**

The Commission discussed the motion.

RESTATED MOTION: **Motion** by **Commissioner Rick Tinsley** to recommend to Council the allocation of the Surplus Property Reserve (Winchester property sale proceeds) to the Capital/Special Project Reserve for capital budgeting purposes as determined by the Town Council's priorities. **Seconded** by **Chair Ron Dickel.**

VOTE: **Motion passed unanimously.**

MOTION: **Motion** by **Commissioner Rick Tinsley** to recommend to Council the allocation of the accumulated Measure G funds through June 30, 2021 in the Measure G Reserve ($2 million) to the Capital/Special Project Reserve for capital budgeting purposes as determined by the Town Council's priorities. **Seconded** by **Chair Ron Dickel.**

The Commission discussed the motion.

RESTATED MOTION: **Motion** by **Commissioner Rick Tinsley** to recommend to Council the allocation of the accumulated Measure G funds through June 30, 2020 in the Measure G Reserve ($1.2 million) to the Capital/Special Project Reserve for capital budgeting purposes as determined by the Town Council's priorities. **Seconded** by **Chair Ron Dickel.**

VOTE: **Motion passed 4 to 1. Commissioner Loreen Huddleston voted no.**

Commission members agreed to continue the discussion of Measure G allocations for FY 2020/21, FY 2021/22, and the remainder of the Five-year Forecast. In addition, the Commission requested operating budget sensitivity analysis regarding major revenues and salaries.

ADJOURNMENT:
The meeting adjourned at 7:17 p.m.

This is to certify that the foregoing is a true and correct copy of the minutes of the April 26, 2021 meeting as approved by the Finance Commission.

____
Gitta Ungvari, Finance and Budget Manager

TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 05/03/2021
ITEM NO: 2

DATE: April 29, 2021

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Finance Commission Recommendations to the Town Council for the Allocation of Measure G Funds Consistent with Measures G and A for the Following:

a. Measure G Recommended Allocation for FY 2020/21
b. Measure G Recommended Allocation for FY 2021/22
c. Measure G Recommended Allocation for the Five-year Forecast Fiscal Years 2022/23 Through 2026/27

RECOMMENDATION:

The Finance Commission should provide recommendations to the Town Council for the allocation of Measure G funds consistent with Measures G and A for the following:

- Measure G Recommended Allocation for FY 2020/21
- Measure G Recommended Allocation for FY 2021/22
- Measure G Recommended Allocation for the Five-year Forecast Fiscal Years 2022/23 Through 2026/27

BACKGROUND:

On June 19, 2018, the Los Gatos Town Council adopted Ordinance No. 2274 establishing a General Transaction and Use Tax ("Ordinance 2274") for a period of twenty years and put forth the required ballot measure for voter consideration. On November 6, 2018, the voters of the Town approved the 1/8 Sales Tax dedicated to Los Gatos (Measure G). Among other items, Ordinance 2274 and Measure G required Citizens Oversight to ensure funds are spent according to the Measure's stated intent.

PREPARED BY: Arn Andrews
Assistant Town Manager

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

BACKGROUND (continued):

On November 3, 2020, voters of Los Gatos approved the Measure A ballot initiative establishing a new Finance Commission and disbanding both the Finance Committee and Sales Tax Oversight Committee. Among other responsibilities, the Finance Commission is charged with reviewing proposed Measure G expenditures prior to the Town's expenditure of those revenues. Following is the language established in the Measure A Finance Commission pertaining to Measure G:

(6) Prior to the Town's expenditure of any revenues from the tax authorized by sections 25.60.010 et seq. of the Town Code, review the proposed expenditures and advise the Town Council on whether such expenditures meet the Town Council's objectives for that tax:
   (A) Maintaining and enhancing neighborhood police patrols and local crime prevention programs;
   (B) Improving traffic flow to reduce congestion;
   (C) Repairing potholes and maintaining the Town's streets, roads. and sidewalks: and
   (D) Maintaining the Town's long-term financial stability.

(7) Issue an annual public report of the expenditures and appropriations of sales tax revenues approved by the Town Council during each fiscal year.

At the only meeting of the former Sales Tax Oversight Committee on December 9, 2019, the Committee opined that the Council should utilize Measure G funds accrued through June 30, 2020 toward Capital Projects. Since that time, those funds were assigned to a new Measure G District Sales Tax Reserve and to date none of those Measure G funds have been allocated or spent by the Town Council.

On April 26, 2021, the newly constituted Finance Commission discussed the Measure G Sales Tax Reserve, concurred with the former Sales Tax Oversight Committee, and voted to recommend to the Town Council that the accumulated funds through June 2020 ($1.2 M) be transferred to the Capital/Special Projects Reserve for the FY 2021/22 Capital Program.

For the Commission's consideration, this report lays out the options for use of the Measure G funds for FY 2020/21 (estimated $900 K), FY 2021/22 (estimated $1 M), and the Five-Year Forecast (approximately $1 M annually). The Commission's recommendations to the Council on the potential expenditure of the Measure G funds is required by Measure A.

DISCUSSION:

At the April 26, 2021 Finance Commission meeting, Commissioners began deliberating the remaining unallocated Measure G funds and their current programming in the FY 2021/22 Proposed Operating Budget as operating funds given the funding needs of the Capital Program.

DISCUSSION (continued):

Per Measure A, the Finance Commission should now review the proposed programmed expenditures as reflected in the Proposed Operating Budget and advise the Town Council on whether such expenditures meet the objectives for that tax as stated above.

The current Proposed Budget has Measure G revenues programmed in the following manner:

Measure G District Tax	2020/21 Estimate	2021/22 Proposed	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Revenues (millions)	$0.9	$1.0	$1.0	$1.0	$1.1	$1.1	$1.1

Although Measure G allows expenditures to maintain the Town's long term fiscal stability, staff recommends that the associated expenditures would be programmed in the Police Department, consistent with Measure G to maintain neighborhood police patrols.

The Commission may recommend the use of Measure G funds for any expenditure consistent with the objectives of the tax as noted on page two of this report. On April 26, 2021, the Commission discussed a potential recommendation to put FY 20/21, FY 21/22, and future forecast years towards the Capital Program. If the Commission moves forward with this recommendation to the Town Council, the following Proposed Operating Budget changes would occur:

	2020/21 Estimate	2021/22 Proposed	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Current Surplus/(Deficit)	$0.0	$0.0	($1.3)	($0.8)	($0.8)	$0.1	$0.5
Measure G Revenues Dedicated to CIP (millions)	$0.9	$1.0	$1.0	$1.0	$1.1	$1.1	$1.1
New Surplus/(Deficit)	($0.9)	($1.0)	($2.3)	($1.8)	($1.8)	($1.0)	($0.6)

As the table above illustrates, programming Measure G funds exclusively dedicated to the Capital Program will require additional budget balancing strategies for FY 2020/21 and FY 2021/22. The additional deficits in the Forecast will not require balancing at this point; however, as discussed in the Proposed Budget, if impacted revenues do not return to pre-pandemic levels in the near future this could exacerbate the possible development of deficits

DISCUSSION (continued):

more structural in nature. If this occurs, then a community process would be needed to help the Council determine potential service cuts.
If the Commission opts to dedicate Measure G funds exclusively to the Capital Program, staff recommends that the Commission pair its recommendation to Council with budget balancing strategies for FY 2020/21 and FY 2021/22.

