

From: Phil Koen

Sent: Thursday, June 09, 2022 7:53 PM

To: Ron Dickel; Kyle Park; Shelley Neis <sneis@losgatosca.gov>

Cc: Town Manager <Manager@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>; Jak Van Nada; Rick Van Hoesen; Rob Rennie <RRennie@losgatosca.gov>; Matthew Hudes <MHudes@losgatosca.gov>

Subject: Agenda Item # 1

EXTERNAL SENDER

Dear Chairman and Vice Chairman of the Finance Commission,

Attached is the LGCA letter of June 6 to the Mayor requesting specific information regarding the newly proposed FY 23 operating budget. I am again requesting schedules C-8 through C- 13 be updated and distributed to the public. Until this is done, it is impossible for the public to have a total and complete understanding of the proposed changes to the FY 23 operating budget and the ending fund balances as of June, 30 2023.

I would appreciate the Staff distributing these schedules as soon as possible.

Thank you,

Phil Koen

Sent from my iPhone

Begin forwarded message:

From: Phil Koen

Date: June 6, 2022 at 7:57:00 AM PDT

To: Rob Rennie <RRennie@losgatosca.gov>, Matthew Hudes <MHudes@losgatosca.gov>, Mary Badame <MBadame@losgatosca.gov>, mristow@losgatosca.gov, Marico Sayoc <MSayoc@losgatosca.gov>

Cc: Laurel Prevetti <LPrevetti@losgatosca.gov>, Arn Andrews <aandrews@losgatosca.gov>, Jak Van Nada; Rick Van Hoesen; David Weissman; Lee Fagot

Subject: Agenda Item #11

Dear Honorable Mayor and Member of Council

The Los Gatos Community Alliance is requesting that Agenda Item #11 be pulled from the consent calendar to allow for more discussion and increase public transparency.

Discussion Point 1

Schedules C-8 through C-13 (attached) present a detail view of all revenues and expenditures in the Town's FY 23 budget. These schedules present both a time trend view of revenues and expenditures as well as identifying for each year the net increase or decrease in fund balance. The Council Resolution adopting the operating budget references that the Town Manager submitted to the Finance Committee a "proposed" operating budget. The total budget now being proposed is materially different than the one considered by the Finance Committee. For example, the newly proposed FY 23 budget for total consolidated salary and benefit costs have

ATTACHMENT 6

increased to \$35,700,583 which **represents a 23% increase from FY 22 estimated levels (eg \$29,019,556)**. We believe a 23% increase in salary and benefit expense over prior year's estimate is important for the Council and residents of the Town be aware of, since this have never been previously disclosed.

Additionally, the new proposed budget includes the use of an additional \$625K in ARPA funds as well as approximately a \$1m draw down of OPEB Trust assets to partially fund FY 23 retiree medical costs. This was never disclosed prior to the Staff Memo of this Friday.

Request

1. Please update schedules C-8 through C-13 so the Town Council and the public have complete transparency regarding the detail revenues and expenditure proposed for FY 23 for the General Fund, Special Revenue Funds, Internal Service Funds, Capital Project Funds, Successor Agency RDA Fund and Total All Funds. Additionally, these schedules will also make transparent the net increase or decrease in the funds balance projected for FY 23. Based on our analysis the total decrease in the general fund balance will be approximately \$5,210,496 which is 15% higher than was reported to the Finance Commission.
2. The schedule of "Total Town Revenues and Expenditures by Fund" attached to the budget resolution is not sufficiently transparent to allow member of the public to understand the detail revenues and expenditures and ending fund balances now being proposed. The Town had to prepared schedules C-8 through C-13 to create the summary schedule attached to the budget resolution, so very little work should be required to update these schedules. These schedules should be disclosed prior to the Council taken any action on the FY 23 budget.

Discussion Point 2

Agenda Item 11 also includes a resolution to approve commitments of fund Balance under GASB 54. Among other actions, the proposed resolution establishes an "assigned" General Fund Reserve totaling \$1,611,837 for the "General Fund Reimbursement Revenue (ARPA) Reserve.

