



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 02/08/2021

ITEM NO: 3

DESK ITEM

DATE: February 8, 2021
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Provide Advice to the Town Council Regarding Mid-Year Budget Options and Five-Year Forecast Scenarios

REMARKS:

Attachment 5 contains public comment received between 11:00 a.m. on February 5, 2021 and 11:01 a.m. on February 8, 2021.

A member of the public provided a communication to the Finance Commission (distributed as an Addendum on February 5, 2021) regarding the growth in net governmental expenses between FY 2014/15 and FY 2019/20, noting an 86% total increase from FY 2014/15 to FY 2019/20. In addition, the resident noted a lack of dedicated revenue sources for future capital project funding and had questions on the restricted pension trust activities. A Commission member subsequently asked if staff could provide a high-level response.

Staff response:

- To arrive at an 86% increase in Net Governmental Expenses, the resident selected FY 2014/15 as the base year. The resident selected a year when the Town recorded \$16.5M in program revenues versus 2020 when the Town recorded \$15.0M in program revenues. Base year selection is important in that the Statement of Activities presents program expense less program revenues. The higher the program revenues in a given year, the lower the net program expenses which also means lower net governmental expenses. Program revenues are increased in years when the Town receives substantial grants and/or donations on the capital side of the ledger, so program revenues vary by this key factor from year to year. The beginning base year selected was a year where there were an additional \$1.5M in program revenues than shown in 2020 (FY 14/15 had substantial grant revenues and \$450K in new library project donations), the result is to indicate a "growth" in

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Assistant Town Manager

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

REMARKS (continued):

net governmental expenses that includes the \$1.5M gap between program revenues received in 2015 versus 2020 and thus impacting the percent growth of net governmental expenses from FY 2014/15 to the end of FY 2019/20.

- It is difficult to compare the growth of net governmental expenses due to the variability of program revenues received each fiscal year; therefore, it might be more relevant to compare the General Fund 2014/15 Adopted Operating Budget to the FY 2019/20 Adopted Operating Budget for a true percentage increase as shown below:

General Fund Adopted Expenditure Budget Comparison FY 2014/15 to FY 2019/20

	FY 2014/15	FY 2019/20	Increase(Decrease)
Total Adopted Budget	\$ 43,493,413	\$ 52,914,515	\$ 9,421,102
Less GFAR capital transfers	(6,991,491)	(6,681,884)	309,607
Less "one-time" capital transfers to Workers Comp Internal Service Fund		(1,061,256)	(1,061,256)
Less "one-time" capital transfers to Non-Point Source Fund		(100,000)	(100,000)
Less "one-time" capital transfers to Successor Agency RDA Housing	(50,200)		50,200
Net Operating General Fund Budget	\$ 36,451,722	\$ 45,071,375	\$ 8,619,653
Net General Fund Operating Expenditure Budget Growth Over 5 FY's			\$ 8,619,653
% Total Growth over 5 Years			23.65%
% Average Annual Growth FY 2014/15 to FY 2019/20			4.73%

- The resident's observations on the lack of dedicated capital funding are correct and have been well documented in the Town's Capital Improvement Plan (CIP) budget each year. Each year, the CIP notes that the Town continues to be challenged to find an ongoing reliable revenue to fund Town infrastructure projects and that this challenge remains a top priority. In addition, during discussions of the Measure G Sales Tax in 2018, staff documented over \$70 Million in unmet infrastructure needs for projects, such as pothole, street, and road repair.
- The resident had questions on the restricted pension trust activities. Staff's mid-year analysis focused on operating revenues and expenditures and did not include the revenues that relate to the restricted pension trust. The funds available either in the restricted pension fund or in the General Fund Pension/OPEB reserve are likely either to be sent directly to CalPERS or remain in the restricted asset account at the end of the current fiscal year pursuant to future Council action.

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SUBJECT: Mid-Year Budget and Five-Year Forecast

DATE: February 8, 2021

Attachments Previously Received with the Staff Report:

1. 2021-2023 Strategic Priorities
2. UCLA Anderson Forecast – December 2020 Economic Forecast
3. Capital Improvement Plan Project Matrix

Attachment Previously Received with the Addendum:

4. Public Comment received after publishing the Staff Report and before 11:01 a.m. on February 5, 2021

Attachment Received with this Desk Item:

5. Public Comment received between 11:00 a.m. on February 5, 2021 and 11:01 a.m. on February 8, 2021