On February 8, 2021, the Finance Commission deliberated budget balancing strategies to address an approximate $1.6 million operating deficit projected in the development of the Mid-Year Budget. Staff identified the following five potential strategies at that time for Commission consideration:

Budget Balancing Strategies
Use of either the Budget Stabilization or Catastrophic Reserves
Cancelation of the annual OPEB actuarial contribution funding
Utilization of the OPEB IRS 115 Trust for annual Pay Go healthcare expenses
Utilization of proceeds from the sale of the Winchester property to SCCFD
Delaying or canceling CIP projects

The Finance Commission had a detailed discussion of each of the options and formed consensus around several areas. Of note, all Commissioners agreed that the Catastrophic and Budget Stabilization Reserves should not be considered at this time and should remain intact in the event the pandemic impacts become even greater in severity or the Town experiences a serious event (e.g., earthquake or wildfire). While Commissioners acknowledged the unprecedented nature of the pandemic, they felt it prudent to maintain the reserves as other unforeseen disasters could befall the Town.

In addition, the Commission had general consensus that both of the OPEB options were reasonable given the benefit has less legal constraints as compared to pension benefits. However, it was noted that the removal of assets from the OPEB IRS 115 Trust would be contrary to the long-standing practice of trying to prefund benefit obligations. At the conclusion of the discussion, the Finance Commission recommended that the budget balancing options of Winchester property proceeds, OPEB Prefunding, and the utilization of OPEB IRS 115 Trust for Pay Go healthcare expenses be programmed in that order.

DISCUSSION (continued):

On April 6, 2021, the Town Council deliberated the American Rescue Plan Act (ARPA) Funds earmarked for Los Gatos and directed staff to utilize ARPA funding for balancing the FY 2020/21 and FY 2021/22 projected deficits. With that direction, the Winchester property proceeds were no longer necessary to cure budget deficits. On April 26, 2021, the Finance Commission voted to recommend that the Winchester property proceeds be transferred to the Capital/Special Projects Reserve for the Capital Program.

Provided below are the remaining strategies that were under consideration in February and some additional options provided by staff with some pros and cons of each.

Budget Balancing Strategies	Pros	Cons
Use of either the Budget Stabilization or Catastrophic Reserves	• Sufficient funding available in each reserve	• Funds are required to be replenished
Cancelation of the annual OPEB actuarial contribution funding	• Legally viable • $600k in FY 20/21 and $500k in FY 21/22	• Counter to past funding objectives • Potential rating agency implications
Utilization of the OPEB IRS 115 Trust for annual Pay Go healthcare expenses	• Legally viable • $1.3M in FY 20/21 and $1.3M in FY 21/22	• Counter to past funding objectives
Cancel programmed GF GFAR contribution for FY 21/22	• $600k	• Counter to the Commissions CIP funding objective
ARPA	• $1.4M FY 20/21 and $650k FY 21/22	• Depletes resources available for other ARPA eligible purposes

CONCLUSION:

Per Measure A, the Commission should review the proposed Measure G programmed expenditures and vote on recommendations to the Town Council on:

- Measure G Recommended Allocation for FY 2020/21
- Measure G Recommended Allocation for FY 2021/22
- Measure G Recommended Allocation for the Five-year Forecast Fiscal Years 2022/23 Through 2026/27

CONCLUSION (continued):

In addition, depending on the Measure G allocation recommendations provided to Council, the Commission should provide recommendations to Council on preferred budget balancing options if necessary.

COORDINATION:

This staff report was coordinated with the Town Manager, Town Attorney, and Finance Director.

FISCAL IMPACT:

The Town is required to have a balanced budget. Any shortfall resulting from Commission recommendation(s) should have commensurate curing recommendations to the Town Council to maintain a balanced budget. The actual fiscal impact depends on recommendations provided to the Town Council and the Council's ultimate adoption.

TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 05/03/2021
ITEM NO: 2
DESK ITEM

DATE: May 3, 2021

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Finance Commission Recommendations to the Town Council for the Allocation of Measure G Funds Consistent with Measures G and A for the Following:

a. Measure G Recommended Allocation for FY 2020/21
b. Measure G Recommended Allocation for FY 2021/22
c. Measure G Recommended Allocation for the Five-year Forecast Fiscal Years 2022/23 Through 2026/27

REMARK:

Attachment 1 contains public comments received after publishing the staff report and before 11:01 a.m. Monday May 3, 2021.

Attachment:

1. Public comments received after publishing the staff report and before 11:01 a.m. Monday May 3, 2021.

PREPARED BY: Arn Andrews
Assistant Town Manager

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

[redacted]

Subject: Agenda Item # 2 -
Attachments: General fund revenue - FY 2022 budget - with analysis.pdf

From: Phil Koen <pkoen@[redacted]>
Sent: Monday, May 3, 2021 8:36 AM
To: Laurel Prevetti; Arn Andrews
Cc: Matthew Hudes; Rob Rennie; Ron Dickel; Kyle Park; jvannada[redacted]; Lee Fagot
Subject: Agenda Item # 2 -

Hello Laurel,

In reading the staff report for agenda item #2, on page 4 it states that the mid-year budget presented on February 8, 2021 projected approximately a $1.6m operating deficit for FY 2021. Staff then discusses various budget balancing strategies.

I am having difficulty understanding the various forecasts and whether there is an operating deficit for FY 2021. I have attached schedule C-23 and C-24 from the FY 2022 Operating Plan which contains my notes. Let me walk you through the notes so you understand my source of confusion.

The most recent revenue projection for FY 2021 is $46,203,846 as shown on C-23. If we adjust out the $1,908494 debt reimbursement and the $2,844315 in ARPA funds included in the Non-Department Revenues, the Town is projecting operating revenues (including transfers in) of $41,451,037. This amount includes proceeds of $1,200,000 from the property sale.

The mid-year forecast projected total departmental expenditures (the last column of the mid-year forecast) of $46,443,122. If we use that departmental expenditure forecast, the projected operating deficit would $4,992,085. This deficit was funded by Council actions which approved using $4,532,500 from the OPEB reserve and $901,267 from the Capital/Special Project reserve. Applying this source of funds results in an operating surplus of $441,682. If the Town did not want to use the $1,200,000 in proceeds from property sale to fund operating expenses, then the surplus would become a deficit of $758,318 and alternate funding sources would need to be used.

The second scenario is based on the current operating expenditure forecast for FY 2021 which increased by $789,604 over the mid-year forecast to $47,232,726. The staff memo does not discuss this increase. Over half of the increase comes from higher projected Police expenditures. Using the latest expenditure forecast, the projected operating surplus of $441,682 becomes a deficit of $347,922 (again this includes the property proceeds.) If the Town did not want to use the $1,200,000 in proceeds, the deficit would become $1,547,922.

You can now see the source of my confusion.