Request

1. Under GASB 54 we believe the ARPA Reserve should be a "restricted reserve" because it meets the definition of a restricted reserve and the use of ARPA funds are restricted in accordance with Federal Law. The designation of restricted vs. committed vs assigned fund balances are extremely important and need to be correctly applied. We respectively request that the ARPA fund reserve comply by GASB 54 and be designated as a "restricted" reserve.

Thank you

Phil Koen
LGCA

TOTAL TOWN
REVENUES AND EXPENDITURES

GENERAL FUND

	2018/19 Actuals	2019/20 Actuals	2020/21 Actuals	2021/22 Estimated	2022/23 Proposed
REVENUES					
Property Tax	\$ 13,636,099	\$ 14,454,513	\$ 15,826,162	\$ 15,684,964	\$ 16,551,544
VLF Backfill	3,685,247	3,875,914	4,052,672	4,229,462	4,356,350
Sales & Use Tax	7,930,021	6,535,034	6,794,218	7,497,873	7,934,189
Measure G - District Sales Tax	228,131	996,391	1,139,386	1,173,733	1,240,755
Franchise Fees	2,475,916	2,495,792	2,499,463	2,435,800	2,493,870
Transient Occupancy Tax	2,692,043	1,869,685	1,044,820	1,400,000	1,642,460
Other Taxes	1,526,894	1,357,080	1,386,943	1,250,000	1,287,500
Licenses & Permits	3,059,894	2,696,457	2,999,711	3,065,997	2,757,029
Intergovernmental	945,191	1,104,075	1,573,697	1,130,125	1,051,814
Town Services	4,648,904	4,447,213	4,835,962	4,259,099	4,235,261
Internal Srvc Reimbursement	-	-	-	-	-
Fines & Forfeitures	510,266	271,117	103,467	218,120	201,750
Interest	1,682,347	2,266,134	96,061	441,233	432,947
Other Sources	6,093,211	1,381,187	2,217,072	1,140,853	1,760,830
Debt Service Reimbursement	1,909,073	1,905,024	1,908,494	1,899,850	1,893,713
Transfers In	1,578,911	599,669	1,833,218	633,352	538,536
TOTAL REVENUES	\$ 52,602,148	\$ 46,255,285	\$ 48,311,346	\$ 46,460,461	\$ 48,378,548
EXPENDITURES					
Salaries & Benefits	\$ 26,803,225	\$ 28,933,568	\$ 30,297,504	\$ 28,866,098	\$ 33,227,942
Operating Expenditures	11,955,327	13,397,031	14,276,602	9,849,151	9,318,742
Grants & Awards	248,533	274,249	298,303	800,000	241,000
Fixed Assets	38,307	138,384	2,365	-	-
Interest	-	-	52,011	-	-
Internal Service Charges	2,527,470	2,188,211	2,314,305	2,619,672	2,650,173
Capital Projects	-	-	-	-	-
Capital Acquisitions	-	-	-	-	-
Debt Service	1,909,073	1,905,024	1,908,494	1,899,850	1,893,713
Transfers Out	2,785,220	8,053,847	4,582,641	3,423,211	3,006,978
TOTAL EXPENDITURES	\$ 46,267,155	\$ 54,890,314	\$ 53,732,225	\$ 47,457,982	\$ 50,338,548
Net Increase (Decrease)	6,334,993	(8,635,029)	(5,420,879)	(997,521)	(1,960,000)
Beginning Fund Balance	31,635,533	37,970,526	29,335,497	23,914,618	22,917,097
Ending Fund Balance*	\$ 37,970,526	\$ 29,335,497	\$ 23,914,618	\$ 22,917,097	\$ 20,957,097

* Year End Fund Balance represents General Fund 111 (Long Term Compensated Absences were accounted in Fund 961 prior to FY 2018/19, Pension Trust Fund 731 was incorporated in FY 2018/19).

