TOWN OF LOS GATOS
SPECIAL JOINT MEETING OF THE TOWN COUNCIL AND FINANCE COMMISSION - STUDY SESSION AGENDA
JANUARY 28, 2021
110 EAST MAIN STREET
LOS GATOS, CA

Marico Sayoc, Mayor
Rob Rennie, Vice Mayor
Mary Badame, Council Member
Matthew Hudes, Council Member
Maria Ristow, Council Member

PARTICIPATION IN THE PUBLIC PROCESS

How to participate: The Town of Los Gatos strongly encourages your active participation in the public process, which is the cornerstone of democracy. If you wish to speak to an item on the agenda, please follow the participation instructions on page 2 of this agenda. If you wish to speak to an item NOT on the agenda, you may do so during the "Verbal Communications" period, by following the participation instructions on page 2 of this agenda. The time allocated to speakers may change to better facilitate the Town Council meeting.

Effective Proceedings: The purpose of the Town Council meeting is to conduct the business of the community in an effective and efficient manner. For the benefit of the community, the Town of Los Gatos asks that you follow the Town's meeting guidelines while attending Town Council meetings and treat everyone with respect and dignity. This is done by following meeting guidelines set forth in State law and in the Town Code. Disruptive conduct is not tolerated, including but not limited to: addressing the Town Council without first being recognized; interrupting speakers, Town Council or Town staff; continuing to speak after the allotted time has expired; failing to relinquish the podium when directed to do so; and repetitiously addressing the same subject.

Deadlines for Public Comment and Presentations are as follows:

- Persons wishing to make an audio/visual presentation on any agenda item must submit the presentation electronically, either in person or via email, to the Clerk's Office no later than 3:00 p.m. on the day of the Council meeting.
- Persons wishing to submit written comments to be included in the materials provided to Town Council must provide the comments as follows:
    - For inclusion in the regular packet: by 11:00 a.m. the Thursday before the Council meeting
    - For inclusion in any Addendum: by 11:00 a.m. the Monday before the Council meeting
    - For inclusion in any Desk Item: by 11:00 a.m. on the day of the Council Meeting

Town Council Meetings Broadcast Live on KCAT, Channel 15 (on Comcast) on the 1st and 3rd Tuesdays at 7:00 p.m.
Rebroadcast of Town Council Meetings on the 2nd and 4th Mondays at 7:00 p.m.
Live & Archived Council Meetings can be viewed by going to:
www.LosGatosCA.gov/TownYouTube

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
SPECIAL JOINT MEETING OF THE TOWN COUNCIL AND FINANCE COMMISSION:
STUDY SESSION AGENDA
JANUARY 28, 2021
7:00 PM

IMPORTANT NOTICE REGARDING THE JANUARY 28, 2021
SPECIAL JOINT MEETING OF THE TOWN COUNCIL AND FINANCE COMMISSION:
STUDY SESSION

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. The live stream of the meeting may be viewed on television and/or online at www.losgatosca.gov/AgendasAndVideos. **In accordance with Executive Order N-29- 20, the public may only view the meeting on television and/or online and not in the Council Chamber.**

PARTICIPATION

If you are not interested in providing oral comments in real-time during the meeting, you can view the live stream of the meeting on television (Comcast Channel 15) and/or online at www.LosGatosCA.gov/TownYouTube.

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: click this link https://us02web.zoom.us/j/85163767547?pwd=TnFlOGQ5c2laK0xKNWdkRHdCMzYydz09. Password: 515250. You can also type in 851 6376 7547in the "Join a Meeting" page on the Zoom website at https://zoom.us/join.
- Join by telephone: Dial: USA 877 336 1839 US Toll-free. Conference code: 969184

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 Council meeting.

If you are unable to participate in real-time, you may email to PublicComment@losgatosca.gov 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 5:00 p.m. on the day of the meeting. All comments received will become part of the record. The Mayor has the option to modify this action on items based on comments received.

TOWN OF LOS GATOS
SPECIAL JOINT MEETING OF THE TOWN COUNCIL AND FINANCE COMMISSION - STUDY SESSION AGENDA
JANUARY 28, 2021
7:00 PM

REMOTE LOCATION PARTICIPANTS
The following Council Members are listed to permit them to appear electronically or telephonically at the Town Council meeting: MAYOR MARICO SAYOC, VICE MAYOR ROB RENNIE, COUNCIL MEMBER MARY BADAME, COUNCIL MEMBER MATTHEW HUDES, COUNCIL MEMBER MARIA RISTOW, COMMISSIONER DICKEL, COMMISSIONER HUDDLESTON, COMMISSIONER PARK, and COMMISSIONER TINSLEY. All votes during the teleconferencing session will be conducted by roll call vote

MEETING CALL TO ORDER

ROLL CALL

VERBAL COMMUNICATIONS *(Members of the public are welcome to address the Town Council on any matter that is listed on the agenda consistent with the Participation Instructions on page 2 of this agenda.)*

OTHER BUSINESS *(Up to three minutes may be allotted to each speaker on any of the following items consistent with the Participation Instructions on page 2 of this agenda.)*

1. Joint Council and Finance Commission Orientation.

ADJOURNMENT *(Council policy is to adjourn no later than midnight unless a majority of Council votes for an extension of time)*

Writings related to an item on the Town Council meeting agenda distributed to members of the Council within 72 hours of the meeting are available for public inspection on the official Town of Los Gatos website.

Note: The Town of Los Gatos has adopted the provisions of Code of Civil Procedure §1094.6; litigation challenging a decision of the Town Council must be brought within 90 days after the decision is announced unless a shorter time is required by State or Federal law.

TOWN OF LOS GATOS

COUNCIL AGENDA REPORT

MEETING DATE: 01/28/2021

ITEM NO: 1

DATE: January 22, 2021

TO: Mayor and Town Council and Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Joint Council and Finance Commission Orientation

BACKGROUND:

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 (see Attachment 1).

DISCUSSION:

The Town of Los Gatos produces many comprehensive documents and reports throughout the year; with, the Town's Annual Operating Budget and the Comprehensive Annual Financial Report (CAFR) being among the most important documents to understand the Town's finances.

In addition, prior to the adoption of the new Finance Commission, the Town adopted a new Finance Committee governance structure in 2017 which included three non-voting members of the public and two voting Councilmembers. Over the years, the prior Committee researched and advised on a multitude of financial areas which can provide useful insights into the Town's finances.

To assist Committee members in preparing for this initial meeting and subsequent meetings, staff has assembled a list of reference materials and resources the Commission and Council may find useful. It is not required that the Council and Finance Commission read all of the materials contained in the links prior to the Study Session. These are being provided in this Report to provide a single summary of these resources.

The summary includes links to the most recent Comprehensive Annual Financial Report, Proposed Operating Budget/Capital Improvement Plan, Five-year Forecast, Actuarial Reports,

PREPARED BY: Arn Andrews
Assistant Town Manager

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

DISCUSSION (continued):

and other relevant reports. In addition, many of these items can be located at a single location at the Town's Financial Transparency webpage https://www.losgatosca.gov/2565/Financial-Transparency.