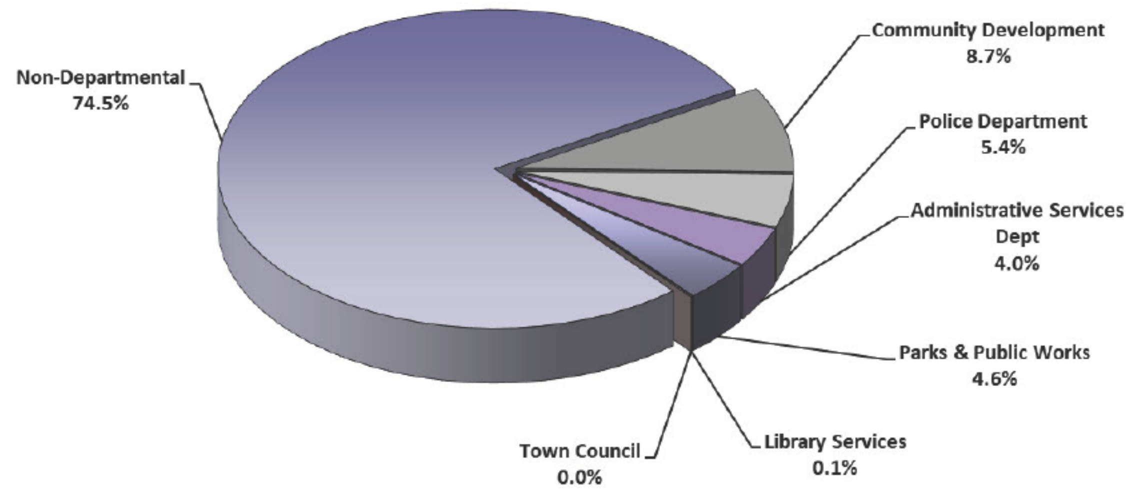
What is the Staff's current projection for the FY 2021 structural operating deficit, excluding the revenue benefit from the ARPA funds and the proceeds from property sales and applying the Measure G funds as originally programmed? It is appropriate to exclude one-time revenue events so the structural deficit is transparent. My guess is the structural deficit for FY 2021 is $1,547,922.

Once that is determined, then various funding solutions can be discussed including the use of ARPA grant, proceeds from property sales, budget stabilization reserves and the use of Measure G revenues.

Thank you.

Phil Koen

General Fund Revenues
By Department



FY 2021/22 Departmental Revenues

Departments	2017/18 Actuals	2018/19 Actuals	2019/20 Actuals	2020/21 Adjusted	2020/21 Estimated	2021/22 Proposed	% of Total
Town Council	$ 730	$ 1,527	$ 2,509	$ -	$ 31,175	$ -	0.0%
Non-Departmental	28,988,473	34,475,646	30,578,565	30,407,640	33,488,814	34,353,623	77.8%
Administrative Services*	1,946,533	3,172,019	3,714,199	1,804,873	1,984,963	1,777,233	4.0%
Community Development	3,835,046	4,203,611	3,345,105	4,376,970	4,339,174	3,826,899	8.7%
Police Department	2,769,309	2,556,445	2,543,720	2,213,333	2,037,163	2,380,847	5.4%
Parks & Public Works	3,530,073	2,760,825	2,814,634	1,747,010	1,758,274	1,793,685	4.1%
Library Services	71,902	56,958	62,428	49,022	46,293	37,000	0.1%
Total General Fund Revenues	**$ 41,142,066**	**$ 47,227,031**	**$ 43,061,160**	**$ 40,598,848**	**$ 43,685,856**	**$ 44,169,287**	**100%**
Town Debt Payments	$ 1,914,739	$ 1,909,073	$ 1,905,024	$ 1,908,494	$ 1,908,494	$ 1,899,850	
Pension Trust**	-	5,022,848	689,432	1,262,158	-	390,000	
Compensated Absences**	2,169,600	(1,928,865)	-	-	-	-	
Transfers In	544,836	1,578,911	599,669	616,834	609,492	633,352	
Net Operating Revenues	**$ 45,771,241**	**$ 53,808,998**	**$ 46,255,285**	**$ 44,386,334**	**$ 46,203,842**	**$ 47,092,489**	

**The Town Manager's Office, Human Resources, Finance, Clerk Administration, and Information Technology Programs are all accounted for within the Administrative Services Department.*

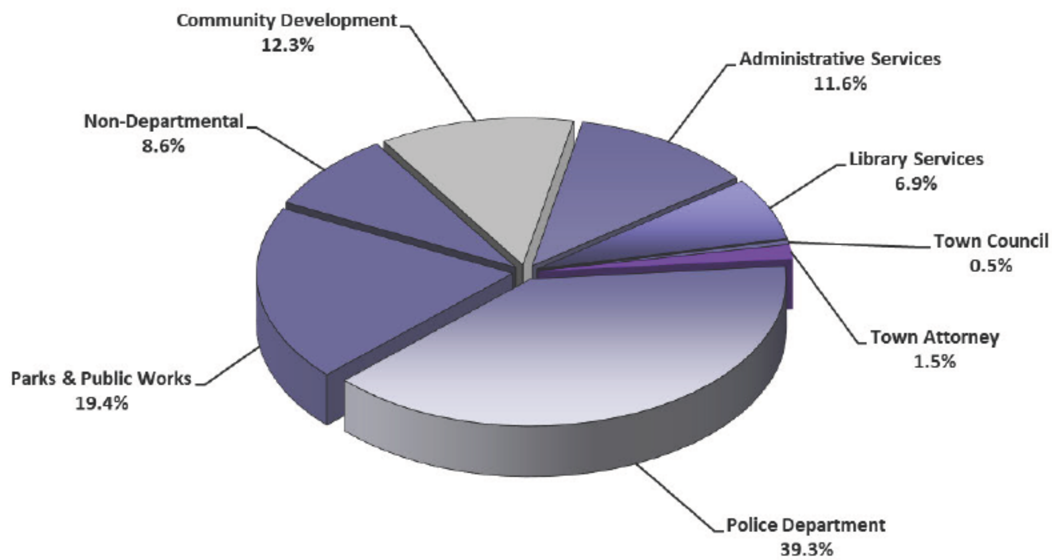
*** Previously expensed transfers were returned to be included in the General Fund.*

2021

Rev 46,203,842
- Debt 1,908,494
- ARPA 2,844,315
Adj Rev 41,451,037
Mid year exp 46,443,122
deficit (4,992,085)

Sources
Pens Res 4,532,500
Cap Res 901,267
5,433,767
(4,992,085)
surplus 441,682
Property -1,200,000
deficit (758,318)

General Fund Expenditures
By Department



FY 2021/22 Departmental Expenditures

Departments	2017/18 Actuals	2018/19 Actuals	2019/20 Actuals	2020/21 Adjusted	2020/21 Estimated	2021/22 Proposed	% of Total
Police Department	$ 14,423,554	$ 14,948,952	$ 15,895,008	$ 17,452,539	$ 17,274,220	$ 17,239,483	39.3%
Parks & Public Works	7,099,527	7,969,631	8,168,040	8,200,370	7,866,603	8,494,628	19.4%
Non-Departmental	5,109,456	6,875,761	3,505,097	8,100,868	8,416,324	3,767,009	8.6%
Community Development	4,192,165	4,577,495	4,473,790	5,605,215	5,276,713	5,395,866	12.3%
Administrative Services*	3,193,995	3,931,807	4,388,762	4,995,847	4,718,987	5,087,204	11.6%
Library Services	2,529,017	2,493,617	2,700,802	2,957,531	2,852,778	3,016,395	6.9%
Town Council	192,183	205,903	206,163	243,486	207,335	201,499	0.5%
Town Attorney	354,205	562,542	559,010	658,831	619,766	660,228	1.5%
Total General Fund Exp	**$ 37,094,102**	**$ 41,565,708**	**$ 39,896,672**	**$ 48,214,687**	**$ 47,232,726**	**$ 43,862,312**	**100%**
Town Debt Payments	$ 1,914,739	$ 1,909,073	$ 1,905,024	$ 1,908,494	$ 1,921,497	$ 1,899,850	
Pension Trust**	-	7,155	5,034,771	300,000	700,000	-	
Compensated Absences**	240,735	-	-	-	-	-	
Transfers Out	3,484,330	2,785,220	8,053,847	3,401,479	3,401,479	550,000	
Net Operating Expenditures	**$ 42,493,171**	**$ 46,267,156**	**$ 54,890,314**	**$ 53,824,660**	**$ 53,255,702**	**$ 46,312,162**	

** The Town Manager's Office, Human Resources, Finance, Clerk Administrator, and Information Technology Programs are all accounted for within the Administrative Services Department.*
*** Pension Trust and Compensated absences are incorporated in the General Fund.*

p 31 – mid year current forecast increase

46,443,122
47,232,726
789,604

TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 05/03/2021
ITEM NO: 3

DATE: April 29, 2021

TO: Council Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Commissioner Questions and Comments Regarding the Proposed Operating and Capital Budgets

REMARKS

Provided below are the verbatim questions and comments from Commissioners received to date regarding the Proposed Operating and Capital Budgets for which staff is preparing to address at the May 3, 2021 Finance Commission meeting:

Capital Funding and Spending
One of the strategic priorities is to sell or lease certain town properties. What is being considered or could be considered?