TOTAL TOWN
REVENUES AND EXPENDITURES

SPECIAL REVENUE FUNDS

	2018/19	2019/20	2020/21	2021/22	2022/23
	Actuals	Actuals	Actuals	Estimated	Proposed
REVENUES					
Property Tax	\$ -	\$ 29	\$ 28	\$ -	\$ -
VLF Backfill	-	-	-	-	-
Sales & Use Tax	-	-	-	-	-
Measure G - District Sales Tax	-	-	-	-	-
Franchise Fees	-	-	-	-	-
Transient Occupancy Tax	-	-	-	-	-
Other Taxes	38,088	38,012	38,566	33,720	33,720
Licenses & Permits	236,451	231,323	231,323	231,323	359,950
Intergovernmental	-	-	200,911	1,220,000	1,304,696
Town Services	345,280	-	-	-	-
Internal Svc Reimbursement	-	-	-	-	-
Fines & Forfeitures	-	-	-	-	-
Interest	13,685	13,180	9,174	5,310	7,210
Other Sources	216,834	61,809	106,547	70,500	70,000
Debt Service Reimbursement	-	-	-	-	-
Transfers In	-	10,000	-	-	-
TOTAL REVENUES	\$ 850,338	\$ 354,353	\$ 586,549	\$ 1,560,853	\$ 1,775,576
EXPENDITURES					
Salaries & Benefits	\$ 143,545	\$ 134,311	\$ 135,625	\$ 151,804	\$ 152,207
Operating Expenditures	578,580	137,628	301,302	1,356,997	1,461,088
Grants & Awards	-	-	-	-	-
Fixed Assets	21,048	25,079	-	-	83,255
Interest	-	-	-	-	-
Internal Service Charges	2,410	3,019	3,229	3,494	3,709
Capital Projects	-	-	-	-	-
Capital Acquisitions	-	-	-	-	-
Debt Service	-	-	-	-	-
Transfers Out	4,920	4,920	4,920	4,920	4,920
TOTAL EXPENDITURES	\$ 750,503	\$ 304,957	\$ 445,076	\$ 1,517,215	\$ 1,705,179
Net Increase (Decrease)	99,835	49,396	141,473	43,638	70,397
Beginning Fund Balance	972,423	1,072,258	1,121,654	1,263,127	1,306,765
Ending Fund Balance	\$ 1,072,258	\$ 1,121,654	\$ 1,263,127	\$ 1,306,765	\$ 1,377,162

TOTAL TOWN
REVENUES AND EXPENDITURES

INTERNAL SERVICE FUNDS

	2018/19	2019/20	2020/21	2021/22	2022/23
	Actuals	Actuals	Actuals	Estimated	Proposed
REVENUES					
Property Tax	\$ -	\$ -	\$ -	\$ -	\$ -
VLF Backfill	-	-	-	-	-
Sales & Use Tax	-	-	-	-	-
Franchise Fees	-	-	-	-	-
Transient Occupancy Tax	-	-	-	-	-
Other Taxes	28,390	34,437	67,146	40,000	40,000
Licenses & Permits	-	-	-	-	-
Intergovernmental	-	-	-	261,382	283,755
Town Services	148,284	115,314	147,121	115,000	85,000
Internal Srvc Reimbursement	3,529,840	3,094,669	3,235,094	3,480,926	3,687,202
Fines & Forfeitures	-	-	-	-	-
Interest	8	7	5	-	-
Other Sources	2,993,443	762,404	654,601	166,965	30,000
CIP Proj Reimbursement	-	-	-	-	-
Transfers In	450,000	1,061,256	33,000	1,787	-
TOTAL REVENUES	\$ 7,149,965	\$ 5,068,087	\$ 4,136,967	\$ 4,066,060	\$ 4,125,957
EXPENDITURES					
Salaries & Benefits	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Expenditures	3,544,783	3,779,285	3,803,452	4,841,564	4,915,264
Grants & Awards	-	-	-	-	-
Fixed Assets	601,961	644,366	307,272	729,416	812,235
Interest	-	-	-	-	-
Internal Service Charges	-	-	-	-	-
Capital Projects	-	-	-	-	-
Capital Acquisitions	-	-	-	-	-
Debt Service	-	-	-	-	-
Transfers Out	1,390,375	1,367,797	146,520	94,816	700,000
TOTAL EXPENDITURES	\$ 5,537,119	\$ 5,791,448	\$ 4,257,244	\$ 5,665,796	\$ 6,427,499
Net Increase (Decrease)	1,612,846	(723,361)	(120,277)	(1,599,736)	(2,301,542)
Beginning Fund Balance	6,841,594	8,454,440	7,731,079	7,610,802	6,011,066
Ending Fund Balance	\$ 8,454,440	\$ 7,731,079	\$ 7,610,802	\$ 6,011,066	\$ 3,709,524

