



**TOWN OF LOS GATOS**  
**FINANCE COMMISSION REPORT**

MEETING DATE: 02/08/2021

ITEM NO: 3

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DATE: February 1, 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

**RECOMMENDATION:**

Provide advice to the Town Council regarding Mid-Year Budget options and Five-Year Forecast scenarios.

**BACKGROUND:**

The purposes of the Mid-Year Report are to provide the Town Council with a status of the adopted Fiscal Year 2020/21 Operating Budget after the first six months and to make any adjustments to ensure the continuity of municipal services and operations for the remainder of the fiscal year. The Report is one of several periodic updates to the Town Council on the status of the current year's revenues and expenditures and the projected financial condition of all Town funds compared with the Adopted Operating Budget. The updates typically focus on the Town's General Fund.

Similar to prior years, the Five-Year Forecast serves as the foundation of the budget planning process. The Forecast includes updates to Town revenues and expenditures with the first year of the Forecast's revenue estimates being the most critical in the process as they ultimately define the expenditure limitations for the upcoming budget year.

The revenue assumptions are informed by the County Tax Assessor, the Town's sales tax consultant, and direct communication with the Town's hospitality industry. The revenue projections further refine the Town's planning for current and future expenditures based on future projections. The preliminary assumptions are used to forecast the Town's fiscal capacity and provide the financial framework within which the proposed Department service levels must be developed. They also serve as the basis to test the potential impacts of proposed policy and

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ASSISTANT TOWN MANAGER

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

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BACKGROUND (continued):

operational modifications based upon the Town Council's most recently adopted Strategic Priorities.

On January 26, 2021, the Town Council determined the Strategic Priorities for 2021-2023, providing guidance to Town staff and Commissions on workload prioritization. The Town Council reaffirmed its Core Goals, including: Community Character, Good Governance, Fiscal Stability, Quality Public Infrastructure, Civic Enrichment, and Public Safety. Even with the significant budgetary challenges associated with the pandemic, many of Council's primary goals and priorities will continue to be programed in the FY 2021-22 Operating and Capital Budgets. Specifically, the Council emphasized wildfire safety; senior services; diversity, equity, and inclusion; sustainability; implementing parking study recommendations, and exploring increased revenue options (see Attachment 1).

The Finance Commission is being provided an opportunity to provide its advice to the Town Council on elements of the Mid-Year Budget and Five-Year Forecast. To facilitate the Commission's review, the Report is organized in a manner that provides context for the revenues for the current fiscal year 2020/21 as well as projections for five years. Scenarios are provided for the five-year projections to explore the sensitivity of the revenues with different assumptions. The report also provides a status of mid-year expenditures with options for the Town to address revenue shortfalls. The Commission may provide its advice on the preferred scenarios for the Five-Year Forecast and preferred option(s) for addressing the FY 2020/21 Mid-Year anticipated revenue shortfall.

DISCUSSION:Overview of FY 2020/21 Budget Development

As we consider the Mid-Year Budget and Five-Year Forecast, it is helpful to provide context on the development of the Forecast that informed the current adopted FY 2020/2021 Operating Budget. On January 21, 2020, the Town Council received the initial Five-Year Forecast which became the basis of Strategic Priority planning and budgetary considerations. The development of that original forecast did not anticipate the unforeseen economic impacts associated with the local, national, and global effects of COVID-19.

Original 5 Year Forecast "Base Case"	2020/21 Forecast (\$M)	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)
Original Surplus/Deficit	\$0.5	\$1.7	\$1.6	\$2.3	\$3.1

DISCUSSION (continued):

On May 19, 2020, staff presented an updated Five-Year Forecast and the Proposed Operating Budget which included significant revisions to growth projections for the Town's primary revenues of property tax, sales tax, and transient occupancy tax (TOT). The revised revenue projections were made in close consultation with the Santa Clara County Assessor, Town sales tax consultant MuniServices, and a review of national and regional hospitality research. 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 and an additional \$2.6 million revenue reduction in FY 2021/22 relative to the base case projection.