The town receives rent for Tait and Forbes Mill properties. How much is this rent? How much does the town receive on rent on other properties?

Staff to comment on public comment to include $250,000 in road fuel reduction in the current year capital plan.

The pilot school busing program was viewed as complete with the total cost of $443,000. Was this all spent by the town, or were there fees received?

On page A7, in 2018/19, 1.9 mln was allocated to a Property Surplus Account. What is the current balance in this Account?

Is there a prioritized list of unfunded projects for the 2022 budget in case more money is found for capital?

PREPARED BY: Arn Andrews
Assistant Town manager

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

Is there a way to use more of our own staff time to do some of the work for the CIP projects (therefore getting them done using our annual staff budget vs the CIP)?

For critical and time sensitive items, such as dangerous buildup of vegetation in potentially hazardous fire zones that “staff/town” organize a volunteer brigade to help with the efforts? Has this ever been discussed?

ARPA
Staff comments on funding the $50,000 destination marketing proposal by Chamber in order to help the hotels and retail in town.

Operating Budget
Salaries should be forecast in both the current year and future budget with the best information possible.

Based on recent historical salary increases, how much should salary increases be in 2022, and the five year forecast?

What is the recent 5 year history for open salaried positions? Based on this, how much would future salary forecasts be reduced for 2022 and the five year forecast?

Charge for police to Monte Sereno on pages D129 and D150. The annual amount is less than $1 mln, which is about half of what would be received on a per capita basis and a policing budget of approximately $17mln. Note that the charge does not include any fee for historical capital or any allocation of general administrative expenses. Please discuss.

On page A21, what is the amount of the anticipated property tax revenue from phase 2 of the North 40 sales?

On page A7, fines have gone down from $900,000 in 2015/16 to $300,000 in 2019/20. What was the policy change that led to this decline?

Can staff discuss some ideas where we could make some changes to what/how we are doing things today to save money, earn more money and/or even just do more with the same amount of money.

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On page C-10 Why do the Internal Service Funds not earn interest unlike all the others?

Balance Sheet Information
On page C3, the total of all town funds shows a decline of 4.8% during the 2021 fiscal year. While the general fund is balanced with one time items, the other funds show significant decreases. On a big picture basis, this would show that the town spent down almost 5% during the year. This decline is consistent with prior years as shown on C37.

Please comment on the 36% decline in the liability internal service fund and the 73% decline in the workers compensation funds on page C3. Why are not these two funds included in the General Fund for transparency purposes? Also, how are these items considered in the 2022 budget?

I did not see historical cash, investments and pension liabilities in any tables. Could you provide these amounts for the past 5 years including forecast for June 2021? Would like staff comments on general trends of these items.

TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 05/03/2021
ITEM NO: 3
ADDENDUM

DATE: April 30, 2021
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Answers to some of the Commissioner Questions and Comments Regarding the Proposed Operating and Capital Budgets

REMARKS

Provided below are some of the answers to the questions and comments from Commissioners regarding the Proposed Operating and Capital Budgets. Questions that are not addressed in this staff report will be discussed at the May 3, 2021 Finance Commission meeting.

Capital Funding and Spending
One of the strategic priorities is to sell or lease certain Town properties. What is being considered or could be considered?

To date, the Town has pursued a property strategy which focuses on finding long-term solutions for the disposition of Town-owned properties either through pursuit of public purpose, monetization, or a hybrid of both. Following are dispositions approved by the Town Council to date:

- *October 2018 entered into an Exclusive Negotiating Agreement with Sarah Chaffin for the siting and development of affordable (teacher) housing at 20 Dittos Lane – Public Purpose*
- *March 2019 entered into an Exclusive Negotiating Agreement with Imwalle Asset Management for 4 Tait Avenue and Forbes Mill - Monetization/Public Purpose*
- *May 2019 sale of 148000 Winchester Blvd to Santa Clara County Fire District ("County Fire") for $1.9 million – Monetization/Public Purpose*
- *April 2020 sale of 14850 Winchester Blvd to Santa Clara County Fire District ("County Fire") for $1.2 million – Monetization/Public Purpose*

The remaining Town-owned properties that have not reached disposition status include:

PREPARED BY: Arn Andrews
Assistant Town manager

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

- *4 New York Avenue (Venue) - Council has directed staff to negotiatiate with the Los Gatos-Saratoga Union High School District (LGSUHSD) for the acquisition of 4 New York Avenue.*
- *224 West Main - The asset was originally purchased in 2009 by the former Redevelopment Agency and was transferred to the Town at a valuation of $1,489,778. The property is obligated to provide 6 Low and/or Moderate Income (low mod)housing units. The Town has a deadline to act this year to either develop an affordable housing plan for the property or pay the $1,489,778 to the affordable housing fund to unencumber the property.*
- *Pine Avenue - The parcel was conveyed to the Town circa 1972 with the development of a subdivision. Staff is researching if the property is encumbered.*

The Town receives rent for Tait and Forbes Mill properties. How much is this rent? How much does the town receive on rent on other properties?

Since the approval of the Lease Agreements buy Council on August 4, 2020, Imwalle has been preparing the properties for showing to potential tenants. On March 16, 2021 Imwalle held the initial broker open house for both properties which was well attended. Per the Lease Agreement, the Town will receive 60% of the rents after reimbursement of tenant improvements from rent revenues.

Staff to comment on public comment to include $250,000 in road fuel reduction in the current year capital plan.

Roadside Vegetation Management continues to be a high priority for the Town and is the highest priority project on the unfunded project list (see list below).

Is there a prioritized list of unfunded projects for the 2022 budget in case more money is found for capital?

The first five priority unfunded projects are listed below. In some cases, if full funding is not available for a particular project, staff might recommend bypassing that project and funding an alternative project.

Vegetation Management - Roadside	Streets	$ 500,000
Security Enhancements at Civic Center	Facilities	$ 250,000
Shannon Road Repair	Streets	$ 5,000,000
Blossom Hill Road Traffic Calming	Streets	$ 950,000
Adult Rec Center – Replace Fan Coil Units	Facilities	$ 100,000

The pilot school busing program was viewed as complete with the total cost of $443,000. Was this all spent by the town, or were there fees received?

The school bus program collected what, in the end, were minimal fees. Those fees offset the cost of delivering the project. This table provides a summary of revenue and expenditures.