TOTAL TOWN
REVENUES AND EXPENDITURES

CAPITAL PROJECT FUNDS

	2018/19 Actuals	2019/20 Actuals	2020/21 Actuals	2021/22 Estimated	2022/23 Proposed
REVENUES					
Property Tax	\$ -	\$ -	\$ -	\$ -	\$ -
VLF Backfill	-	-	-	-	-
Sales & Use Tax	-	-	-	-	-
Franchise Fees	-	-	-	-	-
Transient Occupancy Tax	-	-	-	-	-
Other Taxes	28,390	34,437	67,146	34,562	30,000
Licenses & Permits	844,064	1,153,364	1,340,530	764,465	1,074,300
Intergovernmental	1,641,511	3,161,010	1,818,494	3,153,295	7,789,892
Town Services	52,094	223,318	34,417	306,210	-
Internal Srvs Reimbursement	-	-	-	-	-
Fines & Forfeitures	-	-	-	-	-
Interest	127,251	158,756	122,705	35,801	36,405
Other Sources	784,085	325,607	2,239,342	1,198,207	116,000
CIP Proj Reimbursement	-	-	-	-	-
SCC RPTTF Reimbursement	-	-	-	-	-
Transfers In	2,685,220	8,325,591	3,401,479	3,421,424	3,706,978
TOTAL REVENUES	\$ 6,162,615	\$ 13,382,083	\$ 9,024,113	\$ 8,913,964	\$ 12,753,575
EXPENDITURES					
Salaries & Benefits	\$ -	\$ -	\$ 31,085	\$ -	\$ -
Operating Expenditures	-	-	496	-	-
Grants & Awards	-	-	-	-	-
Fixed Assets	-	-	-	-	-
Interest	-	-	-	-	-
Internal Service Charges	-	-	-	-	-
Capital Projects	8,987,510	7,907,339	5,833,758	11,847,615	12,547,670
Capital Acquisitions	-	-	-	-	-
Debt Service	-	-	-	-	-
Transfers Out	533,616	569,952	533,616	533,616	533,616
TOTAL EXPENDITURES	\$ 9,521,126	\$ 8,477,291	\$ 6,398,955	\$ 12,381,231	\$ 13,081,286
Net Increase (Decrease)	(3,358,511)	4,904,792	2,625,158	(3,467,267)	(327,711)
Beginning Fund Balance	18,488,574	15,130,063	20,034,855	22,660,013	19,192,746
Ending Fund Balance	\$ 15,130,063	\$ 20,034,855	\$ 22,660,013	\$ 19,192,746	\$ 18,865,035

TOTAL TOWN
REVENUES AND EXPENDITURES

SUCCESSOR AGENCY TO THE TOWN OF LOS GATOS RDA

	2018/19 Actuals	2019/20 Actuals	2020/21 Actuals	2021/22 Estimated	2022/23 Proposed
REVENUES					
Property Tax	\$ -	\$ -	\$ -	\$ -	\$ -
VLF Backfill	-	-	-	-	-
Sales & Use Tax	-	-	-	-	-
Franchise Fees	-	-	-	-	-
Transient Occupancy Tax	-	-	-	-	-
Other Taxes	-	-	-	-	-
Licenses & Permits	-	-	-	-	-
Intergovernmental	1,945,763	1,949,284	1,946,787	2,006,602	1,902,713
Town Services	-	-	-	-	-
Internal Srvc Reimbursement	-	-	-	-	-
Fines & Forfeitures	-	-	-	-	-
Interest	43,706	32,531	4,967	3,500	3,500
Other Sources	11,664	11,664	11,664	-	-
CIP Proj Reimbursement	1,909,073	1,905,024	1,908,494	1,999,850	1,893,713
SCC RPTTF Reimbursement	-	-	-	-	-
Transfers In	-	-	-	-	-
TOTAL REVENUES	\$ 3,910,206	\$ 3,898,503	\$ 3,871,912	\$ 4,009,952	\$ 3,799,926
EXPENDITURES					
Salaries & Benefits	\$ 1,555	\$ 1,654	\$ 1,674	\$ 1,654	\$ 1,701
Operating Expenditures	111,712	110,337	106,788	9,820	10,020
Grants & Awards	-	-	-	-	-
Fixed Assets	-	-	-	-	-
Interest	823,734	888,703	964,610	1,300,000	1,355,000
Internal Service Charges	9	5	5	5	5
Capital Projects	-	-	-	-	-
Capital Acquisitions	-	-	-	-	-
Debt Service	2,936,788	2,862,783	2,792,688	2,499,700	2,433,026
Transfers Out	-	-	-	-	-
TOTAL EXPENDITURES	\$ 3,873,798	\$ 3,863,482	\$ 3,865,765	\$ 3,811,179	\$ 3,799,752
Net Increase (Decrease)	36,408	35,021	6,147	198,773	174
Beginning Fund Balance	3,803,779	3,840,187	3,875,208	3,881,355	4,080,128
Ending Fund Balance	\$ 3,840,187	\$ 3,875,208	\$ 3,881,355	\$ 4,080,128	\$ 4,080,302