Five-Year Forecast & Budget Assumptions

On January 21, 2020, the Town Council received the Five-Year Forecast and budget assumptions for development of the FY 2020/21 Operating and Capital Budgets. Please refer to the Council Meeting for 1/21/2020 and Agenda Item #12 at the following link.

https://meetings.municode.com/PublishPage/index?cid=LOSGATOS&ppid=a7cef0f9-a4a2-40e7-a6e3-056a78898413&p=1

Operating and Capital Improvement Budgets

In June 2020 the Town Council adopted the FY 2020/21 Operating and Capital Budget, the FY 2020/21-FY 2024/25 Capital Improvement Plan, and expenditure and revenue adjustments for FY 2019/20. The final Budget included an updated Five-Year Forecast that reflected the COVID-19 pandemic and some of its economic consequences.

https://www.losgatosca.gov/DocumentCenter/View/24515/Budget-Item-Council-Meeting-May-19-2020-700-PM

Comprehensive Annual Financial Report

On December 15, 2020, the Town Council received the CAFR for the Fiscal Year ended June 30, 2020 and adopted a resolution confirming June 30, 2020 fund balances.

https://www.losgatosca.gov/DocumentCenter/View/26586/FY-201920-CAFR?bidId=

Actuarial Reports

Actuarial valuations are performed each year for the Town's pension plans and every other year for the Retiree Healthcare Plan. The CalPERS actuaries provide the pension valuations and the Town retains the services of Bartel and Associates to analyze the respective assets and liabilities of the Retiree Healthcare Plan. Provided below are links to the most recent valuations.

https://www.losgatosca.gov/1861/CalPERS-and-OPEB-Actuarial-Valuation-Rep

DISCUSSION (continued):

In addition to Bartel and Associates performing the Healthcare valuations starting in 2018, the Town contracted with Bartel to provide an expanded review and analysis of the CalPERS valuation reports. The review of the 2019 valuation is expected to be presented at the March Finance Commission meeting.

Pension Obligation Reduction Strategies

Since 2019, the Finance Committee in conjunction with the Town Council Pension and OPEB Oversight Committee started reviewing Additional Discretionary Payment (ADPs) strategies to reduce the Town's unfunded pension obligations. Following are staff reports detailing the ADP discussions and ultimate strategy.

September 3, 2019 – Please refer to the Council Meeting for 9/3/2019 and Agenda Item #4 in the link below.

https://meetings.municode.com/PublishPage/index?cid=LOSGATOS&ppid=a7cef0f9-a4a2-40e7-a6e3-056a78898413&p=1

March 3, 2020 - Please refer to the Town Pension and OPEB Oversight Trust Meeting for 3/3/2020 and Agenda Item #2 in the link provided below.

https://meetings.municode.com/PublishPage/index?cid=LOSGATOS&ppid=aeaa9fb1-945d-471d-90e6-a6733cd280fd&p=0

April 21, 2020 - Please refer to the Town Pension and OPEB Oversight Trust Meeting for 4/21/2020 and Agenda Item #2 in the link provided below.

https://meetings.municode.com/PublishPage/index?cid=LOSGATOS&ppid=aeaa9fb1-945d-471d-90e6-a6733cd280fd&p=0

August 4, 2020 - Please refer to the Town Pension and OPEB Oversight Trust Meeting for 8/4/2020 and Agenda Item #5 in the link provided below.

https://meetings.municode.com/PublishPage/index?cid=LOSGATOS&ppid=aeaa9fb1-945d-471d-90e6-a6733cd280fd&p=0

DISCUSSION (continued):

In addition to the aforementioned amortization base payoff strategy, the Council adopted an enhanced amortization payment schedule from a 30-year amortization cycle to a 20-year payoff. Please refer to the link below.

http://weblink.losgatosca.gov/Weblink/0/doc/895230/Page1.aspx

Catastrophic/Budget Stabilization and Internal Service Fund Review

The Town Council received a detailed independent analysis of its Catastrophic and Budget Stabilization General Fund Reserve Policies, resulting in no changes to the existing Policy.

http://weblink.losgatosca.gov/Weblink/0/doc/1082779/Page1.aspx

In addition, the Finance Committee and Town Council received reviews of both Town wide fund level cash positions and Town Internal Service Funds. The review resulted in the recommendation to close both the Vehicle Maintenance and Stores Internal Service Funds. The closure resulted in the residual balance of approximately $1.0 million being available for reallocation in the FY 2019/20 Operating Budget.

https://legistarweb-production.s3.amazonaws.com/uploads/attachment/pdf/283767/Staff_Report.pdf

Revenue Enhancements

The Town Council has also sought to enhance revenues through successful ballot initiatives for both the Transient Occupancy Tax (TOT) and Sales Tax.

August 2, 2016 – Please refer to the Council Meeting of 8/2/2016 and Agenda Item #9 at the link provided below.

http://weblink.losgatosca.gov/Weblink/Browse.aspx?startid=275983

March 6, 2018 - Please refer to the Council Meeting of 8/2/2016 and the Power Point presentation of Agenda Item #9 at the link provided below.

http://weblink.losgatosca.gov/Weblink/Browse.aspx?startid=275983

CONCLUSION AND NEXT STEPS:

At Thursday's Study Session, the Council and Finance Commission will have an opportunity to learn more about the Town Finance Team and Consultant Support; Finance Commission, Town Council, and Town Manager Roles and Responsibilities; Finance Commission Ordinance Overview; Finance Commission Tentative Work Plan; Financial Stewardship to Date; and Town Budget Overview.

Attachment:
1. Ordinance 2314 – Establish a Finance Commission

ORDINANCE 2314

ORDINANCE OF THE PEOPLE OF THE TOWN OF LOS GATOS ADOPTING THE PROVISIONS OF AN INITIATIVE MEASURE ADDING ARTICLE V TO CHAPTER 2 AND AMENDING SECTION 25.60.140 OF THE TOWN CODE ESTABLISHING A TOWN FINANCE COMMISSION

WHEREAS, on November 3, 2020 the voters of the Town of Los Gatos approved Measure "A", an initiative Ordinance of the People of The Town of Los Gatos establishing a Town Finance Commission; and

WHEREAS, the results of the election were certified on December 8, 2020 and the Measure took effect immediately.

BE IT ORDAINED by the People of the Town of Los Gatos as follows:

Section 1. Title.

This measure shall be known and may be referred to as the "Town Finance Commission Initiative."

Section 2. Findings and Declarations.