Net Changes in Revenues to Base Case	2020/21 Forecast (\$M)	2021/22 Forecast (\$M)
Sales Tax COVID-19 Scenario	(\$0.98)	(\$1.02)
TOT Shock Scenario	(\$0.4)	(\$0.1)
Property Tax Slow/No Growth Scenario	(\$0.4)	(\$1.5)
Totals	(\$1.78)	(\$2.62)

In addition to reassessing revenue growth, the proposed Five-Year Forecast anticipated increases in the Town's pension obligations. Given volatility in financial markets at the time, it was anticipated that CalPERS would not achieve its assumed investment rate of return of 7% in FY 2019/20. Staff assumed a 0% return for the updated Forecast. The combined effects of changing these budget assumptions in conjunction with others is illustrated in the following updated Five-year Forecast.

COVID-19 Scenario	2020/21 Forecast (\$M)	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)
Surplus/Deficit	\$0.0	\$0.0	(\$0.6)	(\$0.1)	(\$0.7)

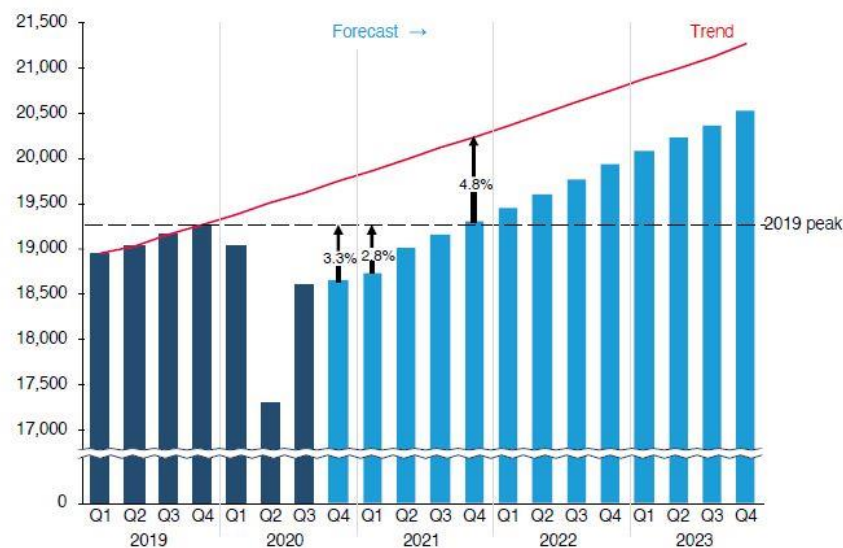
The total Five-Year Forecast revisions resulted in an initial estimate of \$9.2 million in total surpluses through FY 2024/25 ultimately becoming \$1.4 million in deficits through FY 2024/25, for a total Forecast period reduction of \$10.6 million.

DISCUSSION (continued):National and Local Economic Backdrop

The UCLA Anderson School of Business publishes an annual economic forecast for the nation and California. The results of the forecast are utilized as a portion of the macroeconomic basis of the Five-Year Forecast development. The December 2020 report establishes data for a 2020-2023 forecast period (see Attachment 2).

Because of rising COVID infections and continued social distancing, the UCLA Anderson Forecast is projecting slower growth in real Gross Domestic Product (GDP) for Quarter (Q) 4 2020 and Q1 2021, of 1.2% and 1.8% seasonally adjusted annual rate (SAAR), respectively. According to its Forecast, this would leave the economy 3.3% and 2.8%, respectively, below its peak in Q4 2019. With the introduction of mass vaccinations, the forecast assumes robust growth in Q2 2021 of 6.0% SAAR, and then consistent growth above 3% well into 2023. The UCLA Anderson Forecast is expecting the economy to reach its previous peak by the end of 2021. It is important to note that even with growth accelerating in Q2 2021, this still leaves GDP 4.8% below the trend of where the economy likely would have been without the COVID shock (UCLA Forecast, Attachment 2 Exhibit 2).

