

**From:** Phil Koen

**Sent:** Sunday, June 12, 2022 12:33 PM

**To:** Ron Dickel; Kyle Park; Matthew Hudes <MHudes@losgatosca.gov>; Rob Rennie <RRennie@losgatosca.gov>; Shelley Neis <sneis@losgatosca.gov>

**Cc:** Laurel Prevetti <LPrevetti@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>; Jak Van Nada; Rick Van Hoesen

**Subject:** Finance Commission Agenda Item #2 - Receive Budget Update

EXTERNAL SENDER

Dear Members of the Finance Commission,

### **Background**

Attached is the Staff memo (attachment #5 for agenda item #2) dated June 8, 2022, which provides an update on the administration of the \$7,229,744 ARPA funds. The memo states the first ARPA tranche of \$3,614,872 was received during FY 22 and another ARPA tranche of \$3,614,872 will be received during FY 23.

Of the first tranche, \$200,911 was recorded as FY 21 revenue in Special Revenue Fund (#241) and the remaining \$3,413,961 recorded as FY 22 revenue in Fund #241. The last tranche of \$3,614,872 will be recorded as FY 23 revenue in the same fund. Page A-15 of the April 18, 2022 Budget Letter states "ARPA proceeds are accounted in the special revenue fund and revenues are recognized as eligible expenses occurred".

The worksheet also shows that of all funds received in FY 21 and FY 22, \$1,611,837 will still be on hand as of June 30, 2022. **That means a total of \$2,003,035 of the first \$3,614,872 tranche has been spent.**

The proposed resolution approving commitments of fund balance under GASB 54 recommends establishing an assigned (we believe this should be it should be restricted) fund balance as of June 30, 2022, of \$1,611,837 to properly segment these funds in the General Fund Reserve. That implies that \$3,614,872 ARPA funds has been transferred from the Special Revenue Fund - #241 to the General Fund. That is the only way that the General Fund would now be able to now record an increase in General Fund balance of \$1,611,837 as of June 30, 2022. We would request that Staff confirm our understanding.

### **Questions To Be Answered**

The LGCA has questions regarding the administration of the ARPA funds that we are respectively requesting the Staff to provide answers. They are as follows:

1. Attached is Schedule C-14 from the FY 23 Operating Budget. This schedule shows total Town revenues by fund and includes all transfers in. Fund 241 – ARPA shows actual revenue of \$200,911 in FY 21 which corresponds to the ARPA worksheet. There is

another \$1,220,000 shown as estimated revenue in FY 22 and \$1,304,696 recorded as budgeted revenue in FY 23. These number do not agree with the ARPA worksheet which shows \$3,413,961 in actual FY 22 revenue (this money was received in July 2021) and \$3,614,872 in budgeted revenue in FY 23.

- Please explain the difference of \$2,193,961 (\$3,413,961 - \$1,220,000) in FY 22 revenue reported in the ARPA worksheet and schedule C-18. From the C-14 schedule it appears there is \$2,193,961 in unrecorded revenue for FY 22. We know this cannot be the case, but we have not been told how all funds received in FY 22 have been fully accounted. Please provide a complete explanation for the accounting for the \$3,413,961 revenue recognized in FY 22.
  - Please explain the proposed FY 23 budgeting for the second tranche of ARPA funds totaling \$3,614,872. There appears to be only \$1,304,696 in FY 23 revenue budgeted in Fund 241 leaving \$2,310,176 unaccounted. Please explain in what funds the \$3,614,872 in ARPA funds are budgeted to be received. We have also attached the schedule "Total Town Revenues and Expenditures by Fund" from the budget resolution. The initial proposed FY 23 budget also shows \$1,304,696 in ARPA funds as revenue in the Special Revenue Funds which is consistent with schedule C-14. How much of the \$3,614,872 budgeted to be received is being budgeted as revenue in the General Fund, Special Revenue Fund or other funds?
  - Please explain the budgeting process for \$2,900,000 in FY 23 ARPA receipts to be allocated to the GFAR as recommended by the Finance Commission.
2. The attached schedule's (Total Town Revenues and Expenditures by Fund) footnote 5 references \$2,571,053 of other fund uses. Please provide the detail of the one-time uses from each fund mentioned.

Lastly, we would again request Staff to provide the Finance Commission and the public **revised schedules C-8 through C-14 so everyone has complete visibility to the entire newly proposed budget rather than a one-line summary and the full magnitude of year over year change in ending fund balances is transparent.** Since these schedules are part of the final published budget, having the revised schedules available now for the Finance Commission to review at Monday's meeting is a reasonable request and is also good governance and will provide complete transparency.

Thank you.

Phil Koen



**TOWN OF LOS GATOS  
FINANCE COMMISSION**

MEETING DATE: 06/13/2022

Item 2.

DATE: June 8, 2022  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Receive Update on American Rescue Plan Act Administration

**RECOMMENDATION:**

Receive update on American Rescue Plan Act (ARPA) administration.

**BACKGROUND:**

In accordance with ARPA, the Town was awarded an ARPA grant in the amount of \$7,229,744 paid to the Town in two separate payments, the first payment of \$3,618,872 was received in early July 2021 and the second payment of \$3,614,872 is expected to be received in early July 2022.