WHEREAS, the Town's financial well-being is essential to ensuring that the Town can effectively provide services and fund all liabilities; and

WHEREAS, many residents of the Town possess substantial financial management experience and are eager to serve their community; and

WHEREAS, a Finance Commission consisting of qualified Town residents can help ensure the financial well-being of the Town and promote greater public understanding of Town financial matters; and

WHEREAS, a Finance Commission can increase citizen participation in Town governance and encourage greater resident engagement in Town financial decisions; and

WHEREAS, the People of Los Gatos wish to establish a Finance Commission to assist the Town Council in ensuring the financial well-being of the Town; and

WHEREAS, the People of Los Gatos do not wish to interfere with the budgetary authority or processes of the Town Council, but instead believe a Finance Commission can function as an advisory body and provide important guidance to the Town Council in carrying out its budgetary duties and establishing the Town's fiscal policies and priorities.

ATTACHMENT 1

NOW, THEREFORE, the People of the Town of Los Gatos do hereby amend the Los Gatos Town Code as follows:

Section 3. Amendment to the Los Gatos Town Code.

(New language is indicated by underlining, and deleted language is indicated by ~~strikethrough~~.)

1) A new Division is added to Article V of Chapter 2 of the Los Gatos Town Code to read in its entirety as follows:

Division 3. -Finance Commission.

Sec. 2.50.200. - Finance Commission established.

(a) The Finance Commission shall be established to serve in an advisory capacity to the Town Council by reviewing Town finances, including but not limited to the annual budget, Comprehensive Annual Financial Report, and capital expenditures, and making recommendations about the Town's financial, budgetary and investment matters and operations related thereto to the Town Council and any other Town department, agency, committee, commission or other body as the Town Council directs.

(b) The Council Finance Committee is disbanded.

(c) The Sales Tax Oversight Committee established by section 25.60.140 of the Town Code is disbanded and all powers and duties of that Committee are transferred to the Finance Commission.

Sec. 2.50.205. - Composition, appointment, terms.

(a) The Finance Commission shall consist of five (5) voting citizen members ("Citizen Appointees") and two (2) non-voting Council Liaisons.

(b) Council Liaisons.

(1) The Town Council shall appoint two Town Council members as non-voting Council Liaisons.

(2) The Council Liaisons shall serve on the Finance Commission until replaced by the Town Council but shall not serve beyond their terms on the Town Council.

(3) One Council Liaison shall be the Mayor or Vice-Mayor of the Town.

(c) Citizen Appointees.

(1) Except with respect to initial appointments as provided for in section 2.50.25(c)(5), each member of the Town Council shall appoint one Citizen Appointee, upon expiration of terms described in section 2.50.205(c)(4).

(2) Citizen Appointees must be residents and registered voters of the Town.

(3) No member of the Town Council may serve as a Citizen Appointee.

(4) Citizen Appointees shall serve four-year terms. which shall expire on a staggered basis such that every year one term shall expire, except that once every four years. two terms shall expire. The term of each Citizen Appointee shall commence on the first day of January (or as soon as practicable after the effective date of this Division for initial Citizen Appointees) and shall expire on the thirty-first day of the fourth successive December.

(5) As soon as practicable after the effective date of this Division, the initial appointment of the first Citizen Appointees shall be carried out as follows: Town Council members shall draw lots to determine the order of expiration for the terms of the first five Citizen Appointees such that one Citizen Appointee's term shall expire each year for four years after the effective date of this Division, and one additional Citizen Appointee's term shall expire in the fourth year after the effective date of this Division. Following the expiration of each of the first five Citizen Appointees' terms. a Citizen Appointee shall be appointed to serve a four-year term.

(6) Citizen Appointees must be certified public accountants, chartered financial analysts, or have a business, finance, economics or accounting degree. and must have at least five years of experience in at least one of the following:

(A) Financial experience in a corporate. business, or government setting;

(B) Principal or officer at a financial auditing firm;

(C) Investment banking; or

(D) Finance or budget management.

(7) Should a Citizen Appointee resign or otherwise leave office prior to the end of his or her term, the appointing Town Council member for that Citizen Appointee shall. as soon as practicable, appoint a new Citizen Appointee to serve the remainder of the term.

(d) Section 2.40.030 of the Town Code shall not apply to the Finance Commission.

(e) Administrative support for the Finance Commission shall be provided by the Town Manager, the Director of Finance and by other Town staff as necessary.

Sec. 2.50.210. -Meetings and Records.

(a) The Finance Commission shall hold at least one meeting per calendar quarter.

(b) Meetings shall be held as required by the business needs of the Finance Commission in the Town Council chamber in the Town Hall or such other locations as allowed by the Ralph M. Brown Act, at a time that is convenient for the Finance Commission and the public to encourage public participation.

(c) Meetings shall be subject to the Ralph M. Brown Act.

(d) Nothing in this Division shall be construed as excluding any documents from the California Public Records Act.

Sec. 2.50.215. - Chair.

(a) The Finance Commission shall appoint and prescribe the term of office for its Chair.

(b) The Chair must be a Citizen Appointee.

(c) All Finance Commission meetings shall be called by the Chair.

(d) The Chair shall set all Finance Commission meeting agendas.

Sec. 2.50.220. - Quorum.

A majority of the Citizen Appointees of the Finance Commission shall constitute a quorum. Except as otherwise prescribed by ordinance or State law, a vote by a majority of a quorum shall be sufficient to transact business.

Sec. 2.50.225. - Duties.

(a) The Finance Commission shall:

(1) 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.
(2) Review the Town Manager's annual proposed budget prepared in accordance with section 2.30.295(6) of the Town Code. and provide written comments and recommendations to the Town Council.

(A) The Finance Commission's comments and recommendations shall include a recommendation about whether the Town Council should approve or disapprove the proposed budget. The Finance Commission may make a recommendation of approval of the budget conditional upon the Town Council's acceptance of me or more of the Finance Commission's recommendations.

(B) The Town Manager must provide a proposed budget to the Finance Commission at least twenty (20) business days before the first meeting at which the proposed budget is considered by the Town Council.

(3) Review the Town Manager's draft Comprehensive Annual Financial Report (CAFR) for the preceding fiscal year and provide written comments and recommendations to the Town Manager.

(A) The Town Manager shall respond in writing to the Finance Commission providing his or her rationale for accepting or rejecting each of the Finance Commission's comments and recommendations prior to presenting the CAFR to the Town Council for formal consideration.

(B) The Town Manager may not present the CAFR to the Town Council for formal consideration unless or until he or she considers and responds in writing to all of the Finance Commission's comments and recommendations.

(4) Review the Director of Finance's summary of the Town's financial report required by section 53891 of the California Government Code and prepared in accordance with section 2.50.0I0(c) of the Town Code. and provide written comments and recommendations to the Director of Finance prior to the publishing of the summary of the report.

(5) Review the financial policies and procedures manual developed in accordance with section 2.50.0I0(f) of the Town Code and provide written comments and recommendations to the Director of Finance.

(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.

