

From: Phil Koen

Sent: Friday, April 22, 2022 1:25 PM

To: Ron Dickel; Kyle Park

Cc: Rick Tinsley; Stacey Dell; Matthew Hudes <MHudes@losgatosca.gov>; Rob Rennie <RRennie@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>; Jak Van Nada; Rick Van Hoesen; David Weissman; Lee Fagot; Peter Hertan; Arn Andrews <aandrews@losgatosca.gov>; Catherine Somers <catherine@losgatoschamber.com>; Jim Foley; Shelley Neis <sneis@losgatosca.gov>; Rob Stump

Subject: 5 year Forecast - Finance Commission Special Meeting - Agenda item #2

EXTERNAL SENDER

Hello Ron and Kyle,

The five -year forecast found on page A-7 of the transmittal letter projects \$12.5m in cumulative operating deficits through FY 28. This number is most likely conservative since it contemplates only \$1.5m per year in capital transfers to the GFAR and assumes only 2% increase per year in total salary expenditures. Historically the Town has transferred a minimum of \$2.5m per year to the GFAR to fund critical infrastructure investment and salary expenditures have grown at a CAGR of 6.8% over the past 5 years. This leads to the conclusion that the \$12.5m is extremely conservative and probably should be viewed as a “best case” scenario.

If we adjust for only the capital transfers by increasing the estimate to \$2.5m per year (e.g., a \$1m per year increase), the cumulative operating deficit increases to \$17.5m. \$17.5m is the amount the Town needs to fund from FY 24 through FY 28. Where will this funding come from? How is the Staff thinking about this challenge? Unfortunately, this is not discussed in the transmittal letter. The LGCA thinks this is a very worthy conversation to have.

What we are told is “the deficits.....can currently be resolved through a combination of expenditure controls and the use of one-time funds”. Unfortunately, there is no discussion as to the detail nature of the “expenditure controls” nor is there any discussion as to the use of “one-time funds”. We are also told that “the current projected deficits may need to be addressed through service delivery reductions or service outsourcing”. While no specifics are given, this sounds very ominous, and the warnings should be taken seriously.

Since the FY 23 operating budget is the first year of the five-year forecast, the LGCA recommends that the Finance Commission fully evaluate the reasonableness of the five-year plan before acting on the specifics of the FY 23 operating budget. It is important that the Town Council and residents have a proper perspective regarding the longer-term outlook before making any decisions regarding the actions planned in the first year on a five-year financial journey.

The LGCA would like to point out that if \$17.5m in total operating deficits is realized, by the end of FY 28, the total amount of Assigned General Fund Reserves would be fully depleted and the Town Council would be forced to vote on tapping the Budget Stabilization Reserves, and the Catastrophic Reserves or the remaining ARPA funds to fully fund the projected operating deficits. To frame this, at the end of FY 23 Staff has projected the non-restricted General Fund Balance to be \$19.9m in addition to approximately \$2.7m in remaining ARPA funds. **\$22.6m is the total liquidity available to the Town to fund the \$17.5m projected operating deficits from FY 24 through FY 28.** Based on this, the Town’s non-restricted General Fund Balance would be \$5.7m at the end of FY 28, which would be untenable.

In closing, there doesn't appear to be any plan to address the current five-year forecast other than to incur \$17.5m in deficit spending. The Finance Commission was created to provide the Town Council an independent viewpoint regarding the soundness of the Town's financial forecasts and to advise the Town Council regarding actions to be taken. It is clear to the LGCA that the Town, based on the Staff's projections, is facing a fiscal challenge never seen before. We strongly recommend that the Finance Commission fully evaluate the five-year plan and devise strategies which will avert the fiscal challenge that Staff is projecting. Once these strategies have been devised, then the FY 23 operating budget can be reviewed with an understanding that this is the first year of a five-year roadmap.

Thank you.