Based on initial guidance of eligible uses of ARPA funds the Town allocated these funds to various purposes to respond and support the impacts of the pandemic on Town residents, non-profits, the business community including the construction of downtown parklets, non-profit fee and rent waivers, enhanced senior services, promenades, and increased funding for Town infrastructure capital improvements, among other initiatives.

Since receipt of ARPA funds staff has been following the evolution of the federal guidelines for the use of ARPA funding as well as regularly participating in ARPA focused webinars presented by the US Department of the Treasury (Treasury) staff and the ARPA sub-group sponsored by the Government Finance Officers Association. During the initial ARPA implementation period Treasury received a tremendous number of inquiries from ARPA grant recipients on how best to comply with the complex and evolving federal regulations and guidance for calculating pandemic related revenue loss and complying with federal uniform guidance on eligible uses of ARPA funds. Treasury responded to this demand by revising its initial requirements in their

**PREPARED BY:** Stephen Conway  
Finance Director

Reviewed by: Town Manager and Assistant Town Manager

PAGE 2 OF 3

SUBJECT: Receive Update on American Rescue Plan Act (ARPA) Administration

DATE: June 8, 2022

BACKGROUND (continued):

Final Interim Rule to allow certain non-entitlement units (NEUs) like the Town of Los Gatos a simplified procedure for claiming and reporting revenue loss. To be eligible for the simplified claiming procedures, the NEU must receive a total ARPA award of less than \$10 million.

DISCUSSION:

Upon Treasury's release of the simplified reporting process for entities awarded less than \$10 million in ARPA funding and additional guidance received through staff review of federal compliance issues, staff recommends that the Town recognize the \$3.4 M of FY 2021/22 and the anticipated \$3.6M FY 2022/23 cash collections of ARPA revenues as qualified revenue loss under the Treasury provisions for use in providing government services. To further aid in compliance with federal uniform guidance and Single Audit requirements, staff is intending to claim the lost revenue for use in providing essential government services and intends to account for the use of ARPA revenue loss revenues for eligible public safety payroll costs for both FY 2021/22 and FY 2022/23.

The recommended action as illustrated in the below worksheet will allocate all ARPA "replacement" revenues to the General Fund which in turn will unencumber other General Fund operating revenues which were previously dedicated for public safety costs. The newly unencumbered General Fund revenues can then be allocated to the ARPA pandemic responses as identified, approved and allocated by Town Council since receipt of the \$7.2 million ARPA award.

AMERICAN RESCUE PLAN ACT (ARPA) SUMMARY WORKSHEET				
	FY 2020/21	FY 2021/22	FY 2022/23	GRAND
		BUDGET ADJ.		
	ACTUALS	ACTUAL/ESTIMATED	ESTIMATED	TOTAL
ARPA FUNDS REVENUE RECOGNIZED	\$ 200,911	\$ 3,413,961	\$ 3,614,872	\$ 7,229,744
GOV SERVICES (WAIVERS,CUP&ADA,DIRECT GRANTS)	200,911			200,911
REVENUE LOSS -GOV SERVICES (PUBLIC SAFETY)		3,413,961	3,614,872	7,028,833
	\$ 200,911	\$ 3,413,961	\$ 3,614,872	\$ 7,229,744
GENERAL FUND ARPA REPLACEMENT REVENUES AVAILABLE	200,911	3,413,961	3,614,872	7,229,744
LESS APPROVED USES TO BE BUDGETED:				
PARKLETS (DOWNTOWN IMPVTS PROJECT)		680,000	250,000	930,000
RENT WAIVERS	121,255	341,452	283,756	746,463
CUP/ADA FEE WAIVERS	19,656	27,672	27,672	75,000
DESTINATION MARKETING		55,000		55,000
K-RAILS (DOWNTOWN IMPVTS PROJECT)		68,000		68,000
PROMENADES		80,000	120,000	200,000
DIRECT GRANTS	60,000	50,000		110,000
ENHANCED SENIOR SERVICES		500,000		500,000
CAPITAL IMPROVEMENT PROGRAM SUPPORT TRANSFERS			2,900,000	2,900,000
REQUIRED FOR GF BALANCING OF OPERATING REV_EXP	-		1,645,281	1,645,281
TOTAL ALLOCATIONS OF GENERAL FUND ARPA REPLACEMENT REVENUES	\$ 200,911	\$ 1,802,124	\$ 5,226,709	\$ 7,229,744
GENERAL FUND ARPA REPLACEMENT REVENUE UNCOMMITTED	\$ -	\$ 1,611,837	\$ (1,611,837)	\$ -

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SUBJECT: Receive Update on American Rescue Plan Act (ARPA) Administration

DATE: June 8, 2022

CONCLUSION:

The worksheet illustrates budget adjustments related to the necessary ARPA and General Fund revenue and expense adjustments and recaps the total ARPA grant award of \$7,229,744 and the Council directed uses approved or proposed through June 7, 2022. In addition, the worksheet provides the detail staff will use to adjust the ARPA and General Fund budgets to recognize the ARPA grant award for revenue loss to be used to reimburse public safety response. It will also be used to recognize and budget FY 2021/22 matching General Fund ARPA replacement revenues and expenditure budgets for use in supporting the ARPA objectives as approved/proposed and directed by Town Council since original receipt of the ARPA grant award.