Exhibit 2 Real GDP levels and trends, \$ Billions SAAR



Source: U.S. Department of Commerce, Bureau of Economic Analysis and UCLA Anderson Forecast

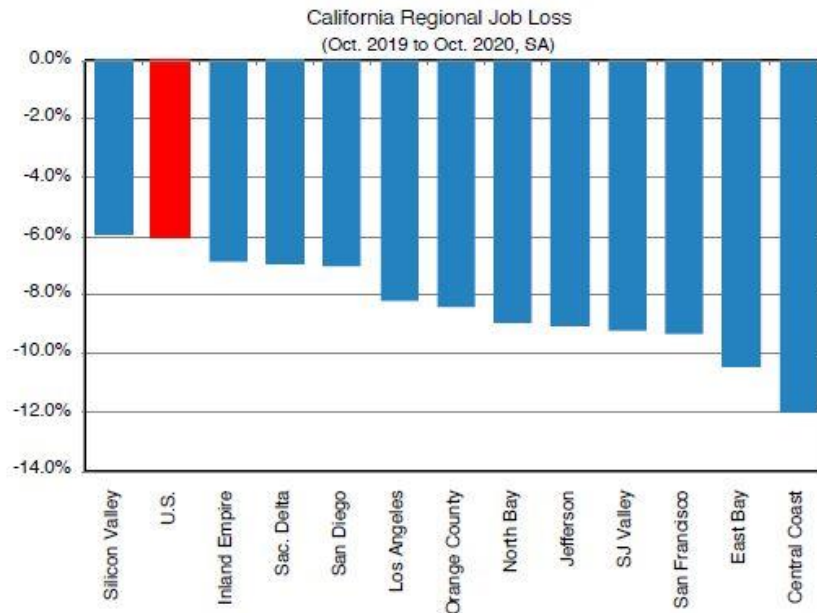
Notes: Real GDP growth rate, seasonally adjusted annual rate.

The Report notes that for California, the impacts of the COVID led recession and subsequent job losses have not been equally distributed throughout the State. Regionally, areas less exposed to losses in tourism and with greater adaptability to remote work have been less impacted. As

DISCUSSION (continued):

the Forecast chart below illustrates, Silicon Valley had the lowest regional job losses in the State.

California Regional Jobs Loss



In addition, the Forecast states that “Looking to the future, the forecast for the state is for the technology sectors, residential construction, and logistics to lead the recovery, and for California post-pandemic to grow faster than the U.S.” This assessment should continue to bode well for economic recovery in Silicon Valley and Los Gatos. While much of the nation and the region has experienced significant financial hardship as a result of the pandemic, the Report notes that “...For those fortunate to maintain employment and income during this pandemic, their financial situation is better than before. Home values have increased, equity values have increased, and limited consumption opportunities during the past nine months mean that these households have been able to accumulate at least an additional \$1.6 trillion in savings.” Given the socioeconomic composition of Los Gatos, the Town should benefit from the Report’s forecasted trends.

Operating Revenue Trends and Five-Year Forecast Scenarios

Following are summaries of major revenues to date and fiscal year-end projections for property tax, sales tax, and TOT. To provide context for the development of the FY 2021/22 Five-Year Forecast, the prior year’s growth assumptions and resulting revenue projections are provided. With that context, updated growth assumptions are provided for each revenue source, and the

DISCUSSION (continued):

resultant projected revenues for the new Forecast period. Lastly, for purposes of the Forecast, three scenarios are provided: “Base Case”, “Greater Growth” and “Lower Growth” scenarios.

Property Tax

Property tax is the single largest revenue source for the Town and comprised approximately 28% of total Town projected revenues for FY 2020/21. As the following table illustrates, Los Gatos has benefited from the economic expansion as evidenced by year-over-year (YOY) roll growth in property assessment since 2011. For the 10-year period, the average annual growth rate was 6.10%.

*Los Gatos Assessment Roll Growth*

(values in billions)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Roll</b>	8.37	8.68	9.46	9.99	10.63	11.54	12.29	13.15	13.84	14.90
<b>Percent Growth</b>	1.30	3.67	9.06	5.62	6.40	8.56	6.54	6.95	5.23	7.70

Source: Santa Clara County Assessors Annual Reports

The County of Santa Clara provides property tax collection updates and projections throughout the year. The following table illustrates the most recent estimates relative to the Adopted FY 2020/21 Budget and 2019 actuals. The current County estimate indicates a modest deviation from budget of approximately \$700,000 which is primarily the result of the Redevelopment Agency (RDA) residual payment decrease and modeling a 50% reduction in Educational Revenue Augmentation Fund (ERAF) payments unrelated to COVID.