Phil Koen

Los Gatos Community Alliance

Town of Los Gatos General Fund 5-Year Forecast
(in \$ million)

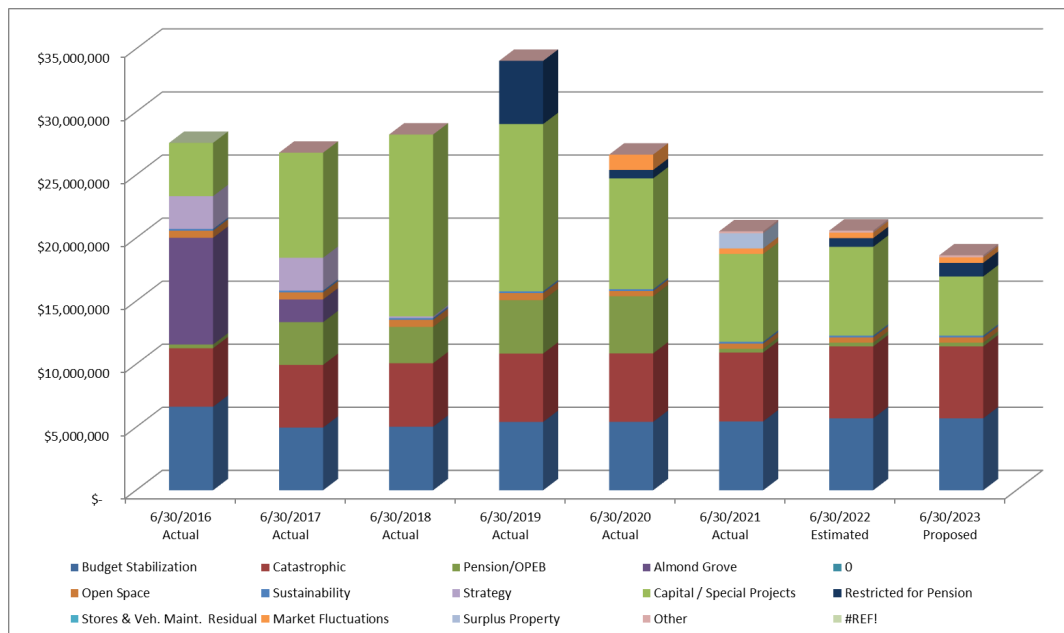
Account	Revenue Category	2021/22 Adjusted Budget	2021/22 Estimates	2022/23 Proposed Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
4100	Property Tax	\$ 15.4	\$ 15.7	\$ 16.6	\$ 15.7	\$ 16.1	\$ 16.6	\$ 17.1	\$ 17.6
4110	VLF Backfill Property Tax	4.2	4.2	4.4	4.5	4.6	4.8	4.9	5.1
4200	Sales & Use Tax	7.0	7.5	7.9	8.2	8.5	8.8	9.1	9.3
4200	Measure G District Sales Tax	1.2	1.2	1.3	1.4	1.4	1.5	1.5	1.5
4250	Franchise Fees	2.5	2.4	2.5	2.6	2.6	2.7	2.8	2.9
4251	Transient Occupancy Tax	1.4	1.4	1.6	1.7	1.8	1.9	1.9	2.0
4400	Business License Tax	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
4400	Licenses & Permits	3.1	3.1	2.8	2.8	2.9	3.0	3.1	3.2
4500	Intergovernmental	4.0	1.1	1.1	1.0	1.0	1.0	1.2	1.1
4600	Town Services	4.2	4.3	4.2	4.0	4.1	4.1	4.2	4.3
4700	Fines & Forfeitures	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
4800	Interest	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
4850	Other Sources	2.6	2.4	2.2	2.2	2.2	2.2	2.3	2.2
4900	Fund Transfers In	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
TOTAL OPERATING REVENUES & TRANSFERS*		\$ 48.1	\$ 45.8	\$ 47.0	\$ 46.4	\$ 47.5	\$ 48.9	\$ 50.4	\$ 51.5
	Capital	0.6	0.6	2.4	0.8	0.8	0.8	0.8	0.8
	Use of Pension/OPEB Reserve	-	0.3	-	-	-	-	-	-
	Use of Property Surplus Reserve	1.2	1.2	-	-	-	-	-	-
	Use of Measure G Reserve	1.1	1.1	-	-	-	-	-	-
	ARPA Replacement Revenue	-	-	1.0	-	-	-	-	-
TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES		\$ 51.0	\$ 49.0	\$ 50.4	\$ 47.2	\$ 48.3	\$ 49.7	\$ 51.2	\$ 52.3
Account	Expenditure Category	2021/22 Adjusted Budget	2021/22 Estimates	2022/23 Proposed Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
5110	Salary	20.9	19.2	21.5	21.6	22.2	22.5	23.0	23.5
5120	CalPERS Benefits	7.3	6.2	7.3	7.5	7.8	7.7	8.0	8.1
5200	All Other Benefits	4.2	3.4	4.4	4.6	4.7	4.8	5.0	5.1
6211	OPEB Pay as You Go	1.5	1.5	1.5	1.5	1.6	1.7	1.8	1.9
6000	Operating Expenditures	6.4	7.0	6.9	6.8	7.1	7.1	7.4	7.5
7200	Grants & Awards	1.0	0.8	0.2	0.2	0.2	0.2	0.2	0.3
7400	Utilities	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
8060	Internal Service Charges	2.7	2.6	2.7	2.9	3.1	3.4	3.7	3.8
8900	Debt Service	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
TOTAL OPERATING EXPENDITURES		\$ 46.6	\$ 43.3	\$ 47.0	\$ 47.5	\$ 49.3	\$ 50.1	\$ 51.7	\$ 52.9
	GASB 45 Retiree Medical Actuarial	0.1	0.1	-	-	-	-	-	-
	Additional Discretionary Payment - Pension	0.4	0.7	0.4	0.4	0.4	0.4	0.4	0.4
TOTAL OPERATING & DISCRETIONARY EXPENDITURES		\$ 47.1	\$ 44.1	\$ 47.4	\$ 47.9	\$ 49.7	\$ 50.5	\$ 52.1	\$ 53.3
	Capital Transfers Out to GFAR	2.8	2.8	2.3	0.8	0.8	0.8	0.8	0.8
	Proceeds	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8
AMOUNTS AVAILABLE FOR RESERVE ALLOCATIONS									
	Stabilization/Catastrophic	-	0.5	-	-	-	-	-	-
	Allocate to Compensated Absences	-	-	-	-	-	-	-	-
	Allocate to Market Fluctuation	-	-	-	-	-	-	-	-
	Allocate to CalPERS/Pension	-	0.3	-	-	-	-	-	-
TOTAL EXPENDITURES & RESERVE ALLOCATIONS		\$ 50.5	\$ 48.3	\$ 50.4	\$ 49.4	\$ 51.2	\$ 52.0	\$ 53.7	\$ 54.9
NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES & RESERVE ALLOCATIONS FOR FINAL ALLOCATION AFTER YEAR END CLOSE		\$ 0.5	\$ 0.6	\$ -	\$ (2.2)	\$ (2.9)	\$ (2.3)	\$ (2.5)	\$ (2.6)
* Due to rounding of individual categories FY 2021/22 Total Expenditures and Reserve Allocations includes \$0.1 million. General Fund (111) Forecast does not include Pension Trusts activities.									