# TOTAL TOWN REVENUES

## BY FUND

(Includes Transfers In)

Fund	Fund Name	2018/19 Actuals	2019/20 Actuals	2020/21 Actuals	2021/22 Adjusted	2021/22 Estimated	2022/23 Proposed	Change from PY
<b>General Fund</b>								
111	General Fund	\$ 52,602,148	\$ 46,255,285	\$ 48,311,347	\$ 48,711,416	\$ 46,460,461	\$ 48,378,548	-0.7%
<b>Special Revenue Funds</b>								
211	Housing Conservation Program	-	-	-	-	-	-	0.0%
212	Community Dev Block Grant	-	-	-	-	-	-	0.0%
222	Urban Run-Off Source Fund	716,352	241,323	299,478	231,323	231,323	359,950	55.6%
231	Blackwell Assessment District	3,389	3,389	3,336	3,210	3,210	3,210	0.0%
232	Kennedy Assessment District	10,912	10,926	10,768	10,605	10,605	10,605	0.0%
233	Gemini Assessment District	5,077	5,109	5,051	4,750	4,750	4,750	0.0%
234	Santa Rosa Assessment District	5,354	5,299	5,313	5,000	-	-	-100.0%
235	Vasona Assessment District	10,634	10,693	10,205	10,075	10,075	10,075	0.0%
236	Hillbrook Assessment District	6,272	6,187	6,310	6,040	6,040	6,040	0.0%
241	ARPA	-	-	200,911	1,220,000	1,220,000	1,304,696	6.9%
711	Library Trust	83,840	63,388	39,159	70,500	71,000	70,500	0.0%
713	Ness Bequest Trust	736	368	279	-	250	250	0.0%
714	Betty McClendon Trust	1,495	1,487	1,128	700	700	1,000	42.9%
716	Barbara J Cassin Trust	6,277	6,182	4,610	2,900	2,900	4,500	55.2%
<b>Internal Service Funds</b>								
611	Liability Self-Insurance	657,152	378,133	376,963	423,332	377,923	429,249	1.4%
612	Worker's Comp Self-Insurance	1,492,981	2,491,249	1,245,328	1,007,620	969,970	1,033,315	2.6%
621	Information Technology	1,223,741	881,936	973,254	914,018	940,839	714,309	-21.8%
622	Office Stores Fund	141,938	-	-	-	-	-	0.0%
631	Equipment Replacement	1,082,492	236,083	327,398	570,957	595,707	686,837	20.3%
632	Facilities Maintenance	764,407	-	-	-	-	-	0.0%
633	Vehicle Maintenance	1,787,255	1,080,686	1,214,024	1,181,297	1,181,621	1,262,247	6.9%
<b>Capital Projects Funds</b>								
411	GFAR	4,314,346	11,326,970	6,734,293	7,393,484	5,529,379	5,555,275	-24.9%
421	Grant Funded CIP Projects	257,968	396,335	342,973	7,922,549	1,136,360	5,437,041	-31.4%
461	Storm Drain #1	123,039	112,105	43,765	49,670	57,180	49,680	0.0%
462	Storm Drain #2	47,774	62,569	115,127	53,930	135,734	54,520	1.1%
463	Storm Drain #3	1,447	(1,955)	(868)	940	(765)	880	-6.4%
471	Traffic Mitigation	118,787	136,639	397,094	1,441,246	551,315	-	-100.0%
472	Construction Tax-Undergrounding	81,701	87,489	107,763	52,490	57,052	52,490	0.0%
481	Gas Tax	1,217,552	1,261,933	1,283,966	1,401,865	1,447,709	1,603,689	14.4%
<b>Successor Agency to the Los Gatos RDA Fund</b>								
942	SA - Recognized Obligation Retirement	3,910,206	3,898,503	3,871,912	3,912,200	4,009,952	3,799,926	-2.9%
<b>TOTAL Fund Rev &amp; Transfers In</b>		<b>\$ 70,675,272</b>	<b>\$ 68,958,311</b>	<b>\$ 65,930,887</b>	<b>\$ 76,602,117</b>	<b>\$ 65,011,290</b>	<b>\$ 70,833,582</b>	<b>-7.5%</b>