(8) Make recommendations to the Town Council about policies and programs:

(A) To maximize the Town's revenues consistent with existing taxation structures and inter-governmental funding opportunities;

(B) To maximize fee generation consistent with market rate charges for Town-provided services and market rate fees for utilization of Town-owned assets;

(C) To minimize the City's cost to provide core services and required activities. Consistent with the desired service level for residents and other internal and external customers;

(D) To set funding goals for reserves. and review on-going progress related thereto:

(E) To assess the risk associated with the structure and documentation of any proposed debt financing;

(F) To fund the Town's long-term compensation and benefit program liabilities in the most responsible and cost-effective way; and

(G) To monitor investment performance and make recommendations related to the Town's investment policy and performance.

(9} Provide written comments and recommendations regarding the selection of auditors for the CAFR.

(10) Participate in pre-audit meetings with auditors. provided that the Finance Commission shall not participate in those portions of any meetings which pertain to confidential employment or attorney- client privileged matters.

(11) Review and monitor any events or issues which may affect the financial status of the Town.

(b) The duties of the Finance Commission shall not be altered, abridged or abrogated in any way by any body except by a vote of the majority of the voters of the Town.

(c) The Town Council shall make changes to the budgetary and all other Town processes and calendars as necessary to allow for consideration of the comments and recommendations of the Finance Commission outlined herein.

Sec. 2.50.230. - Conflicting Provisions.

Should any provision of this Division be found to conflict with the Los Gatos Town Code, this Division shall prevail, consistent with the purposes of the Finance Commission as set forth herein.

2) Section 25.60.140 of the Los Gatos Town Code is hereby amended as follows:

Sec. 25.60.140. - Citizens' oversight and annual audit.

(a) ~~There shall be a committee appointed by the Town Council to~~ The Finance Commission established by sections 2.50.200 et seq. of the Town Code shall review and report on the receipt of revenue and expenditure of funds from the tax authorized by this chapter ("revenues and expenditures"). ~~The number, qualifications and duties of Committee members shall be established by ordinance or resolution of the Town Council.~~

(b) Beginning with the fiscal year that ends June 30, 2019, the Town's independent auditors shall, as part of their annual audit of the Town's financial statements, review the collection and expenditure of revenue from the tax authorized by this chapter. The auditors' review shall be a public document. The Finance Commission ~~committee~~ shall annually review the auditors' findings and report in writing to the Town Council regarding the auditors' findings regarding the revenues and expenditures. The Finance Commission's ~~committee's~~ statement shall be transmitted to the Town Council for consideration at a public meeting.

~~(c) By January 31, 2019, the Town Council shall adopt a resolution establishing the composition of the committee and further defining its responsibilities consistently with this section. Provisions defining the scope of committee responsibilities and reporting requirements shall address bond oversight, in the event that a decision is made at a later time to sell bonds that are in part backed by the revenues referenced in this section. Town Council shall appoint the initial members of the committee no later March 1, 2019.~~

Section 4. Earliest Possible Election.

The People of Los Gatos hereby expressly request that, if not adopted by the Town Council, this measure be submitted to the voters of Los Gatos at a regular or special election at the earliest time allowable by law.

Section 5. Severability.

Should any provision of this measure, or its application to any person or circumstance, be determined by a court of competent jurisdiction to be unlawful, unenforceable, or otherwise void, voidable, or invalid, that determination shall have no effect on any other provision, or the application of this measure to any other person or circumstance and, to that end, the provisions hereof are severable. By approving this measure, the voters express their intent that each section and subsection would have been adopted irrespective of whether any one or more sections or subsections are found to be invalid or unconstitutional, and that each section and subsection is therefore explicitly severable, part-by-part, phrase-by-phrase, and word-by-word, and that if any portion is determined by a court of competent jurisdiction to be unlawful, unenforceable, or otherwise void, voidable, or invalid, that the least amount of language be severed from the ordinance. When possible, if any duty granted to the Finance Commission by this measure is found to conflict with powers specifically granted to the Town Council by the Legislature, or found to be otherwise unlawful, the offending section or subsection shall be amended or interpreted to allow the Finance Commission the maximum allowable duties under the law.

Section 6. Competing Initiatives/Measures.

This measure is intended to be comprehensive. It is the intent of the People of Los Gatos that, in the event this measure and one or more measures relating to the same subject shall appear on the same ballot, the provisions of the other measure or measures shall be deemed in conflict with this measure. In the event that this measure receives a greater number of affirmative votes, the provisions of this measure shall prevail in their entirety, and all provisions of the other measure or measures shall be null and void. If this measure is approved by a majority of the voters but does not receive a greater
number of affirmative votes than any other measure or measures appearing on the same ballot regarding the same subject, then this measure shall take effect to the extent not in conflict with said other measure or measures.

Section 7. Effective Date.

This measure shall be considered adopted and become effective upon the date of the election which it was approved by the voters.

Section 8. Liberal Construction.

This measure is an exercise of the initiative power of the People of Los Gatos regarding the establishment of a Finance Commission and shall be liberally construed to effectuate its purposes.

Section 9. Legal Defense.

The People of Los Gatos desire that this measure, if approved by a simple majority of voters and thereafter challenged in court, be defended by the Town of Los Gatos. The People of Los Gatos, by approving this measure by a simple majority of voters, hereby declare that the proponent(s) of this measure have a direct and personal stake in defending this measure from constitutional or statutory challenges to the measure's validity or implementation. In the event the Town fails to defend this measure, or the Town fails to appeal an adverse judgment against the constitutionality, statutory permissibility or implementation of this measure, in whole or in part, in any court of law, the measure's proponent(s) or the voters the Town of Los Gatos shall be entitled to assert his, her or their direct personal stake by defending the measure's validity and implementation in any court of law and shall be empowered by the People through this measure to act as agents of the People of Los Gatos, and the Town of Los Gatos shall indemnify the proponent(s) for reasonable expenses and other losses incurred by the proponent(s), as agent(s), in defending the validity and/or implementation of the challenged measure. The rate of indemnification shall be no more than the amount it would cost the Town to perform the defense itself.

I hereby certify that this "Town Finance Commission Initiative" Ordinance was PASSED, APPROVED, AND ADOPTED by the People of the Town of Los Gatos on the 3rd day of November 2020.

SIGNED: Marcia Jensen

MAYOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

DATE: 12/9/20

ATTEST:

Shelley Neis

TOWN CLERK OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

DATE: 12/30/2020

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TOWN OF LOS GATOS
COUNCIL AGENDA REPORT

MEETING DATE: 01/28/2021
ITEM NO: 1
DESK ITEM

DATE: January 28, 2021

TO: Mayor and Town Council and Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Joint Council and Finance Commission Orientation

REMARKS:

Attachment 2 contains public comments received after publishing the Staff Report and before 11-01 a.m. Thursday January 28, 2021.