School Bus Pilot Project 411-812-0128	**Actuals**
Funding Sources	
Grant Fund (TFCA)	$ 87,000
GFAR	$ 290,140
Fare Revenue (GFAR)	$ 64,916
Total Project Budget	**$ 442,056**
Expenditures	
School Bus Consultant	$ 41,588
STA Contract Payment: Jan. 2019 - Jun. 2019	$ 104,801
STA Contract Payment: Aug. 2019- Jun. 2020	$ 195,983
Misc. Expenditures (CC charges, software, printing)	$ 2,568
Staff Costs	$ 98,061
Total Project Costs	**$ 443,002**

On page A7, in 2018/19, $1.9 M was allocated to a Property Surplus Account. What is the current balance in this Account?

The current estimated balance of the Property Surplus Reserve is $1.2 million deriving from the most recent property sale to Santa Clara County Fire District (SCCFD). The aforementioned $1.9 million proceeds from the initial property sale to SCCFD was reallocated to Pension/OPEB Reserve and was included in additional discretionary payment to CalPERS.

ARPA
Staff comments on funding the $50,000 destination marketing proposal by Chamber in order to help the hotels and retail in town.

Please refer to Agenda item on the following link :5-4-2021 Agenda Item 14 .

Operating Budget

Charge for police to Monte Sereno on pages D129 and D150. The annual amount is less than $1 M, which is about half of what would be received on a per capita basis and a policing budget of approximately $17 M. Note that the charge does not include any fee for historical capital or any allocation of general administrative expenses. Please discuss.

Please find our contractual agreement with Monte Sereno for Police Services at the following link: Monte Sereno Police Services Agreement. (June 16, 2015 Council Meeting Item 12) The Annual Base Rate and fiscal information related to this agreement is located on pages 5-7.

On page A21, what is the amount of the anticipated property tax revenue from phase 2 of the North 40 sales?

Phase 1 of the North 40 sales estimated revenue is $345,303 in FY 2021/22 and an additional $345,303 in the following year totaling to $690,606. The second phase of North 40 is not included in the forecast since no permits have been submitted by the developers at this time.

On page A7, fines have gone down from $900,000 in 2015/16 to $300,000 in 2019/20. What was the policy change that led to this decline?

Associated to the Library Department (from $39,232 in FY 2015/16 to $6,391in FY 2019/20), the Council removed daily overdue fines from the Comprehensive Fine and Fee Schedule. Over the past several years, revenues from overdue fines have dropped considerably. This drop was the natural result of instituting customer-service practices related to more convenient renewing of materials, as well as not imposing fines as a penalty for seniors or children. The former was the implementation of automatic renewals that saved library patrons the need or hassle to call library staff, log into their account or make a trip to the library to renew items. The latter is the combination of established practices in the current fee schedule where seniors do not accrue overdue fines, and minors up to age 18 do not accrue overdue fines until the item is overdue by six weeks.
Associated to the Police Department (from $809,014 in FY 2015/16 to $253,076 in FY 2019/20), there were no policy changes in the fines which equated to this revenue decrease. The decrease in fines is a result of decreased parking citation revenue, due toa temporary reduction in parking enforcement staffing, availability of parking enforcement equipment, and the economic downturn associated with COVID-19.

On Page A-23 CALPERS projects 7% growth in Med Benefit expense. How does this compare to past 5 years actual growth of med benefit expense?

The information below is based on the Region 1 premium rates for all plans going back to 2016 to calculate 5 years of data. The most recent year is 7%.

CalPERS Medical Plan Rate History											
	2016		2017		2018		2019		2020		2021
	Premium*	% Change	Premium	% Change	Premium	% Change	Premium	% Change	Premium	% Change	Premium
Kaiser	$ 746.47	-2%	$ 733.39	6%	$ 779.86	-2%	$ 768.25	0%	$ 768.49	6%	$ 813.64
Anthem HMO Select	$ 721.79	8%	$ 783.46	9%	$ 856.41	-3%	$ 831.44	4%	$ 868.98	6%	$ 925.60
Anthem HMO Traditional	$ 855.42	14%	$ 990.05	-7%	$ 925.47	17%	$ 1,111.13	6%	$ 1,184.84	9%	$ 1,307.86
Blue Shield	$ 1,016.18	1%	$ 1,024.85	-15%	$ 889.02	8%	$ 970.90	14%	$ 1,127.77	4%	$ 1,170.08
PersChoice	$ 798.36	4%	$ 830.30	-4%	$ 800.27	8%	$ 866.27	-1%	$ 861.18	8%	$ 935.84
PersSelect	$ 730.07	1%	$ 736.27	-3%	$ 717.50	-32%	$ 543.19	-4%	$ 520.29	8%	$ 566.67
PersCare	$ 889.27	5%	$ 932.39	-6%	$ 882.45	22%	$ 1,131.68	0%	$ 1,133.14	12%	$ 1,294.69
PORAC	$ 699.00	0%	$ 699.00	5%	$ 734.00	4%	$ 768.25	1%	$ 774.00	3%	$ 799.00
Average Percent Change		4%		-2%		3%		3%		7%	

On page A-28 Equipment replacement Fund - Are all expenditures from this ISF Capital Expenditures as described or are there also operating expenditures? Are we strict about limiting these funds to "non-recurring and capital projects" per the best practices listed on A-31?

The Expenditure Replacement Fund only pays for capital equipment. There are transfers to General Fund, those transfers pay for equipment purchases paid from the General Fund program.

On page C-8 What is the projected (or FYTD) unrealized investment loss (i.e. mark to market) for FY20/21? Shouldn't the "Market Fluctuation" reserve be decremented by the amount of this unrealized loss? It is projected as unchanged on A-14. I continue to have lots of questions about the exact operation of such a reserve. If there is no documented and objective policy for increasing and decreasing such a reserve based on unrealized losses and gains then is it not really a reserve, just a cookie jar. I didn't notice any description of this reserve in the binder - did I miss it?

With an expected low interest rate environment anticipated through the end of the fiscal year, the Market Fluctuation Reserve will be updated at the close of the fiscal year and will be reflected in the June 30, 2021 CAFR. The calculation will be based on the June 30, 2021 portfolio data marking cost of investments versus market value as required by GASB 31 as compared to the gains recognized the prior fiscal year. Staff will add the description for the reserve in the final budget documents. Please refer to General Fund Reserve Policy (page A-39) that list the GASB 31 Adjustments as an example of an assigned reserve. This reserve example is referring to the Reserve Market Fluctuations. The designation of this reserve equals the portion of General fund balance representing interest revenue not anticipated to be received in the fiscal year unless the portfolio where to be sold at year-end and the sales proceeds were either re-invested or received in cash. It is the opposite of a "cookie jar". This entry sets aside the "phantom interest" that increases fund balance that is not available unless the portfolio were to be sold.
On page C-10 Why do the Internal Service Funds not earn interest unlike all the others?

The Town allocates interest to funds where interest allocation is legally required, an example being certain grant funds (VTA) or Gas Tax funds.

Balance Sheet Information

I did not see historical cash, investments and pension liabilities in any tables. Could you provide these amounts for the past 5 years including forecast for June 2021? Would like staff comments on general trends of these items.

Provided below is a table of Comprehensive Annual Financial Report (CAFR) actuals of cash and Investments and Net Pension Liabilities from FY 2014/15 through FY 2019/20.

Category	2014_15	2015_16	2016_17	2017_18	2018_19	2019_20
Cash, Restricted Cash, & Investments	$ 67,919,066	$ 72,738,950	$ 73,682,924	$ 73,975,308	$ 74,997,176	$ 72,394,160
Net Pension Liability	$ 39,199,892	$ 33,382,870	$ 47,271,733	$ 53,204,508	$ 53,627,829	$ 57,230,935

Staff expects to receive its next CalPERS actuarial valuation in August 2021 to be used in calculating the change in net pension liability that will be reported for FY ending June 30, 2021.

TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 05/03/2021
ITEM NO: 3
DESK ITEM

DATE: May 3, 2021

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Answers to Some of the Commissioner Questions and Comments Regarding the Proposed Operating and Capital Budgets

REMARKS

Provided below are more answers to the questions and comments from Commissioners regarding the Proposed Operating and Capital Budgets. Questions that are not addressed in the previously published Addendum and this staff report will be discussed at the May 3, 2021 Finance Commission meeting.

Capital Funding and Spending

Is there a way to use more of our own staff time to do some of the work for the CIP projects (therefore getting them done using our annual staff budget vs the CIP)?

Town staff are fully committed on other activities and at times defer work that they are unable to get to. Redeploying Town staff would leave gaps elsewhere that, in turn, would need to be contracted therefore not realizing savings. In reviewing options for contracted versus in house services, vegetation management is a good candidate for contracting.

For critical and time sensitive items, such as dangerous buildup of vegetation in potentially hazardous fire zones that "staff/town" organize a volunteer brigade to help with the efforts? Has this ever been discussed?

The Town does rely on volunteers where it makes sense. Volunteers are best for non-urgent work that can be scheduled well in advance and allows for flexibility for the amount of work completed due to fluctuations in attendance. The Town also utilizes services from the Sheriff's Office Alternate Work Program, which provides free unskilled labor. Because vegetation management is often on hillsides and involves tree removal, poison oak, etc., it is not the best

PREPARED BY: Arn Andrews
Assistant Town manager

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

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opportunity for volunteer work. However, some communities do have volunteer programs designed around defensible space chipping days.

Operating Budget

Based on recent historical salary increases, how much should salary increases be in 2022, and the five-year forecast?

Combined GF & ISF Fund Salaries	**2014_15**	**2015_16**	**2016_17**	**2017_18**	**2018_19**	**2019_20**	**Grand Total**
Salaries-Total	$15,324,291	$15,416,095	$15,758,451	$16,921,167	$ 17,942,181	$19,254,973	$100,617,158
Salaries-Temp	$ 867,364	$ 869,152	$ 913,362	$ 811,194	$ 648,097	$ 881,908	$ 4,991,077
Salaries-OT	$ 436,917	$ 415,372	$ 545,427	$ 583,001	$ 707,046	$ 708,955	$ 3,396,718
Benefits-Total	$ 6,526,096	$ 7,224,479	$ 9,470,413	$ 8,238,405	$ 8,861,044	$ 8,861,044	$ 49,181,481
Benefits-PERS	$ 3,362,328	$ 3,818,073	$ 6,088,841	$ 4,739,853	$ 5,282,681	$ 5,282,681	$ 28,574,457
Grand Total	**$26,516,996**	**$27,743,171**	**$32,776,494**	**$31,293,620**	**$ 33,441,049**	**$34,989,561**	**$186,760,891**
Adjustments for Temporary & OT Salaries							
Salaries	$15,324,291	$15,416,095	$15,758,451	$16,921,167	$ 17,942,181	$19,254,973	
Less:Temp Salaries	(867,364)	(869,152)	(913,362)	(811,194)	(648,097)	(881,908)	
OT Salaries	(436,917)	(415,372)	(545,427)	(583,001)	(707,046)	(708,955)	
	$14,020,010	$14,131,571	$14,299,662	$15,526,972	$ 16,587,038	$17,664,110	
Year Over Year % Change							
Based Upon Actuals		0.80%	1.19%	8.58%	6.83%	6.49%	
			Total Change FY 14/15 to FY 19/20			$ 3,644,100	
			Total % Change			**25.99%**	
			Annual Change Unadjusted			**5.20%**	
			Total Change FY 14/15 to FY 19/20			$ 3,644,100	
			Less One-Time Equity Adjustments				
			FY 18/19 & 19/20			$ (2,139,183)	
			Total Adjusted Change			$ 1,504,917	
			Total Five Year % Change Adjusted			**10.73%**	
			Annual Change Adjusted For One=Time Equity			**2.15%**	

Historical actual salary increase (excluding adjustments for total temporary salaries and total overtime for FY 2018/19 and FY 2019/20 equity adjustments) averaged 2.15% over a five-year period.

What is the recent 5-year history for open salaried positions? Based on this, how much would future salary forecasts be reduced for 2022 and the 5-year forecast?

On page C-8 GF Salaries and Benefits have risen $2.4M/year on average for the past 3 years but are only projected to increase by $855K in FY21/22 or 2.8%. Is this a realistic estimate?

Total Budget Savings							
	2014_15	**2015_16**	**2016_17**	**2017_18**	**2018_19**	**2019_20**	**Grand Total**
Salaries-Total	$ 794,650	$ 1,203,373	$ 893,916	$ 890,245	$ 1,306,280	$ 773,910	$ 5,862,374
Salaries-Temp	$ (117,826)	$ (33,748)	$ (279,739)	$ (105,754)	$ (158,332)	$ (324,902)	$ (1,020,301)
Salaries-OT	$ (54,433)	$ (19,897)	$ (164,120)	$ (219,450)	$ (319,842)	$ (231,065)	$ (1,008,807)
Grand Total	**$ 622,391**	**$ 1,149,728**	**$ 450,057**	**$ 565,041**	**$ 828,106**	**$ 217,943**	**$ 3,833,266**
Average Six Year Budget Salary							
Savings*	$ 638,878						
*Assumes regular salaries							
offset by Temp and OT							
salaries exceeding budget							

Salary savings less annual temporary and OT salaries exceeding budget since FY 14/15 have totaled $3,833,236 over a six-year period. The six-year average is $638,873 per year over that period.

I'd like to ask staff to bring to the commission some ideas where we could make some changes to what/how we are doing things today to save money, earn more money and/or even just do more with the same amount of money.

While developing the current Budget, Departments were directed to identify expenditure reductions that would not degrade service levels and other expense containment strategies. To that end, all Departments programmed savings from traditional travel and training budgets, expecting that most professional development opportunities will continue to be offered remotely. Other examples include the use of one-time unbenefited part time employees where applicable, delayed purchase of additional recycling bins, and limited in-person Library programming to reflect the slow easing of the pandemic's effects.

Provided below are recent examples of staff led revenue efforts:

November 2016 Measure T increases the Transient Occupancy Tax (TOT) from 10 percent to 12 percent.

- *2% increase raises approximately $400,000 annually in additional revenue.*

February 2018 staff presented sensitivity analysis of the Town's Budget projections entitled "Preparing For The Next Recession". The presentation was the basis for advocating an increase to sales tax.

- *1/8 cent sales tax for 20 years approved by voters November 2018 providing approximately $800,000 annually.*

February 2019 Council approved an ordinance allowing regulated short-term rentals subject to TOT.

- *Approximately $100,000 in additional TOT collections annually.*

In June 2019 Council voted to annex 24 unincorporated county pockets.

- *Results in approximately $1,000,000 in property taxes remaining in the Town instead of being diverted to the County.*

The Town Attorney recently initiated a discussion about the potential permitting of commercial cannabis businesses within the Town of Los Gatos. Average Gross Receipts per Dispensary commonly range from $4.5 million in smaller communities, and up to $8.0 million in large, urban areas. Therefore, a local tax rate of between 4% and 6% would potentially generate between approximately $800,000 to $1.5 Million in revenue for the Town. In addition, the Town still has additional County Pockets which are under consideration for annexation.