**TOTAL TOWN REVENUES AND EXPENDITURES BY FUND**

	2022/23 Proposed Budget	Estimated Budget Revision	2022/23 Recommended Budget
<b>REVENUES</b>			
General Fund	\$48,378,548	\$ 1,626,919 (1)	\$ 50,005,467
Special Revenue Funds	1,775,576	-	1,775,576
Internal Service Funds	4,125,957	-	4,125,957
Capital Project Funds (does not include carryforwards)	12,753,575	2,900,000 (2)	15,653,575
Successor Agency Funds	3,799,926	-	3,799,926
<b>TOTAL REVENUES</b>	<b>\$70,833,582</b>	<b>\$ 4,526,919</b>	<b>\$ 75,360,501</b>
<b>OTHER FUNDING SOURCES</b>			
Designated One-Time Use of General Fund Reserves	2,350,000	\$ 679,443	3,029,443 (3)
<b>TOTAL TOWN REVENUES &amp; OTHER FUNDING SOURCES</b>	<b>\$73,183,582</b>	<b>\$ 5,206,362</b>	<b>\$ 78,389,944</b>
<b>TOTAL TOWN EXPENDITURES, TRANSFERS OUT &amp; CARRYFORWARD APPROPRIATION</b>			
General Fund	\$50,338,548	\$ 2,306,362 (4)	\$ 52,644,910
Special Revenue Funds	1,705,178	12,246 (4)	1,717,424
Internal Service Funds	6,427,499	-	6,427,499
Capital Project Funds (does not include carryforwards)	13,081,287	2,900,000 (2)	15,981,287
Successor Agency Funds	3,799,752	125 (4)	3,799,877
<b>TOTAL TOWN EXPENDITURE &amp; OTHER FUNDING USES</b>	<b>\$75,352,264</b>	<b>\$ 5,218,733</b>	<b>\$ 80,570,997</b>
GENERAL FUND SOURCE(USE) OF FUND BALANCES	\$ 390,000		\$ 390,000
OTHER FUNDS SOURCE(USE) OF FUND BALANCES	(2,558,682)		(2,571,053) (5)
<b>TOTAL SOURCE(USE) OF FUND BALANCES</b>	<b>\$ (2,168,682)</b>	<b>\$ (12,371)</b>	<b>\$ (2,181,053)</b>

(1) Additional General Fund Revenues

\$902,579 OPEB Trust Reimbursement for Retiree Medical

\$624,340 Additional ARPA Proceeds for Revenue Replacement

\$100,000 Additional Business License Tax

(2) Additional Transfer to Capital Projects (GFAR)

\$2,900,000 General Fund Reimbursement Revenues (ARPA)

(3) Designated One-Time Use of the General Fund Reserves during FY 2022/23

\$2,350,000 - Transfer to Capital Projects (GFAR)

\$679,443 - Measure G Residual for Operation

(4) General fund Expenditures

\$2,318,733 - Increases to Negotiated Salary Increases

(5) Other Funds Source (Use) represents planned one-time uses of Internal Service Funds, Special Revenue Funds, Trust Funds, and Capital Project Funds primary for infrastructure and equipment investment.

Numbers may differ between exhibits due to rounding.

① ARPA

\$1,304,696

**EXHIBIT A**

**From:** Phil Koen

**Sent:** Monday, June 13, 2022 9:29 AM

**To:** Ron Dickel; Kyle Park; Matthew Hudes <MHudes@losgatosca.gov>; Rob Rennie <RRennie@losgatosca.gov>; Shelley Neis <sneis@losgatosca.gov>

**Cc:** Laurel Prevetti <LPrevetti@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>; Jak Van Nada; Lee Fagot; Catherine Somers <catherine@losgatoschamber.com>; Jim Foley

**Subject:** Agenda Item #2 - Resolution Approving Commitments to Fund Balance Under GASB 54

EXTERNAL SENDER

Dear Finance Committee Members,

The Los Gatos Community Alliance has additional questions regarding the draft resolution to Approve Commitments to Fund Balance under GASB 54. We have attached the resolution for ease of reference. We respectfully request answers to the following questions, so the public has full transparency and a better understanding of the proposed resolution.

1. Please explain why the proposed General Fund Reimbursement Revenue (ARPA) Reserve totaling \$1,611,837 is being proposed as an “assigned” reserve as opposed to a “restricted” or “committed” reserve. As discussed in the resolution, both a restricted and committed reserve require Town Council approval for use whereas an assigned reserve serves at the sole discretion of the Town Manager. Given the legal restrictions placed on the expenditure of ARPA funds and the importance of this one-time grant, it seems prudent to classify this proposed reserve as either a restricted or committed reserve under the sole control of the Town Council as opposed to an assigned reserve under the control of the Town Manager.
2. Please confirm that \$2,900,000 of ARPA General Fund Reimbursement Revenue “will transfer from Capital/Special Project Reserve”. If this is correct, please explain when \$2,900,000 of ARPA funds were received into the Capital/Special Project Reserve so they are now available for transfer out of the Capital/Special Project reserve?
3. In establishing the \$1,611,837 General Fund Reimbursement Revenue (ARPA) Reserve, the resolution states the purpose is to “collect the anticipated General Fund ARPA reimbursement proceeds **less** Council authorized use of these proceeds”. Please provide an analysis of the gross ARPA proceeds collected by the General Fund and the use of these proceeds during FY 22 which net to the \$1,611,837. Please disclose the revenue account and fund used to collect the ARPA proceeds during FY 22.
4. The schedule attached (reference Adjusted plan General Fund Balance) to the draft resolution shows a projected General Fund Reserves as of June 30, 2022, totaling \$23,444,667. We have also attached pages A-13 through A-15 from the FY 23 Operating Budget which discuss the General Fund Reserves. There are previously undisclosed material changes in the projected General Fund Reserve as of June 30, 2022, from what was projected in the FY 23 Operating Budget. We have captured the changes in the attached schedule labeled Comparison of Fund Balances. To frame the magnitude of the changes, if we add the newly created ARPA Reserve of \$1,611,837 to the \$22,917,098 General Fund Balance shown on A-13, the revised General Fund Balance as of June 30,



2022, would total \$24,528,935. However, the resolution schedule shows a projected fund balance of \$23,444,667 which is \$1,084,268 less than what would have been expected if there were no other changes. Please provide an explanation of the \$1,084,268 additional reduction from the projected General Fund Balance as presented in the resolution. Since these changes are FY 22 transactions, why are these changes being made now?