\$ 1.5m

\$ 12.5m

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.



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
Restricted for:								
Pension				\$ 5,015,316	\$ 669,978	\$ -	\$ 690,000	\$ 1,080,000
Committed to:								
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	-	-	-	-	-	-
Assigned to:								
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
Total General Fund Reserve	\$ 27,643,429	\$ 27,150,612	\$ 30,428,684	\$ 37,970,527	\$ 29,335,497	\$ 23,914,619	\$ 22,917,098	\$ 20,957,098

$\Sigma \textcircled{A} = 12,787,914$

A - 13

$\Sigma \textcircled{B} = 8,169,184$

$\$ 8,169,184$
 $- 1,649,917$ S.A.
 $\$ 6,519,267$

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.

	FY 2021/22 Authorized/Funded Town Staff Position	FY 2022/23 Authorized/Funded Town Staff Position
Departments		
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
Total Position	150.25	153.25
All Hourly Employee Staff Converted to FTE's	11.09	11.46
	161.34	164.71

From: Phil Koen

Sent: Sunday, April 24, 2022 5:02 PM

To: Ron Dickel; Kyle Park

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

Subject: Inflation Threatens Impact of Infrastructure Law - The Wall Street Journal.

EXTERNAL SENDER

Hello Ron and Kyle,

I thought you would be interested in the following story from The Wall Street Journal.

[Inflation Threatens Impact of Infrastructure Law](#)

Download the Wall Street Journal app here: [WSJ](#).