Attachments Previously Received with the Staff Report:
1. Ordinance 2314 – Establish a Finance Commission

Attachments Received with this Desk Item:
2. Public Comments Received after Publishing the Staff Report and before 11:01 a.m. Thursday January 28, 2021

PREPARED BY: Arn Andrews
Assistant Town Manager

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

Dear Council Members and Members of the Finance Commission,

Congratulations on being appointed to the first Finance Commission for the Town of Los Gatos. And congratulations for taking this very important step in holding a joint study session to begin the process of encouraging open, diverse, and transparent dialogue between the residents and the Town Council. This is exactly what we, the proponents of Measure A, had hoped to see happen. We are thrilled.

We also would like to thank the Staff for assembling the list of reference materials for the newly appointed members of the Finance Commission and the newly elected members of the Town Council. Obviously, there were many reports and topics reviewed over the last four years by the former Finance Committee. There was good work done, for sure, and it is on display.

However, there is much more to do, and the Town is now facing the most significant economic uncertainty it has experience since the "great depression." It is the forward-looking issues that the Finance Commission has been chartered to address and provide expert financial advice to aid the Council in their decision-making process. The Town needs smart solutions if we are to successfully navigate these challenging economic times.

We would respectfully like to suggest a few important topics this joint study session may wish to discuss and develop an action plan for. These are timely since the Town is entering the period when annual budgets and a five-year forecast are being prepared by Staff for Council's consideration:

How should the Town monitor the financial status of the adopted budget so corrections can be made on a timely basis? The Town used to prepare a quarterly review, but this ceased some time in 2017. The Finance Commission may wish to request copies of the old quarterly reports for its review. Having a quarterly review is a recognized best practice for managing a municipality's fiscal affairs. Currently the Town uses a mid-year review that occurs in mid-February, nearly 8 months through the fiscal year as the primary tool to review the actual vs budget performance of the annual operating plan and consider formal budget adjustments. Given the economic uncertainty facing the Town, delaying the first formal review until nearly three-quarters of the fiscal year has elapsed may not provide sufficient time for meaningful course corrections.

Should the Town adopt a rolling two-year operating budget that would conform with the multi-year priorities the Council has established? Currently the Town prepares a one-year operating budget. The City of Los Altos, for example, and several other cities, produces, and operates on a two-year budget horizon. While there may be additional work to adopt a two-year budget, the downstream benefits are substantial. This is a topic that this study session may wish to discuss.

How will the Council provide the Finance Commission and Staff relevant input to the five-year plan? Specifically, what assumptions does the Council want included in the five-year plan? A major problem with the current five-year planning process is that realistic assumptions regarding salary and bonus increases and funding required to meet the long-term capital needs and pension debt reduction needs of the Town are not included in the five-year plan. What is the best practice to build a five-year plan that will provide the Council with a longer view of the financial opportunities and challenges facing the Town?

Are there any major capital programs, such as the pedestrian bridge, building a new senior center or recreation center, that Town wishes to undertake that might require public financing? Interest rates have never been lower, which favors big infrastructure projects. If the Town is truly interested in making a substantial investment in the Town's infrastructure, this is the time to investigate public financing options. The Town has a strong credit rating and a very low net direct debt to full value ratio (0.1%) which is materially below the U.S. mean. Offsetting this is the unfavorable net pension liability to operating revenues ratio, but the Town should still be able to access capital markets at very reasonable rates. Along with this, the Town may want to explore re-financing its current COP debt at a lower interest rate. That would yield immediate savings.

We will stop here, but these are just some of the major forward-looking topics that this joint study session might wish to discuss or at least become familiar with. Lastly, the joint session may wish to discuss a proposed Finance Commission annual work plan so there is a common view of how the Finance Commission will address its many duties. We have attached the annual work plan for the City of Los Altos Finance Committee which should serve as a good template as this Commission develops their own work plan.

In closing, we would like to thank the residents of the Town who believed in the value of a resident led Finance Commission and overwhelmingly voted for Measure A. From a historical point of view, Measure A received more votes than 2018 Sales Tax Measure G. The residents of the Town have high expectations for this Commission.

Thank you for stepping forward and serving the needs of the Town. Good luck to all of you.

The Proponents of Measure A

Phil Koen

Rick VanHoesen

Jak VanNada

Financial Commission 2020/2021 Work Plan

Goal	Projects	Description	Frequency	Target Date(s)	Status
Recurring Goals					
#1	Investment Performance	Review investment performance	Quarterly	Q2 – February 2021 Q3 – May 2021 Q4 – August 2021 Q1– November 20	Last reviewed Q1 on 11/16/20
#2	Operating Budget	Quarterly budget review	Quarterly	Q2 – Jan 2021 Q3 – April 2021 Q4 – Aug 2021 Q1– Oct 2021	Last reviewed 6/22/20
#3	Financial Communication	Review new financial system and financial dashboard. Finance staff to provide Commission with status update and software demonstration. To analyze and create financial dashboard for the City to provide additional oversight on financial resources.	Quarterly	Q2 – Jan 2021 Q3 – April 2021 Q4 – Aug 2021 Q1– Oct 2021	Last reviewed 11/16/20
#5	Comprehensive Annual Financial Report	Review draft CAFR	Annually	January 2021	Last reviewed 2/27/2020
#6	Financial Communication	Review PAFR	Annually	February 2021	Last reviewed 11/15/2018
#7	Unfunded Liability (PERs, pre-payment Community Center Loan, etc.)	Evaluate all unfunded liability and recommend and determine annual payment amount for unfunded liability.	Annually	March 2021	Subcommittee last reviewed June 2019
#8	Capital Improvement Budget	Review 5-Year CIP budget	Annually	May 2021	Last reviewed 5/15/2019
#9	5 Year Projection and Analysis	Review long-term fiscal projection of City's financials.	Annually	September 2021	Last reviewed 4/20/20
#10	Financial Policies	Review/update City's financial policies.	Annually	June/July 2021	Last reviewed 4/24/2019 Last updated 1/20/2015
#11	Investment Policy	Review/update City's Investment Policy.	Annually	May 2021	Last updated 4/15/2019

#12	Cross Commission Collaboration	Finance Commission responds to requests from other commissions.	Ad hoc	As needed	N/A
Non-recurring Goals					
#13	Park in Lieu Financing	Analyzing Park in Lieu funds policy, definition, and provide Council with recommendations on use of funds on infrastructure.	Non-recurring	Feb/March 2021	

From: Phil Koen
Date: January 28, 2021 at 7:57:00 AM PST
To: Marico Sayoc <MSayoc@losgatosca.gov>, Rob Rennie <RRennie@losgatosca.gov>, Matthew Hudes <MHudes@losgatosca.gov>, mristow@losgatosca.gov, mbadame@losgatosca.gov, Laurel Prevetti <LPrevetti@losgatosca.gov>
Cc: Rick Tinsley, Ron Dickel, Jak Van Nada, Rick Van Hoesen
Subject: Special Meeting of Town Council with Finance Commission

Laurel,

Could you please include this in the meeting material as well.

BEST PRACTICES

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.2 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.3

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.4

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.