	FY 2019 Actual	FY 2020-21 Adopted Budget	County Estimate with ERAF	County Estimate 50% ERAF
Property Tax Revenue & Vehicle License Fee Backfill	\$18.4 M	\$18.7 M	\$18.9 M	\$18.00 M

The Town has been monitoring developments regarding the distribution of excess ERAF funds. A portion of property tax revenue goes to the ERAF to support local school districts. When the amount contributed to ERAF is more than the minimum cost of funding local schools, excess funds have traditionally been returned to the county, cities, and special districts. Five counties, including Santa Clara, have been using a redistribution allocation formula that is now being contested by the State. The Town's Adopted FY 2020/21 Budget had ERAF revenue estimated

DISCUSSION (continued):

at \$433,000. However, the most recent County property tax estimate included \$1.8 million of ERAF funds. If the State is successful in contesting ERAF distribution, the result would be a negative impact on budgeted revenues. Given that the distribution of ERAF funds is a binary outcome, staff is modeling a 50% reduction in ERAF into yearend.

The following table illustrates the growth projections utilized for development of the FY 2020/21 Five-Year Forecast for property tax and corresponding estimated revenues. In addition, the Forecast estimated additional property taxes of \$350,000 in FY 2021/22 and \$700,000 per year thereafter from Phase One development of the North 40 starting in year 2022/23 of the Forecast.

Property Tax	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Proposed Growth	0%	3%	3%	3%	3%
Estimated Revenues	\$19.1 M	\$19.9 M	\$20.4 M	\$21.0 M	\$20.8 M

Given the continued low supply of housing inventory and the unanticipated residual benefits of remote workers relocating to less urban environments, staff is anticipating continued modest growth in property tax in the coming year and years ahead.

The UCLA Anderson Forecast provided the following assessment of the housing market: “We forecast that housing will remain strong well into 2023. Home builder confidence is at a record, and permits and housing starts continue to increase. Underlying this are five factors.

First, interest rates are likely to remain low for an extended period of time, which will fuel demand for home purchases. Second, without COVID concerns, sellers who were reluctant to put their homes on the market this past year may enter the market and relieve current inventory constraints. This is likely to be a case where supply begets demand, and the increased options induce more people to become buyers.

Third, we’ll have more clarity on whether working from home will be sustainable over the longer-term once pandemic constraints are no longer binding. This clarity is likely to induce additional rounds of people relocating away from urban cores to suburbs and larger homes. Fourth, there’s a demographic bubble of millennials aging into their prime earning and home-buying years. This demographic shift will continue to fuel higher demand for home purchases.

DISCUSSION (continued):

And fifth, as unemployment begins to come down and there's less economic uncertainty, buyers who were reluctant to enter the market this past year may be more likely to enter to take advantage of continued low mortgage rates. As for where housing markets will be red-hot, there are a lot of unknowns. Once the economy fully reopens, urban cores will regain some of the amenity value lost during the pandemic, but demographic shifts, with millennials starting families, and continued opportunities to work from home will make the suburbs more attractive."

The following table illustrate the growth factors recommended for development of the FY 2021/22 Five-Year Forecast.

Property Tax	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Proposed Growth	2.5%	2.5%	3%	3%	3%

For purposes of the Forecast, the "Base Case" utilizes a growth factor of 2.5% to 3.0% and the "Greater Growth" and "Lower Growth" scenarios utilize a 2% differential from the Base Case. In addition to the growth factor, staff assumes \$350,000 additional North 40 revenue in FY 2021/22 and an additional \$700,000 in FY2022/23 due to the project's construction and sales schedule. Base non-residual ERAF revenue is forecasted at \$400,000 annually until further direction received from the County. FY 2022/23 also anticipates an additional \$500,000 RDA residual allocation representing the current allocation calculation of Santa Clara County.

Property Tax (Property Tax & VLF)	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Greater Growth Scenario	\$18.6 M	\$20.1 M	\$21.0 M	\$22.1 M	\$23.3 M
Base Case Modest Growth	\$18.3 M	\$19.5 M	\$20.0 M	\$20.5 M	\$21.3 M
Less Growth Scenario	\$18.0 M	\$18.7 M	\$18.9 M	\$19.1 M	\$19.3 M



DISCUSSION (continued):Sales Tax

Sales tax is the second largest revenue source for the Town and comprised approximately 12% of total Town projected revenues for FY 2020/21. The following table illustrates the most recent projections from the Town's sales tax consultant MuniServices relative to the Adopted FY 2020/21 budget and 2019 actuals.