5. A quick review of the changes shows a material reduction in the projected Capital/Special Project reserve offset by increases in the Budget Stabilization and Catastrophic Reserves. Per Council policy changes in the Budget Stabilization and Catastrophic Reserves can only occur if there is a budget surplus for FY 22. Based on the increases, this implies there is a projected budget surplus of at least \$575,218 for FY 22. Could the Staff please provide an update on the projected budget surplus for FY 22.
6. The adjusted plan General Fund Balance schedule attached to the resolution shows \$1,611,837 as the balance of the General Fund Reimbursement Revenue (ARPA) reserve as of June 30, 2023. However, the ARPA Summary Worksheet schedule shows the entire reserve balance being used to balance the FY 23 operating budget which results in a zero balance as of June 30, 2023. Please confirm the estimated balance for the General Fund Reimbursement Revenue (ARPA) reserve as of June 30, 2023, is zero and not \$1,611,837. If this is correct, the projected ending general fund balance as of June 30, 2023, will be \$19,052,834.

Thank you for your assistance in getting these important questions answered. Before the Council votes on the proposed resolution, they and the public should have a complete understanding as to what is in the resolution.

Phil Koen  
Los Gatos Community Alliance

	Actual General Fund Reserves June 30, 2021	FY 2021/22 Budget, GF Reserve Policy, and this Resolution Approved Increase	FY 2021/22 Budget, GF Reserve Policy, and this Resolution Approved (Decrease)	Estimated General Fund Reserves June 30, 2022	FY 2022/23 Budget Resolution Approved Increase	FY 2022/23 Budget Resolution Approved (Decrease)	Estimated General Fund Reserves June 30, 2023
<b>Restricted Fund Balances</b>							
Pension	\$ -	\$ 690,000	\$ -	\$ 690,000	\$ 390,000	\$ -	\$ 1,080,000
<b>Committed Fund Balances</b>							
Budget Stabilization	5,460,485	\$ 531,081	-	5,991,566	-	-	5,991,566
Catastrophic	5,460,485	531,081	-	5,991,566	-	-	5,991,566
Pension/OPEB	300,000	-	(300,000)	-	-	-	-
<b>Assigned Fund Balances</b>							
Capital/Special Projects	6,965,356	329,258	(1,612,162)	5,682,452	-	(2,350,000)	3,332,452
Compensated Absences	1,649,917	-	-	1,649,917	-	-	1,649,917
Open Space	410,000	-	-	410,000	-	-	410,000
Sustainability	140,553	-	-	140,553	-	-	140,553
Market Fluctuations	438,333	-	-	438,333	-	-	438,333
Measure G District Sale Tax	1,730,490	-	(1,051,047)	679,443	-	(679,443)	-
Carryover Encumbrances	-	-	-	-	-	-	-
Surplus Property Revenue Reserve	1,200,000	-	(1,200,000)	-	-	-	-
GF Reimbursement Revenue (ARPA)	-	1,611,837	-	1,611,837	-	-	1,611,837
Rehab Loan Reserve (Nonspendable)	159,000	-	-	159,000	-	-	159,000

**PASSED AND ADOPTED** at a regular meeting of the Town Council of the Town of

Los Gatos held on the 7th day of June 2022 by the following vote:

COUNCIL MEMBERS:

AYES:

NAYS:

ABSENT:

ABSTAIN:

23,444,667

SIGNED:

MAYOR OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

DATE: \_\_\_\_\_

ATTEST:

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

DATE: \_\_\_\_\_

## RESOLUTION 2022-

### RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS APPROVING COMMITMENTS OF FUND BALANCE UNDER GASB 54

**WHEREAS**, the Governmental Accounting Standards Board (GASB) has issued its Statement No. 54, Fund Balance and Governmental Fund Type Definitions with the intent of improving financial reporting by providing fund balance categories that will be more easily understood and to improve the comparability of governmental fund financial statements; and

**WHEREAS**, GASB 54 provides that the Town Council of the Town of Los Gatos classify governmental fund balances as restricted, assigned, or committed fund balances; and

**WHEREAS** GASB 54 provides that restricted reserves are funds that are restricted for externally imposed constraints such as legal contracts or state law, assigned amounts are constrained by the Town's intent to use them for specific purposes, and committed amounts are dedicated for specific purposes under constraints and formal action taken by the Town Council and these committed amounts cannot be used for any other purposes unless the Town Council of the Town of Los Gatos removes or changes the specific use through the same formal action to establish the commitment; and

**WHEREAS**, there exists a Restricted General Fund Pension Reserve in the form of an IRS 115 Pension Trust; and

**WHEREAS**, there exists a balance of \$690,000 as of June 30, 2022 in the restricted Pension Reserve; and

**WHEREAS**, the Town Council of the Town of Los Gatos has established a General Fund Reserve Policy providing for minimum fund balance dollar target amounts for Budget Stabilization and Catastrophic Reserve fund balances and outlines policies and procedures for use and restoration of these balances; and