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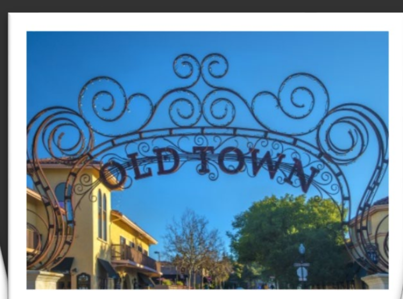
Town of Los Gatos
Joint Town Council & Finance Commission



Study Session

- Finance Team
- Roles and Responsibilities
- Finance Commission Ordinance and Work Plan
- CAFR Highlights
- Budget Background
- Town Fiscal Stewardship

Town Finance Team and Consultant Support

Town Manager – Laurel Prevetti

- Town Manager since Sept of 2015
- Assistant Town Manager/Community Development Director May 2014 – Sept 2015
- City of San Jose Dept of Planning, Building and Code Enforcement 28 years of service
- University of California, Berkley Master of Science/Bachelor of Science
- San Jose State University Adjunct Professor
- Active member of City Management and Urban Planning Associations

TOWN FINANCE TEAM

Assistant Town Manager – Arn Andrews

- Chief Investment Officer City of San Jose Retirement Services for 3 years ($5.0 billion in pension assets)
- Assistant Finance Director City of San Jose for 3 years, Treasury Division Manager for 2 years ($5.0 billion debt portfolio, $1.0 billion operating portfolio)
- Board Member San Jose Federated Employee's Retirement System for 4 years ($1.9 billion pension assets)
- Professional Equity Options Trader for 15 years (AMEX, NYSE, CBOE, PHLX)
- 2016 Institutional Investor/Investor Intelligence Awards - Chief Investment Officer of the Year
- BA Business Administration – Adelphi University
- Master Public Administration – New Mexico State University

TOWN FINANCE TEAM

Finance Director –
Stephen D. Conway, CPA

- Certified Public Accountant since 1985 and is currently an active CPA
- Finance Director of the Town of Los Gatos since May of 2001
- Chief Accounting Officer/Controller for the Santa Clara Valley Water District for five years and served as the Accounting Manager for the City of Campbell for nine years
- Three years as auditor at a CPA firm, focusing primarily on local government audits
- Member of the Governmental Finance Officers Association's (GFOA) Special Review Committee and Budget Review Committee
- Member of the California Society of Municipal Finance Officers (CSMFO)
- 2011 selected by the Silicon Valley Business Journal as the Judges Choice for Silicon Valley CFO of the year.

Finance & Budget Manager – Gitta Ungvari

- Finance & Budget Manager of the Town of Los Gatos since 2016
- Served the Town of Los Gatos Finance Department since 2007 in various capacities
- Member of the Governmental Finance Officers Association's (GFOA)
- Member and Budget Reviewer of the California Society of Municipal Finance Officers (CSMFO)
- Master of Business Administration Degree - University of Massachusetts
- Bachelor and Master Degrees in Mathematics & Physics –Kossuth University

TOWN FINANCE TEAM

Diane Howard – Finance Administrative Analyst

- Payroll, Personnel Budgeting

Mark Gaeta – Accountant/Finance Analyst

- Accounting, Replacement Schedules, Daily Cash Management

Maurice De Castro – Accountant/Finance Analyst

- Accounting, Budgeting

Melissa Ynegas – Finance Administrative Analyst

- Accounts Payable Budgeting

Dorrie Romero – Administrative Technician

- Business Licensing, Cashiering, Accounts Receivable

TOWN FINANCE CONSULTANTS

Badawi and Associates

Certified Public Accounts – Independent Auditor

Bartel Associates, LLC -

Actuarial services (pension/OPEB)

Insight Investment – Operating portfolio consulting

Avenu Insights & Analytics/MuniServices LLC – Sales tax consulting services

County Assessor – Property Tax Estimates

Town Council, Finance Commission, and Town Manager Roles and Responsibilities

COUNCIL FIDUCIARY ROLE

- Town Council Members act as a ***fiduciary agent*** for the Town.
- Town Council has ***fiduciary duty*** to oversee the budget.
- Town Council has the ***legal authority*** to appropriate financial resources for operations, capital and equipment.
- Town Council sets financial policies for the agency

Ordinance 2314

Section 2. Findings and Declarations.

WHEREAS, the People of Los Gatos ***do not wish to interfere with the budgetary authority or processes of the Town Council***, but instead believe a Finance Commission can ***function as an advisory body*** and provide important guidance to the Town Council in carrying out its budgetary duties and establishing the Town's fiscal policies and priorities.

FINANCE COMMISSION ADVISORY ROLE

Sec. 2.30.295. - Powers and duties—Generally.

(6) **Budget**. To prepare the budget annually and submit it to the Town Council and be responsible for its administration after adoption.

(7) **Annual report**. To prepare and submit to the Town Council, as of the end of the fiscal year, a complete report on the finances and administrative activities of the Town for the preceding year.

(8) **Needs and financial condition of Town**. To keep the Town Council advised on the financial condition and future needs of the Town and make such recommendations as may seem desirable.

Finance Commission Ordinance

COMMISSION DUTIES BUDGET

(a) The Finance Commission shall:

(1) Serve as an on-going substantive and expert advisory body to the Town and Town Council

(2) Review the Town Manager's annual proposed budget…provide written comments and recommendations to the Town Council.

COMMISSION DUTIES
CAFR & FTR

(3) Review the Town Manager's draft Comprehensive Annual Financial Report (CAFR) for the preceding fiscal year….

(4) Review the Director of Finance's summary of the Town's financial report…and provide written comments and recommendations to the Director of Finance…

COMMISSION DUTIES
POLICIES & PROCEDURES

(5) Review the financial policies and procedures manual…and provide written comments and recommendations to the Director of Finance.

COMMISSION DUTIES DISTRICT SALES TAX

(6) …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.

COMMISSION DUTIES REVENUES/EXPENSES/ETC

(8) Make recommendations to the Town Council about policies and programs:

(A) To maximize the Town's revenues;

(B) To maximize fee generation;

(C) To minimize the City's cost to provide core services and required activities;

(D) To set funding goals for reserves;

(E) To assess…debt financing;

(F) To fund the Town's long-term compensation and benefit…in the most responsible and cost-effective way; and

(G) To monitor investment performance.

COMMISSION DUTIES AUDIT

(9) Provide written comments and recommendations regarding the selection of auditors.

(10) Participate in pre-audit meetings.

(11) Review and monitor any events or issues which may affect the financial status of the Town.