	FY 2019/20 Actual	FY 2020/21 Adopted Budget	January 26, 2021 MuniServices Estimate
Sales Tax (millions)	\$7.5 M	\$8.0 M	\$7.7 M

The current estimate indicates a deviation from budget of approximately \$300,000; however, staff will continue to monitor MuniServices updates into the close of the year and adjust as appropriate. The table on the following page provides the MuniServices forecasted growth factor for the FY 2020/21 Five-Year Forecast.

Sales Tax	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
COVID Recession Scenario	\$8.10 M	\$8.20 M	\$8.40 M	\$8.50 M	\$8.60 M

For the FY 2021/22 Five-Year Forecast staff is utilizing the MuniServices Conservative scenario. The Conservative scenario assumes that approved vaccines become available on a limited basis 2021 Q1, and treatment options will improve. In addition, the scenario assumes more cases and more fatalities, delays in approving and distributing vaccines, problems with vaccines, and partial modified Stay-At-Home orders stay in effect until 08/31/21.

Sales Tax	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Conservative	\$8.26 M	\$8.51 M	\$8.70 M	\$8.86 M	\$9.02 M
Most Likely	\$8.40 M	\$8.66 M	\$8.85 M	\$9.03 M	\$9.20 M
Optimistic	\$8.53 M	\$8.80 M	\$9.01 M	\$9.20 M	\$9.40 M

DISCUSSION (continued):

While staff doesn't necessarily concur with these assumptions, given the significant unknowns related to the pandemic, staff believes it is appropriate to default to the most conservative scenario. The UCLA Andersen Forecast notes "...our assumption is that households will not only resume their consumption of services, but those that accumulated savings during the pandemic will overcompensate for the past year by consuming more services than they normally would. We expect a significant surge in spending on restaurants, recreation, travel, and accommodation..." Again, given the socioeconomic composition of Los Gatos, the Town should benefit from the Report's forecasted trends.

Transient Occupancy Tax

TOT is an important revenue source for the Town and comprised approximately 3.4% of total Town projected revenues of \$2.3 million for FY 2020/21. The following table illustrates TOT year-end collection estimates, the Adopted FY 2020/21 Budget, and FY 2019/20 actuals.

	FY 2019/20 Actual	FY 2020/21 Adopted Budget	Year-end Estimate
TOT	\$1.87 M	\$2.30 M	\$0.7 M

As the table illustrates, to date TOT has experienced the most significant percentage decline relative to Budget. The FY 2020/21 Five-Year Forecast modeled a net 15% reduction over the course of the year in TOT revenues from the prior January 21, 2020 initial forecast projection. In addition to the initial Shelter-in-Place (SIP) and Stay-at-Home restrictions instituted on March 17, 2020, on November 28, 2020, Santa Clara County issued new mandatory directives which included that hotels and other lodging facilities will be open only for essential travel and for use to facilitate isolation or quarantine. Given that the November restrictions remain as of this writing, staff anticipates that the current Health Order will continue to degrade TOT revenues for the remainder of the year resulting in YOY declines of 69%.

The table on the following page illustrates the growth projections utilized for development of the FY 2020/21 Five-Year Forecast for TOT and corresponding estimated revenues.

DISCUSSION (continued):

TOT	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Proposed Growth	-5%	0%	0%	0%	0%
Estimated Revenues	\$2.2 M	\$2.2 M	\$2.2 M	\$2.2 M	\$2.2 M

Unlike sales tax forecasts which predict an acceleration of revenues tied to pent up consumer demand, the Town's TOT revenue has historically been primarily driven by business travel. Given the uncertainty around physical business travel resuming at prior levels, as opposed to a continuation of remote work and online meeting forums, staff is recommending modest growth for base case development of the FY 2021/22 Five-Year Forecast. However, given the significant reduction to the revenue base compared to prior revenue history staff is providing a base growth scenario and an additional more optimistic growth scenario.