**WHEREAS**, there exists an assigned General Fund Compensated Absences Reserve allocated to fund 50% of all vested hours of sick leave, compensation, and vacation time with the actual reserve amount to be determined at the close of FY 2021/22; and

ATTACHMENT 2

**WHEREAS**, there exists an assigned Capital/Special Projects Reserve to fund key infrastructure and capital/special projects as identified in the Town's five-year Capital Improvement Plan, and/or other Council priorities; and

**WHEREAS**, there exists an assigned authorized Carry Forward Reserve for materials and services on approved purchase order and contracts which were issued but not finalized or fulfilled as of the end of the fiscal year but for which funds will be carried forward to the following fiscal year. Actual reserve balance will be established at the close of FY 2021/22; and

**WHEREAS**, in June 2016, the Town Council established the committed Pension/OPEB Reserve to provide funding toward pension and Other Post-Employment Benefits (OPEB) unfunded obligations by placing discretionary amounts to the reserve with formal Council action and transferring available year-end surpluses based on the General Fund Reserve Policy; and

**WHEREAS**, on November 6, 2018, the Town Council provided direction to establish an unassigned Surplus Property Revenue General Fund Reserve that any monies received from the sale of the property located on Winchester Boulevard and any monies received from the sale of future surplus property be placed in this reserve, and the provisions for the reserve specifically indicate that Council may, at its discretion, distribute those funds as it deems appropriate; and

**WHEREAS**, The Town Council established the assigned Sustainability Reserve in FY 2008/09 by closing the Solid Waste Management fund and placing the initial residual balance dedicated for conservation, recycling, and sustainability; and

**WHEREAS**, there exists an excess balance of \$140,553 as of June 30, 2022 in the assigned Sustainability Reserve; and

**WHEREAS**, there exists an assigned Market Fluctuation Reserve that represent fund balance amounts for unrealized investment gains that have been recorded as investment income in the financial statements in accordance with the requirements of GASB 31 in the amount of \$438,333, actual reserve balance will be established at the close of FY 2021/22; and

**WHEREAS**, there exists an assigned Measure G 2018 District Sales Tax Reserve to track receipt and use of the 1/8 cent district tax funds collected by the Town; and

**WHEREAS**, the Town Council has determined the use of Measure G accumulated and future proceeds to be 50% for operating expenditures and 50% for capital purposes; and

**WHEREAS**, the residual balance of \$679,443 that was set aside for operating purposes in FY 2020/21 and/or FY 2021/22 should be used for operating expenses in FY 2022/23; and

**WHEREAS**, the \$2,350,000 transfer from the Capital/Special Project Reserve to the General Fund Appropriated Reserve provides funding to the five-year capital plan; and

**WHEREAS**, \$2,900,000 of ARPA General Fund Reimbursement Revenue will transfer from the Capital/Special Project Reserve provides funding for capital project; and

**WHEREAS**, the Town Council established the assigned Open Space reserve in the FY 1998/99 to be used for the preservation of open space, connection of open space trails, the definition of the southern boundary of the Town with passive open space, and protection of unique natural features; and

**WHEREAS**, there exists an excess balance of \$410,000 as of June 30, 2022 in the assigned Open Space Reserve; and

**WHEREAS**, there exists a need for an assigned General Fund Reimbursement Revenue (ARPA) Reserve to collect the anticipated General Fund ARPA reimbursement proceeds less Council authorized use of these proceeds for pandemic response including economic recovery and business support, enhanced senior services, capital program augmentations, and other one-time uses, the estimated balance of which at June 30, 2022 balance is \$1,611,837, with the actual reserve balance being determined at the close of the FY 2021/22 fiscal year; and

**WHEREAS**, the General Fund Reimbursement Revenue (ARPA) Reserve is now established.

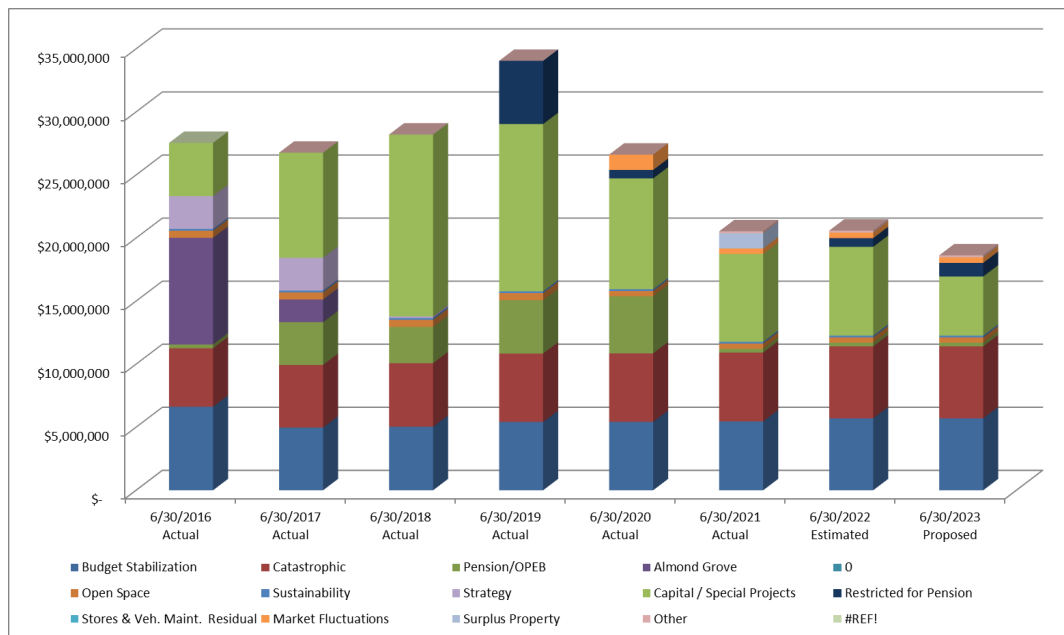
**NOW, THEREFORE, THE TOWN COUNCIL OF THE TOWN OF LOS GATOS DOES HEREBY RESOLVE** that the following estimated Pension, Budget Stabilization, Catastrophic, Pension/OPEB, Capital/Special Projects, Compensated Absences; Measure G District Sales Tax, Surplus Property Revenue, Market Fluctuations, Sustainability, Open Space, and ARPA Reserves as of June 30, 2022 and as of June 30, 2023 as restricted, assigned, unassigned or formally committed as follows:

Comparison of General Fund Balance	Revised Est General Fund Reserves	Schd A-13 General Fund Reserves	Change
General Fund Balance as of June 30, 2022			
Restricted for Pension	690,000	690,000	0
Committed to Budget Stabilization	5,991,566	5,703,957	287,609
Catastrophic	5,991,566	5,703,957	287,609
Pension/OPEB		300,000	(300,000)
Assigned to			
Open Space	410,000	410,000	0
Sustainability	140,553	140,553	0
Capital/Special Projects	5,682,452	7,041,938	(1,359,486)
Compensated Absences	1,649,917	1,649,917	0
Measure G Sales Tax	679,443	679,443	0
Market Fluctuations	438,333	438,333	0
Rehab Loan (nonspendable)	159,000	159,000	0
GF Reimbursement Revenue (ARPA)	1,611,837		1,611,837
Total General Fund Balance	23,444,667	22,917,098	527,569

## GENERAL FUND RESERVES

The total General Fund Reserves are forecasted at a balance of approximately \$20.9 million as of June 30, 2023. Additional information on the estimated FY 2021/22 and FY 2022/23 year-end General Fund balances can be found in the Financial Summaries section. As indicated in the chart on the next page, the General Fund reserves are decreasing from prior years due primarily to previous programmed payments toward the Town's unfunded pension/OPEB obligations and transfers to the CIP program. Past transfers to the CIP program include \$7.0 million (FY 2016/17), \$2.4 million (FY 2017/18), \$2.4 million (FY 2018/19), \$5.7 million (FY 2019/20), \$3.4 million (FY 2020/21), and \$2.8 million (FY 2021/22). The proposed transfer in FY 2022/23 is \$2.4 million. Pension/OPEB transfers of note include the \$4.5 million California Public Employees Retirement System (CalPERS) side-fund payoff in June 2014 and a \$4.8 million additional discretionary payment (ADP) in FY 2019/20. In FY 2020/21, additional ADPS of \$3.6 million and \$2.1 million were transferred in July and April, respectively.

\$10.5



General Fund Reserve	6/30/2016 Actual	6/30/2017 Actual	6/30/2018 Actual	6/30/2019 Actual	6/30/2020 Actual	6/30/2021 Actual	6/30/2022 Estimated	6/30/2023 Proposed
<b>Restricted for:</b>								
Pension				\$ 5,015,316	\$ 669,978	\$ -	\$ 690,000	\$ 1,080,000
<b>Committed to:</b>								
Budget Stabilization	\$ 6,621,808	\$ 4,969,847	\$ 5,037,243	\$ 5,419,222	\$ 5,427,603	\$ 5,460,485	\$ 5,703,957	\$ 5,703,957
Catastrophic	4,637,406	4,969,847	5,037,243	5,419,222	5,427,603	5,460,485	5,703,957	5,703,957
Pension/OPEB	300,000	3,388,913	2,878,913	4,232,500	4,532,500	300,000	300,000	300,000
Almond Grove	8,459,973	1,801,318	-	-	-	-	-	-
<b>Assigned to:</b>								
Open Space	562,000	562,000	562,000	562,000	410,000	410,000	410,000	410,000
Sustainability	140,553	140,553	140,553	140,553	140,553	140,553	140,553	140,553
Strategy	2,600,000	2,600,000	129,090	-	-	-	-	-
Capital / Special Projects	4,222,405	8,332,953	14,421,203	13,262,303	8,787,958	6,965,356	7,041,938	4,691,938
Authorized Carryforward	99,284	34,852	99,927	413,729	-	-	-	-
Compensated Absences		350,329	2,122,512	1,232,653	1,539,408	1,649,917	1,649,917	1,649,917
To Workers' Compensation				1,232,654				
Measure G District Sales Tax					1,181,162	1,730,490	679,443	679,443
Stores & Veh. Maint. Residual				1,040,375	-	-	-	-
Market Fluctuations					1,218,732	438,333	438,333	438,333
Surplus Property				-		1,200,000	-	-
Other						159,000	159,000	159,000
<b>Total General Fund Reserve</b>	<b>\$ 27,643,429</b>	<b>\$ 27,150,612</b>	<b>\$ 30,428,684</b>	<b>\$ 37,970,527</b>	<b>\$ 29,335,497</b>	<b>\$ 23,914,619</b>	<b>\$ 22,917,098</b>	<b>\$ 20,957,098</b>