Have any reductions been discussed? Without reducing service or taking away from the Strategic Priorities of the Council, is there any “fat” that can be trimmed from the expense side of the ledger?

Relative to the services the Town delivers, we already run pretty lean so no reductions in full-time employees is proposed in the budget. However, Departments were directed to identify expenditure reductions that would not degrade service levels and other expense containment strategies. To that end, all Departments programmed savings from traditional travel and training budgets, expecting that most professional development opportunities will continue to be offered remotely. Other examples include the use of one-time unbenefited part time employees where applicable, delayed purchase of additional recycling bins, and limited in-person Library programming to reflect the slow easing of the pandemic’s effects.

“Cancelation of the annual OPEB actuarial contribution funding” as an option for additional funds, but I cannot find that amount in the budget. Has it been already been eliminated or is it included in the salaries line item?

In the five-year forecast on page A-6 of the Operating Budget it is the line entitled “GASB 45 Retiree Medical Actuarial.”

I see on Page C-34 that there is a line item for Pension and another for OPEB Reserve, both of which are zeros. Also, on C-36, the OPEB reserve goes to zero in 2021. Please advise where I can find that amount of that funding in the current budget.

This reserve is for additional funds identified by current and prior Councils for additional discretionary payments (ADPs) directly to CalPERS. There are currently no additional funds reserved for ADPs.

On schedule C-23 the FY 21 adjusted budget included $1,262,158 as operating revenue with the explanation that this amount was "previously expensed transfers were returned to be included in the General Fund". The estimate for FY 21 reflects no funds resulting in a corresponding revenue shortfall of $1.2m. Why did this not occur and where did the $1.2m go if it wasn't returned to the General Fund? Please provide an explanation regarding the $390,000 in pension trust revenue included in the FY 2022 budget. Why is this revenue?

The FY 2021/22 Proposed budget page C-23 FY 2020/21 Adjusted and Estimated Budgets reflect the original 2020/21 adopted budget recognizing $1,262,158 of the utilization of balances available in the General Fund Pension/OPEB reserve being transferred to the CEPPT trust during FY 2020/21. The Estimated column reflects that in July 2020 staff made an additional discretionary payment directly from the Town's General Fund Non-Departmental program. With the direct payment to CalPERS, there was no $1,262,158 transfer of reserve funds placed into the Town's CEPPT Trust as the monies were paid directly to CalPERS by the Town instead of using the CEPPT as a temporary holding account and conduit. For CAFR purposes, the CEPPT Trust revenues and expenditures are merged (eliminated) into the Town's General Fund for reporting purposes.

Regarding the $390,000 of revenues presented in the FY 2021/22 Proposed Budget, this "revenue" amount represents the budgeted augmentation of funds into the Town's CEPPT trust fund and a corresponding Non-Departmental "expenditure" budget amount of $390,000 to record the transfer to the CEPPT. The CEPPT Trust Fund 731 is "rolled-up" into the Town's General Fund and both the revenue and expenditure are eliminated for CAFR purposes as they do not represent actual revenues or expense. They are only recorded that way for budget tracking purposes and have zero effect on the financials. The $390,000 is budgeted annually per the Town's General Fund Reserve Policy to be used for eventual ADP's reducing the Town's amortization period from approximately 29 to 20 years.

Balance Sheet Information

On page C3, the total of all town funds shows a decline of 4.8% during the 2021 fiscal year. While the general fund is balanced with one time items, the other funds show significant decreases. On a big picture basis, this would show that the town spent down almost 5% during the year. This decline is consistent with prior years as shown on C37.

General Fund balance changes reflect capital spending and the additional discretionary payments to CalPERS. Please see A-13. Other funds reflect capital spending.

Please comment on the 36% decline in the liability internal service fund and the 73% decline in the workers compensation funds on page C3. Why are not these two funds included in the

General Fund for transparency purposes? Also, how are these items considered in the 2022 budget?

The Town established Internal Service Funds to allocate costs for general liability and workers compensation costs to its primary customer, the Town's General Fund departments. Hence the cost of these services is borne by the risk activity associated with departmental activities. For instance, worker's compensation service charges applied to Police and Parks and Public Works are higher due to the nature of job classifications withing these departments and resultant case load and severity of claims. Focusing on workers compensation and general liability services, costs for these services can substantially vary from year to year due to the nature of claims activity. In years of low claims, fund balances tend to rise. In years of adverse claims activity, the fund balances decrease. The goal of an Internal Service fund is to balance service charges made to the General Fund operating departments with the cost of providing these services. The intention is for these internal service funds to "break-even" over time per current accounting standards.

The Town is self-insured for workers' compensation claims and pays the actual claim cost up to the first $250,000 instead of a flat monthly premium based on claims experience. This is a typical practice of government agencies. After $250,000, the Town has excess insurance that pays the future and remaining claim costs. The premium cost of excess insurance is based on historical claims experience and this cost is continuing to rise. Claim costs include claims filed by current employees as well as on-going medical expenses for claims of employees that are no longer working for the Town. The Town is continuing to incur expenses for large claims that require extensive medical treatment for employees that are no longer working for the Town.

THERE IS NO STAFF REPORT FOR ITEM #4

Discussion and Commission Recommendations to the Town Council regarding the Proposed FY 2021/22 Operating and Capital Budgets.

From: Phil Koen <[redacted]>
Sent: Friday, April 30, 2021 9:42 AM
To: Ron Dickel [redacted]; Kyle Park[redacted]; Matthew Hudes <MHudes@losgatosca.gov>; Rob Rennie <RRennie@losgatosca.gov>; jvannada[redacted] Lee Fagot [redacted]
Cc: Laurel Prevetti <LPrevetti@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>
Subject: Questions for Staff regarding FY 2022 operating budget

Hello Ron,

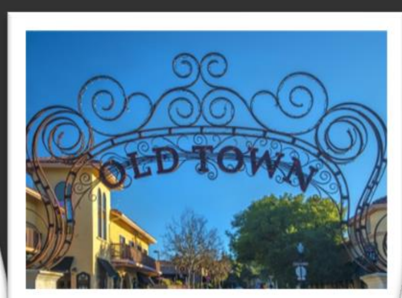
Could you please request the Staff to provide answers for the following questions:

1. On schedule C-23 the FY 21 adjusted budget included $1,262,158 as operating revenue with the explanation that this amount was "previously expensed transfers were returned to be included in the General Fund". The estimate for FY 21 reflects no funds resulting in a corresponding revenue shortfall of $1.2m. Why did this not occur and where did the $1.2m go if it wasn't returned to the General Fund? Please also provide an explanation regarding the $390,000 in pension trust revenue included in the FY 2022 budget. Why is this revenue?
2. On schedule C-23 the FY 21 adjusted budget shows $30,407,640 as non- departmental revenue. The estimate for FY 2021 is now $33,488,814. Please provide an explanation for the increase from FY 21 adjusted budget of $30,407,640.
3. On schedule C-8 property tax revenues are shown for FY 20, FY 21, and FY 22. Could you please provide detail regarding the amount of ERAF funds included for each year? How was the ERAF funds forecasted for FY 2022? Additionally, please provide detail regarding the amount of RDA residual revenue for each year. What is the assumption regarding RDA residual revenue for FY 2022?
4. On schedule C-8, TOT revenue is estimated to be $707,723 for FY 2021 with a 30% increase in FY 2022 to $920,040. Other cities in the South Bay are projecting TOT receipts to experience a strong recovery, increasing as much as 80% (i.e. City of San Jose) from FY 2021 level. Last year the FY 2021 budget forecasted an increase from prior year, only to materially miss that forecast. Why should the Council have more confidence in the FY 2022 forecast? What steps have been taken to improve the forecasting capability this year? Is it possible that the forecast is overly conservative? Is there a range of outcomes that should be considered?
5. On schedule C-8 sales and use tax is projected to be $7,135,131 for FY 2021 which is a decrease from FY 2020 actuals of $7,531,425. What assumptions have been made regarding total FY Q4 2021 sales tax receipts? Additionally, please disclose the receipts from the County Pool sales tax arising from the Wayfair decision that were received in FY 2020 and are projected to be received in FY 2021 and FY 2022. It has been reported that in the first quarter FY 2021, the County Pool grew 42% year over year. This is an important source of funds for the Town. When you take into consideration the impact of Measure G, the growth in the County Pool and the strong recovery in Q4 FY 2021, the forecast for FY 2022 appears overly conservative. Any additional information that you can provide so the Council can get comfortable with the revenue budget would be helpful.
6. On schedule C-8 there is a line item for salary and benefits. Could you please separate the line item into two – one for salary and the other for all benefits. This would enable the reader to understand the historical trend.
7. There appears to be an increase in total salary expenditures budgeted for FY 2022. Please break down the increase into three categories - promotions, new hires, and all other salary adjustments. If you could do this for FY 2020, FY 2021 and FY 2022 that would be very helpful in understanding the growth in total salary expenditures.

Thank you.

Phil Koen

Town of Los Gatos Finance Commission FY 2021/22 Budget



REVENUE FORECAST

1% ADDITIONAL / OPTIMISTIC

Item 4.

5 Year Forecast	2021/22 Forecast ($M)	2022/23 Forecast ($M)	2023/24 Forecast ($M)	2024/25 Forecast ($M)	2025/26 Forecast ($M)	2026/27 Forecast ($M)
Property Tax Additional 1% Growth (4% compare to 3%)	$0.2	$0.3	$0.5	$0.7	$0.9	$1.1

5 Year Forecast	2021/22 Forecast ($M)	2022/23 Forecast ($M)	2023/24 Forecast ($M)	2024/25 Forecast ($M)	2025/26 Forecast ($M)	2026/27 Forecast ($M)
VLF Additional 1% Growth (4% compare to 3%)	$0.0	$0.1	$0.1	$0.2	$0.2	$0.3

5 Year Forecast	2021/22 Forecast ($M)	2022/23 Forecast ($M)	2023/24 Forecast ($M)	2024/25 Forecast ($M)	2025/26 Forecast ($M)	2026/27 Forecast ($M)
Sales Tax Optimistic Scenario (Optimistic compare to Most Likely)	$0.12	$0.13	$0.14	$0.15	$0.16	$0.14

5 Year Forecast	2021/22 Forecast ($M)	2022/23 Forecast ($M)	2023/24 Forecast ($M)	2024/25 Forecast ($M)	2025/26 Forecast ($M)	2026/27 Forecast ($M)
Measure G Sales Tax Optimistic Scenario (Optimistic compare to Most Likely)	$0.015	$0.017	$0.019	$0.020	$0.022	$0.024

FORECAST – 1% IMPACT

1% SALARY INCREASE

5 Year Forecast	2021/22 Forecast ($M)	2022/23 Forecast ($M)	2023/24 Forecast ($M)	2024/25 Forecast ($M)	2025/26 Forecast ($M)	2026/27 Forecast ($M)
Salaries 1% Increase Impact (1% compare to 0%)	$0.16	$0.31	$0.46	$0.61	$0.77	$0.92

5 Year Forecast	2021/22 Forecast ($M)	2022/23 Forecast ($M)	2023/24 Forecast ($M)	2024/25 Forecast ($M)	2025/26 Forecast ($M)	2026/27 Forecast ($M)
Pension Benefits 1% Increase Impact (1% compare to 0%)	$0.06	$0.12	$0.18	$0.25	$0.31	$0.38

5 Year Forecast	2021/22 Forecast ($M)	2022/23 Forecast ($M)	2023/24 Forecast ($M)	2024/25 Forecast ($M)	2025/26 Forecast ($M)	2026/27 Forecast ($M)
Other Benefits 1% Increase Impact (1% compare to 0%)	$0.01	$0.02	$0.03	$0.04	$0.05	$0.06

5 Year Forecast	2021/22 Forecast ($M)	2022/23 Forecast ($M)	2023/24 Forecast ($M)	2024/25 Forecast ($M)	2025/26 Forecast ($M)	2026/27 Forecast ($M)
Total Salaries & Benefits 1% Increase Impact (1% compare to 0%)	$0.23	$0.45	$0.67	$0.9	$1.12	$1.36

Type of Revenue	Base Line Estimate	FY 2021/22 Budget	FY 2022/23 Forecast	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast
Property Tax/VLF Backfill	Current baseline set by SCC Assessor Office January 2021 report.	3%	3%	3%	3%	3%
North 40 Property Sales	Starting in FY 2021/22	North 40 Phase 1 Sales	North 40 Phase 1 Sales	3%	3%	3%
ERAF	Current baseline set by SCC Assessor Office March 2021 report	SCCA recommend 100% of FY 2020/21 anticipated proceeds	$400K	$400K	$400K	$400K
Sales Tax	MuniServices 3/19/2021	MuniServices 3/19/2021 Optimistic Estimates	MuniServices 3/19/2021 Most Likely Estimates	MuniServices 3/19/2021 Most Likely Estimates	MuniServices 3/19/2021 Most Likely Estimates	MuniServices 3/19/2021 Most Likely Estimates
Sales Tax - Measure G	MuniServices 3/19/2021	MuniServices 3/19/2021 Most Likely Estimates	MuniServices 3/19/2021 Most Likely Estimates	MuniServices 3/19/2021 Most Likely Estimates	MuniServices 3/19/2021 Most Likely Estimates	MuniServices 3/19/2021 Most Likely Estimates

PRIMARY REVENUE ASSUMPTIONS

ORIGINAL

PRIMARY REVENUE ASSUMPTIONS

ADDITIONAL 1% / OPTIMISTIC

Type of Revenue	Base Line Estimate	FY 2021/22 Budget	FY 2022/23 Forecast	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast
Property Tax/VLF Backfill	Current baseline set by SCC Assessor Office January 2021 report.	4%	4%	4%	4%	4%
North 40 Property Sales	Starting in FY 2021/22	North 40 Phase 1 Sales	North 40 Phase 1 Sales	4%	4%	4%
ERAF	Current baseline set by SCC Assessor Office March 2021 report	SCCA recommend 100% of FY 2020/21 anticipated proceeds	$400K	$400K	$400K	$400K
Sales Tax	MuniServices 3/19/2021	MuniServices 3/19/2021 Optimistic Estimates	MuniServices 3/19/2021 Optimistic Estimates	MuniServices 3/19/2021 Optimistic Estimates	MuniServices 3/19/2021 Optimistic Estimates	MuniServices 3/19/2021 Optimistic Estimates
Sales Tax - Measure G	MuniServices 3/19/2021	MuniServices 3/19/2021 Most Likely Estimates	MuniServices 3/19/2021 Optimistic Estimates	MuniServices 3/19/2021 Optimistic Estimates	MuniServices 3/19/2021 Optimistic Estimates	MuniServices MuniServices 3/19/2021 Optimistic Estimates