Finance Commission Work Plan

TIME CERTAIN PROJECTS

(2) Review annual Proposed Operating Budget and Capital Improvement Plan (CIP)

(3) Review annual CAFR

(4) Review annual Financial Transaction Report (FTR) submission to the State

(6) Annual review of District Sales Tax expenditures

(7) Issue annual public report on District Sales Tax expenditures and revenues

TYPICAL ANNUAL CAFR/ BUDGET CYCLE

TOWN OF LOS GATOS
ANNUAL BUDGET/CAFR CYCLE

	Prior FY (2019/2020)	Current FY (2020/2021)	Next FY (2021/2022)
December	**June 30, 2020 CAFR** finalized and presented for Council approval. **CAFR** surpluses assigned per the Council Reserve Policy as of June 30, 2020		
January		Council deliberates **Strategic Priorities and Budget** direction for FY 2021/2022. Review of Five-year Forecast and assumptions. Council determines if previously assigned surpluses should be reallocated for FY 2021/2022	
February		Council considers **Mid-Year Budget** adjustments through 12/31/2020 for FY 2020/2021 Budget.	
May		Public hearing on FY 2021/2022 **Operating & Capital Budgets**	
June		Council adoption of the FY 2021/2022 **Operating & Capital Budgets**	End of **June 30, 2021 CAFR** period
July			Start of new FY 2021/2022 **Operating Budget year**
			June 30, 2021 CAFR finalized and presented for Council approval. **CAFR** surpluses assigned per the Council Reserve Policy as of June 30, 2021

CAFR Highlights

CAFR VERSUS BUDGET

The CAFR contains the **actual results** of the prior year's financial activities.

A CAFR is a set of financial statements for a state, municipality or other governmental entity that comply with the accounting requirements established by the Governmental Accounting Standards Board (GASB). It must be audited by an independent auditor using generally accepted government auditing standards.

Since 1994 the Town has received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for our Comprehensive Annual Financial Report (CAFR).

2019 CAFR HIGHLIGHTS

- Total net position stable from prior year at $114.8M.
- $2.4M Growth in Net Govt. Expenses from prior year.
- Total GF fund balance decreased $9M
  - $4.8 ADP to CalPERS, $7.0M to CIP, $1.0M to Workers Comp ISF
- $3.2M GF Surplus Operating Rev>Exp (excluding ADP, CIP & WC ISF transfers)
- Pandemic impacts first seen in economically sensitive revenues (sales tax $630K & TOT $170K)
- Strong GF Reserves for Economic Uncertainty/Catastrophe ($10.8M) or 25% of FY 21

Budget Background

CURRENT BUDGET CYCLE

Current FY
(2020/2021)

February

Council deliberates **Strategic Priorities** and **Budget** direction for FY 2019/2020

Council determines if previously assigned surpluses should be reallocated for FY 2019/2020

Council considers **Mid-Year Budget** adjustments through 12/31/2018 for FY 2018/2019 Budget

May

Public hearing on FY 2021/2022 **Operating & Capital Budgets**

June

Council adoption of the FY 2021/2022 **Operating & Capital Budgets**

Page 55

February 8th meeting: Review Mid-Year Report and 5 Year Forecast

March meeting: Review Actuarial Reports and Sales Tax revenues & expenditures

April meeting: Review of FY 2021/2022 Budget development

BUDGET VERSUS CAFR

The Operating Budget is a **plan** for a future fiscal period, typically one year, primarily identifying how tax revenue will be allocated to provide municipal services.

The Town of Los Gatos adopts an annual Operating and Capital Budget and an annual budget update of the five-year Capital Improvement Plan for the Town of Los Gatos.

The budgets contain summary level information for revenue and expenditure appropriations for the fiscal year beginning July 1st and ending June 30th. The budget documents are prepared in accordance with generally accepted accounting principles (GAAP).

BUDGET DEVELOPMENT

After a public hearing and receiving comments, the Town Council adopts the Budget which reflects the goals, policies, and civic priorities for the Los Gatos community.

The Budget documents anticipated revenues, and a plan for spending and investing those revenues towards Town services, incorporating both fiscal and programmatic policy decisions.

BUDGET DEVELOPMENT

The Los Gatos Budget also contains **performance measurements** that compare the expected service delivery to prior years.

The annual budget process enables the Town Council to consider changing conditions and input from the community.

Since 2003 the Town has received the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award for our annual budget.

FY 2020 – 2021 BUDGET DEVELOPMENT

- January 2020 Council receives initial modest growth base case 5-Year Forecast
- May 2020 Council receives updated COVID 5-Year Forecast with significant revisions to Sales Tax, TOT, and Property Tax
- The net result of these revenue changes alone accounted for a $1.8 million swing from the original FY 2020/21 base case revenue projections.
  - $2.6 million revenue reduction in FY 2021/22 relative to base case projection.

FY 2020 – 2021 BUDGET DEVELOPMENT

- COVID revisions result in $9.2 million in total surpluses through FY 2024/25 becoming $1.4 million in deficits through FY 2024/25

- The final FY 2020/21 General Fund Budget programed total revenues and reserve transfers of $53.2 million and expenditures and allocations of $53.2 million.

- The Budget anticipated a slight surplus of $11,905 and maintained existing service levels.

FY 2020 – 2021 BUDGET BALANCING

- Budgeted salaries for FY 2020/21 at actual salary plus a one step increase, which is a departure from previous practice. $550,000 in savings.

- Recalculated Internal Service Fund charges for the Equipment Replacement and Information Technology Funds. $268,000 in savings.

- Transferred approximately $800,000 from the Capital/Special Project Reserve per the Town’s GF Reserves Policy.

FY 2021 – 2022 BUDGET DEVELOPMENT

- 2019 CAFR closed without surpluses
- December 2020 Council receives a revenue and expense update.
  - Property Tax trending $300k below $18.4M budget.
  - Sales Tax trending $700k below $8.0M budget.
  - 1Q TOT trending 57% below prior 1Q period.
  - Department 1Q expenses trending at 25% of budget.

FY 2021 – 2022 BUDGET DEVELOPMENT NEXT STEPS

- February 8 Finance Commission Meeting
  - Present preliminary Mid-Year Budget assumptions.
  - Present updated revenue and expense projections since December.
  - Present preliminary 5-Year Forecast assumptions.
- February 16 Town Council Meeting
  - Present Mid-Year Budget and recommendations.
  - Present 5-Year Forecast

Financial Stewardship to Date

PENSION FUNDING

The Town authorized payment of the entire $4.5 million side fund liability associated with the Safety Plan. (June 2014)

Throughout the years the Town Council has set aside funds for Additional Discretionary Payments (ADPs) toward unfunded pension obligations.

- October 2019 the Town made a direct payment to CalPERS in the amount of $4.7 million toward the 2016 gain/loss amortization base. .

- July 2020 the Town made a direct payment to CalPERS in the amount of $3.6 million toward the 2015 gain/loss amortization base.

- Combined these payments achieve approximately $11.7 million in contribution savings.

PENSION FUNDING

The Town Council established a General Fund reserve policy for additional discretionary payments (ADPs) of $400,000 per year.

- The updated policy will achieve a 20-year amortization equivalence rather then the current CalPERS 30-year policy.
- The total savings associated with the 20-year equivalence methodology is approximately $13.8 million versus the amortization schedules for both plans.