TOT	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Base Growth Scenario	30%	20%	5%	5%	5%
Estimated Revenues	\$0.8 M	\$0.9 M	\$1.0 M	\$1.0 M	\$1.1 M
Base Growth Scenario	50%	20%	5%	5%	5%
Estimated Revenues	\$1.1 M	\$1.3 M	\$1.3 M	\$1.4 M	\$1.5 M

Mid-Year Operating Expenditure Trends

For FY 2020/21, General Fund Operating expenditures (not including debt payment and transfers out) were programmed at \$47.9 million. The delivery of Town services is highly dependent on labor which comprises 59.5% of budgeted General Fund expenditures for FY 2020/21. General Fund expenditure totals are trending in accordance with the Adopted Budget, with total operational expenditures at the end of the second quarter at or about 51% of the Adopted Budget. With six months of data now available, staff expects that the next six months of expenditures will be within the Adopted Budget, although unexpected costs can still occur which may require future Council action.

DISCUSSION (continued):

	FY 2019/20 Actual	FY 2019/20 Q2	Q2% of 2019/20 Actuals	Q2% of 2020/21 Budget	FY 2020/21 Q2	FY 2020/21 Adopted
<b>Expenditures</b>						
Mayor & Council	\$206,163	\$112,711	54.7%	40.8%	\$99,310	\$243,486
Attorney	559,010	296,424	53.0%	47.3%	311,592	658,831
Admin Services	4,380,504	2,204,552	50.3%	49.6%	2,476,978	4,993,047
Non-Departmental	3,505,098	1,166,054	33.3%	55.6%	4,339,030	7,807,138
Community Dev	4,473,790	2,245,767	50.2%	46.9%	2,589,502	5,517,030
Police	15,793,815	8,504,636	53.8%	51.1%	9,037,569	17,687,825
Parks & PPWs	8,139,106	3,864,874	47.5%	51.4%	4,189,004	8,152,045
Library	2,700,802	1,404,285	52%	49.0%	1,446,308	2,952,802
Capital Outlay	138,384	-			-	-
<b>Total Department Expenditures</b>	<b>\$39,896,871</b>	<b>\$19,799,303</b>	<b>50%</b>	<b>51%</b>	<b>\$24,489,293</b>	<b>\$48,012,204</b>

Because some larger budgeted expenditures are non-linear and were paid on a date certain early in the fiscal year, (i.e. CalPERS ADP \$3.5M paid in July 2020) the expenditure trends shown present a higher percentage of budget at mid-year than would otherwise be reported. Taking this into account, looking forward to the close of the fiscal year staff is estimating that there will be year-end operating expenditure savings. Staff anticipates savings related to office supplies, travel, special events, crossing guard services. In addition, for FY 2020/21 salaries were budgeted at actual salary plus a one step increase, which was a significant budgeting methodology refinement from previous practice. As a result staff is anticipating lower year-end salary savings compared to previous years.

Mid-Year Budget: Current General Fund Projection of Year-End Expenditures Exceeding  
Planned Revenues

Current fiscal year-end projections for FY 2020/21 reflect an anticipated \$1.6 million deficit of operating revenues over expenditures. This represents a 3.0% deviation from the FY 2020/21 adopted General Fund Budget of \$53.2 million in total revenues and reserve transfers.

DISCUSSION (continued):

	Revenues	Expenses	Variance FY 2020/21 Budget vs. FY 2020/21 Estimate
Total General Fund	(\$3,421,132)	\$1,804,767	(\$1,616,365)

Potential Mid-Year Budget Balancing Options

On February 16, 2021, the Town Council will receive the information contained in this report in addition to final revisions to budget estimates. The Council will be considering the formal Mid-Year Budget Report and its associated actions, and providing direction on a separate Five-Year Forecast. These will be two distinct agenda items.

As staff continues to monitor revenues in relation to expenses heading into finalizing the Mid-Year Report for Council, several initial budget balancing options have been identified. Given the episodic nature of the revenue impacts associated with the pandemic, staff is primarily targeting one-time budget balancing solutions for FY 2020/21. If revenue impacts during FY 2021/22 appear to become more sustained/structural in nature (such as TOT), staff will evaluate initial ongoing expense reduction options. In the event further expense reductions become necessary, the Council may choose to direct staff to initiate community-wide discussions regarding service level delivery in addition to the Strategic Priority guidance to explore new revenue generation opportunities.