TOTAL TOWN
REVENUES AND EXPENDITURES

TOTAL ALL FUNDS

	2018/19	2019/20	2020/21	2021/22	2022/23
	Actuals	Actuals	Actuals	Estimated	Proposed
REVENUES					
Property Tax	\$ 13,636,099	\$ 14,454,542	\$ 15,826,190	\$ 15,684,964	\$ 16,551,544
VLF Backfill	3,685,247	3,875,914	4,052,672	4,229,462	4,356,350
Sales & Use Tax	7,930,021	6,535,034	6,794,218	7,497,873	7,934,189
Measure G - District Sales Tax	228,131	996,391	1,139,386	1,173,733	1,240,755
Franchise Fees	2,475,916	2,495,792	2,499,463	2,435,800	2,493,870
Transient Occupancy Tax	2,692,043	1,869,685	1,044,820	1,400,000	1,642,460
Other Taxes	1,621,762	1,463,966	1,559,801	1,358,282	1,391,220
Licenses & Permits	4,140,409	4,081,144	4,571,564	4,061,785	4,191,279
Intergovernmental	4,532,465	6,214,369	5,539,889	7,771,404	12,332,870
Town Services	5,194,562	4,785,845	5,017,500	4,680,309	4,320,261
Internal Srvs Reimbursement	3,529,840	3,094,669	3,235,094	3,480,926	3,687,202
Fines & Forfeitures	510,266	271,117	103,467	218,120	201,750
Interest	1,866,997	2,470,608	232,912	485,844	480,062
Other Sources	10,099,237	2,542,671	5,229,226	2,576,525	1,976,830
CIP Proj Reimbursement	3,818,146	3,810,048	3,816,988	3,899,700	3,787,426
SCC RPTTF Reimbursement	-	-	-	-	-
Transfers In	4,714,131	9,996,516	5,267,697	4,056,563	4,245,514
TOTAL REVENUES	\$ 70,675,272	\$ 68,958,311	\$ 65,930,887	\$ 65,011,290	\$ 70,833,582
EXPENDITURES					
Salaries & Benefits	\$ 26,948,325	\$ 29,069,533	\$ 30,465,888	\$ 29,019,556	\$ 33,381,850
Operating Expenditures	16,190,402	17,424,281	18,488,640	16,057,532	15,705,114
Grants & Awards	248,533	274,249	298,303	800,000	241,000
Fixed Assets	661,316	807,829	309,637	729,416	895,490
Interest	823,734	888,703	1,016,621	1,300,000	1,355,000
Internal Service Charges	2,529,889	2,191,235	2,317,539	2,623,171	2,653,887
Capital Projects	8,987,510	7,907,339	5,833,758	11,847,615	12,547,670
Capital Acquisitions	-	-	-	-	-
Debt Service	4,845,861	4,767,807	4,701,182	4,399,550	4,326,739
Transfers Out	4,714,131	9,996,516	5,267,697	4,056,563	4,245,514
TOTAL EXPENDITURES	\$ 65,949,701	\$ 73,327,492	\$ 68,699,265	\$ 70,833,403	\$ 75,352,264
Net Increase (Decrease)	4,725,571	(4,369,181)	(2,768,378)	(5,822,113)	(4,518,682)
Beginning Fund Balance	61,741,905	66,467,476	62,098,295	59,329,917	53,507,804
Ending Fund Balance	\$ 66,467,476	\$ 62,098,295	\$ 59,329,917	\$ 53,507,804	\$ 48,989,122

Note: Expenditures and Transfers Out may exceed Revenues due to the inclusion of planned and carry-forward capital projects and payments from General Fund reserves to the Town Pension and OPEB Trusts.