Additional discretionary Pension funding allocated and programmed to date - $20,800,000

Estimated savings associated with additional discretionary payments - $25,500,000

OPEB FUNDING

The Town Council proactively initiated prefunding OPEB obligations beginning in 2009 rather than remaining on a pay as you go system.

- $400,000 initial contribution 2009
- $14,160,000 additional contributions through 12/31/2020
- $9,092,068 in investment earnings through 12/31/2020
- $23,560,833 in Total Asset as of 12/31/2020
- 9.27% money-weighted annualized net rate of return

OPEB FUNDING

The Town Council established a General Fund reserve for CalPERS/Other Post-Employment Benefits (OPEB) (May 2016).

Additional $300,000 funding annually when GF surpluses exist

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

The Town implemented the Public Employees' Pension Reform Act (PEPRA) for all new non-classic employees starting in 2013.

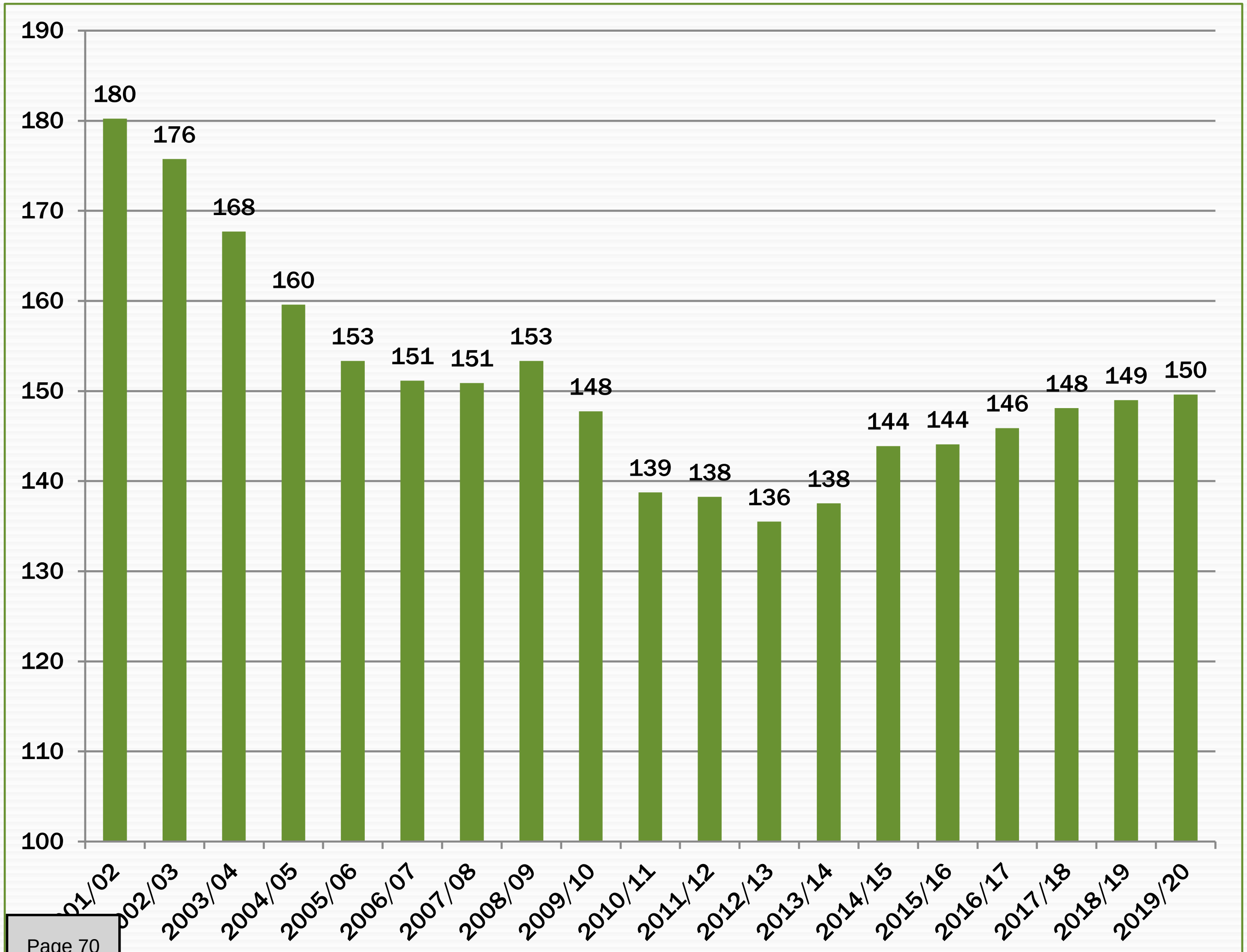
The Town introduced dependent cost sharing and a reimbursement cap to Medicare eligible employees starting in 2016.

The Town started participating in the CalPERS discounted prepayment option (July 1, 2015 for Safety Plan and from July 1, 2017 for both Safety and Miscellaneous Plans).

The Town's bargaining groups, and all unrepresented employees partnered to eliminate the Town's existing retiree healthcare benefit prospectively starting in 2018

EXPENDITURES

While the cost per employee has increased, lower total staffing levels have been maintained.



EXPENDITURES

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.

REVENUES

Reference Slides

Reference Slide for Item #2 Budget sub bullets

(A) The Finance Commission's comments and recommendations shall include a recommendation about whether the Town Council should approve or disapprove the proposed budget…

(B) The Town Manager must provide a proposed budget to the Finance Commission at least twenty (20) business days before the first meeting at which the proposed budget is considered by the Town Council.

FINANCE COMMISSION DUTIES SEC 2.50.225

Reference Slide for Item #3 CAFR sub bullets

(A) The Town Manager shall respond in writing to the Finance Commission providing his or her rationale for accepting or rejecting Finance Commission's comments…

(B) The Town Manager may not present the CAFR to the Town Council…unless or until…responds in writing to all of the Finance Commission's comments and recommendations.

FINANCE COMMISSION DUTIES SEC 2.50.225

Reference Slide for Item #4 the FTR

California Government Code section 53891 requires financial transactions of each local agency to be submitted to the State Controller's Office (SCO) within seven months after the close of the fiscal year. This state mandated report is referred to as the Cities "Financial Transactions Report" (FTR).

The FTR must contain underlying data from audited financial statements prepared in accordance with generally accepted accounting principles. The purpose of the FTR is to provide financial and statistical data about California cities on as uniform a basis as possible. Following the completion and publication of the CAFR, the underlying financial transactions included therein are translated into the format specified by the SCO and transmitted by the statutory annual deadline.

CALIFORNIA GOVERNMENT CODE

LOS GATOS TOWN CODE

Reference slide for item #5 Policies

Sec. 2.50.010. - Office of the Director of Finance established.

(c) The Director of Finance shall cause a summary of the Town's financial report required by Government Code section 53891, in a form prescribed by the State Controller, to be published in accordance with Government Code sections 40804 and 40805.

(f) The Director of Finance shall develop a financial policies and procedures manual.