1. General Fund Reserve Policy – Catastrophic and Budget Stabilization Reserves

Per the reserve policy descriptions below the revenue shortfalls directly correlated to the Pandemic could be cured utilizing these funds per the Council adopted Policy.

*Catastrophic Reserve*

Funds reserved under this category shall be used to mitigate costs associated with unforeseen emergencies, such as a disaster or catastrophic event. Should unforeseen and unavoidable events occur that require the expenditure of Town resources beyond those provided for in the annual budget, the Town Manager or designee shall have authority to approve Catastrophic Reserve appropriations. The Town Manager or designee shall then present to the Town Council a budget amendment confirming the nature of the emergency and authorizing the appropriation of reserve funds. The Town currently commits to maintaining this reserve at a minimum of 12.5% (\$5,427,603) of General Fund ongoing operating expenditures (minus one-time expenditures).

DISCUSSION (continued):

*Budget Stabilization Reserve*

Funds reserved under this category shall be used to mitigate annual revenue shortfalls (actual revenues less than projected revenues) due to changes in the economic environment and/or one-time uses that will result in future efficiencies and/or budgetary savings. Examples of “economic triggers” and one-time uses include, but are not limited to:

- An unplanned, major event such as a catastrophic disaster requiring expenditures which exceed the General Fund Catastrophic Reserve;
- Drop in projected/actual revenue of more than five percent in property or sales tax, or other economically sensitive revenues;
- Budgeted revenue taken over by another entity exceeding \$100,000;
- Loss of businesses considered to be significant sales tax generators;
- Reductions in projected/actual revenue of more than five percent due to actions by the state/federal government;
- Workflow/technical system improvements to reduce ongoing, personnel costs and enhance customer service;
- One-time maintenance of service levels due to significant economic/budget constraints; and
- One-time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.

The Town currently commits to maintaining this reserve at a minimum of 12.5% (\$5,427,603) of General Fund ongoing operating expenditures (minus one-time expenditures).

2. OPEB Prefunding

Since 2009 the Town has been proactively prefunding its Other Post-Employment Benefits (OPEB). While this is considered a best practice, it is not mandated similar to payment of the required annual contributions for pension benefits to CalPERS. For FY 2020/21, the adopted budget provided OPEB prefunding of \$591,000.

3. Utilization of OPEB IRS 115 Trust for Pay Go Healthcare Expenses

In 2009 the Town initiated the prefunding of the Retiree Healthcare unfunded benefit obligation. Since that time the IRS Section 115 OPEB Trust has accumulated \$23,560,833 in Trust assets as of December 31, 2020. IRS regulations allow Trust assets to be used for payment of healthcare expenses. The FY 2020/21 budget programmed \$1.3 million in anticipated Pay-go healthcare expenses and \$1.4 million in projected Pay-go healthcare expenses in FY 2021/22.

DISCUSSION (continued):

4. Sale of Winchester Property to Santa Clara County Fire District

During the development of the FY 2020/21 budget the Town Council left \$1,200,000 in property sale proceeds unprogrammed. The Council chose not to allocate the sale proceeds recognizing the potential impacts to revenues from the pandemic.

5. Delayed or canceled Capital Improvement Plan (CIP) projects

Each year as part of the budget process Council adopts a Five-Year Capital Improvement Program. Attachment 3 contains a matrix summarizing the budget for each capital project, source of funds, amount expended/encumbered to date, and status. This information conveys the level of investment and commitment of particular projects, and the potential opportunity for reallocation to other Town priorities or future capital needs.

CONCLUSION:

While not explicitly spelled out in Measure A, the Finance Commission's input regarding the Mid-Year Budget and Five-Year Forecast development will enhance the FY 2021/22 Budget development process in the spring. The Finance Commission should use this session to provide its advice to the Town Council on the potential strategies to address the projected revenue shortfall for the Mid-Year Budget and its reflections on the initial development of Five-Year Forecast and the associated scenarios for the Town's major revenues.

COORDINATION:

This report was coordinated between the Town Manager's Office and the Finance Department.

Attachments:

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