From: Phil Koen

Sent: Friday, June 10, 2022 8:48 AM

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

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

Subject: FY 23 Budget Structural Deficit Analysis - Agenda Item #2

EXTERNAL SENDER

Dear Members of the Finance Commission,

Attached please find the Los Gatos Community Alliance's attempt to compute the General Fund recurring structural deficit imbedded in the newly proposed FY 23 Operating Budget. A worksheet is attached that reflects how the deficit is computed. We have relied on the information provided by Staff in the meeting agenda package and previous budget packages. In advance, we apologize if there are any errors in the analysis. We have done our best to prepare an impartial and accurate analysis for the Finance Commission's consideration.

In summary, the proposed \$2.3m increase in General Fund salary and benefit expense, without any additional recurring revenues to fund this increase, has increased the total FY 23 General Fund recurring structural deficit to \$3.9m. This is an increase of 130% over the previously proposed General Fund operating budget. This is an alarming increase and will create additional financial stress for the Town going forward.

Furthermore, it is very discouraging that the magnitude of the recurring structural deficit has never been disclosed. This lack of transparency is unacceptable and needs to be addressed at a very fundamental level. LGCA cannot over emphasize the fundamental financial challenge the Town is facing given the magnitude of the recurring structural deficit. The Town simply cannot continue to rely on one time funding sources, such as ARPA funds, to fund recurring operating expenses for the Town. Furthermore, the Town cannot continue to increase recurring expenditures without identifying recurring funding sources to pay for these expenditures.

Unless the Town Council and the public is fully informed of the reality facing us, it will be impossible to develop sensible solutions. This is a call for action and not a criticism.

If there are any questions on the attached, please let us know and we will reply to the best of our knowledge.

Thank you.

Phil Koen

Los Gatos Community Alliance

Structural Deficit Analysis - General Fund FY 23 Operating Budget

General Fund	FY 22/23 Proposed Budget	FY 22/23 Recommended Budget	Change
Total Revenues	48,378,548	50,005,467	1,626,919
Less: Non-recurring revenues			
>>Debt Service Reimbursement	1,893,713	1,893,713	
>>OPEB Trust Reimbursements	0	902,579	
>>ARPA Proceeds	1,702,369	2,326,709	
>> Measure G Sales Tax - GFAR (1)	656,978	656,978	
Recurring Revenues	44,782,466	44,882,466	100,000
 Total Expenditures, Transfers out	 50,338,548	 52,644,910	 2,306,362
Less: Non-recurring expenditures			
>>Debt Service	1,893,713	1,893,713	
>>Transfers out	3,006,978	3,006,978	
Recurring Expenses	45,437,857	47,744,219	
 Structural Operating Surplus/(Deficit)	 (655,391)	 (2,861,753)	 (2,206,362)
 Plus: Normalized GAFR Transfer out (2)	 1,000,000	 1,000,000	
 Total Structural Deficit	 (1,655,391)	 (3,861,753)	 (2,206,362)

Notes

1. \$656,978 of Measure G Sales Tax is being deducted from revenues since Town Council has agreed to have a portion of these revenues dedicated to the GFAR. Schedule B-10 of the FY 23 CIP Budget shows \$656,978 as an operating transfer in from Measure G Sales Tax and therefore should be deducted from Total Revenues to reflect net revenue available for operating expenses

2. Normalized GAFR Transfer Out from the General Fund to the GFAR is assumed to be \$1,000,000 per year. This transfer amount in addition to the \$2.5m of other sources of revenue directly received by the GFAR will provide an estimated \$3.5m per year in dedicated GFAR funding.