### *Catastrophic and Budget Stabilization Reserves*

As per the Town's General Fund Reserve Policy and reaffirmed by Council, the Catastrophic and Budget Stabilization Reserves are to be maintained at combined minimum funding level of 25% of General Fund ongoing operating expenditures. The funding requirement is equally divided between the Catastrophic Reserve (12.5%) and the Budget Stabilization Reserve (12.5%). Fund balance in these reserves is used to fund future fluctuations in the economy due to catastrophic events and mitigating cyclical changes in locally generated revenues from temporary downturns in the local economy. Staff recommends transferring \$486,944 from available prior year-end savings to meet the required 25% funding level, or \$11.4 million total for FY 2022/23.

### *Pension/OPEB Reserve*

Committed fund balance in this reserve is used to fund pension and other post-employment benefits (OPEB) unfunded obligations. This reserve is primarily used to house additional discretionary payments budgeted for future allocation to CalPERS. The Town's Pension/OPEB Oversight Committee has determined that additional discretionary payments will be allocated directly to CalPERS.

With Council direction, upon the close of the fiscal year, the CalPERS/OPEB Reserve receives \$300,000 of the available year-end savings. In FY 2018/19, the Council modified the General Fund Reserve Policy to reduce the amortization period for prior pension amortization bases from 30 years to 20 years. Initial annual programming of \$390,000 was established subject to final adjustment based upon updated CalPERS actuarial valuations. The prior Council Finance Committee made recommendations for the allocation methodology for use of these funds for future Town Council/Oversight Committee consideration.

### *Capital/Special Projects*

With Council direction, upon the close of the fiscal year, the Capital/Special Projects Reserve receives the Town's annual revenues above operating expenditures after funding all legally restricted reserves at their required levels. Fund balance is assigned for the acquisition and construction of capital facilities or special projects as determined by the Town Council. In FY 2022/23, the amount being allocated to the Capital Improvement Program is \$2.4 million. It is anticipated the Reserve will have approximately \$4.1 million as of June 30, 2023.

### *Compensated Absences Reserve*

A reserve is maintained annually to fund 50% of all vested hours of vacation earnings. It is anticipated the reserve will have approximately \$1.6 million as of June 30, 2023.

### *Surplus Property Reserve*

A reserve established for placing the proceeds from surplus property sales until further Town Council reallocation. It is anticipated the reserve will have approximately \$0.0 million as of June 30, 2023.

### *Measure G District Sales Tax Reserve*

A reserve established tracking the receipt and the usage of the 1/8 cents District Tax funds collected by the Town. Pending Council direction on current unallocated reserve balance it is anticipated the reserve will have approximately \$0.0 million as of June 30, 2023.



### *Other*

The Town has several other smaller reserves that have been classified as other. These reserves include an authorized carryforward, open space reserve which may be used to make selective open space acquisitions, and a sustainability reserve which will be used to fund projects that enhance the community environment. Please refer to the Financial Summaries section (C-1) for additional information.

### *American Rescue Plan Act (ARPA)*

The ARPA proceeds are accounted in the special revenue fund and revenues are recognized as eligible expenses occurred.

## **KEY BUDGET ASSUMPTIONS**

### *Revenues*

The FY 2022/23 Budget incorporates the waning impacts of the COVID-19 pandemic and the subsequent economic disruption with the General Fund revenues (excluding debt payments, restricted pension trust activity, and fund transfers in) expected to increase by \$0.9 million to \$46.8 million (not including anticipated ARPA fund receipt) from prior year estimated revenues. Revenue projections for each category were based upon estimates provided to the Town by the Santa Clara County Assessor, the Town's sales tax consultant, and careful examination of revenue trends, patterns, and industry research.

The net increase from FY 2021/22 in overall revenues is mostly due to forecasted increases in some revenues such as property tax, sales tax, and transient occupancy tax. Licenses and permit revenues are expected to decrease in FY 2022/23 and then increase gradually over time. The sales tax projections include the voter approved one-eighth general purpose sales tax dedicated to the Town of Los Gatos. Revenue collection began in April 2019. Additional details regarding the assumptions used in the development of revenue estimates can be found in the Forecast Assumptions at the end of this section.

### *Expenditures - Staffing*

The proposed Budget includes minor adjustments to staffing.

	<b>FY 2021/22 Authorized/Funded Town Staff Position</b>	<b>FY 2022/23 Authorized/Funded Town Staff Position</b>
<b>Departments</b>		
Town Council	0.50	0.50
Town Attorney	2.13	2.13
Administrative Services	20.18	20.18
Community Development	20.20	20.20
Police Department	60.00	60.00
Parks & Public Works	34.75	36.75
Library	12.50	13.50
<b>Total Position</b>	<b>150.25</b>	<b>153.25</b>
All Hourly Employee Staff Converted to FTE's	11.09	11.46
	<b>161.34</b>	<b>164.71</b>