This article raises the obvious question as how Staff factored in the impact of inflation on both the operating and capital plans over the 5 year planning period.

For example the annual paving budget (project 9901) is a constant \$3,240,122 over the 5 year period.

Given the forecasted inflation levels, a constant dollar spend would result in less street miles maintained each year over the 5 year period. This means the PCI will be negatively impacted. By how much, we aren't told.

Bottomline the go forward investment required to maintain the Town's critical infrastructure is going to be materially higher over the planning horizon than what is reflected in the capital budget. As best as I can tell, there is no inflation factored into the capital spending requirements. Over the planning horizon, the capital requirements in the budget could easily be understated by 15% - 20%, if not more.

Until there is an understanding as to the impact inflation has on the required capital investment, the FY 2023 capital budget should not be approved.

Thank you.

Phil Koen

From: Jak Van Nada

Sent: Monday, April 25, 2022 5:35 AM

To: Shelley Neis <sneis@losgatosca.gov>; Town Manager <Manager@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>

Subject: Please Include in the Finance Commission Meeting of 4-25-22

EXTERNAL SENDER

The Los Gatos Community Alliance (LGCA) continues to advocate that a Fiscal Impact Analysis (FIA) of the 2040 General Plan be completed before the Planning Commission or Town Council take any action. **The FIA presented in the Alternative Land Use study did not evaluate the development in the 2040 General Plan.** We have attached a recent presentation that we gave at the Democracy Tent meeting on 4-18-22, which outlines our concerns.

Of special note:

- Using the actual historical growth rates in Salaries, Pension and Benefit costs would add nearly \$34 million to the cumulative deficit of the General Fund Balance over the next 5 years
- The General Fund would be completely wiped out by 2026 and have a deficit balance greater than - \$23 million at the end of 2027
- The potential for driving the deficit even higher with more development than necessary to meet the RHNA requirement is very high. Without an FIA, the Town cannot accurately forecast our Financial Future.
- The Town Has Refused To Do A Thoughtful Fiscal Impact Analysis, Yet They Have Agreed To A "High-Level" Report Based On Faulty Data
- The General Plan is the primary tool for guiding future development in the Town of Los Gatos for the next 20 years
- The General Plan is the framework of making CHOICES about growth, housing, transportation, neighborhood improvement and service delivery.
- A Fiscal Impact Analysis documents the General Fund revenues and costs and capital investment that are attributable to alternative land use scenarios considered by the General Plan Update process.
- Just like an Environmental Impact report documents the environmental impacts, a FIA documents the fiscal impacts.

For more information, please review our presentation attached. If you would like more information, please contact me at the address below, or, I strongly suggest that the Town's Finance Commission do an FIA to know where we're headed financially. A three minute speech would not adequately explain the problems.

--

Jak Van Nada -

Los Gatos Community Alliance



LOS GATOS
COMMUNITY
ALLIANCE

Why A Fiscal Impact Analysis?

Looking Backwards To See Forward



LOS GATOS
COMMUNITY
ALLIANCE

It's Not So Much What You See
But What You Don't See



LOS GATOS
COMMUNITY
ALLIANCE

This Presentation Is To Show You What You Aren't Seeing



Data Used For This Report

- 2021 ACFR - Annual Comprehensive Financial Report
- Draft 2040 General Plan
- Mid-Year Budget Report - July 1 - December 31, 2021
- Five Year Forecast

Compound Annual Growth Rate (CAGR) Calculations	2016	2018	2021	Actual CAGR 2016-2021	Actual CAGR 2018-2021	Total Growth 2016-2021						
Salaries & Wages	14.5	16.1	20.3	6.9%	8.1%	40%						
Retirement Benefits	3.6	4.3	6.4	12.2%	14.2%	78%						
Other employee benefits	3.2	3.3	5.6	12.0%	19.5%	76%						
Total Salaries, Wages, Benefits	21.3	23.7	32.3	8.7%	11.0%	52%						
Full Time Equivalent (FTE) Headcount	144	148	150	0.8%	0.4%	4%						
Salaries, Wages & Benefits per FTE Head	148	160	203	6.5%	8.2%	37%						
Actuals (A) & Town Staff Forecast (F) - Base Case with 2% COLA	2016A	2017A	2018A	2019A	2020A	2021A	2022F	2023F	2024F	2025F	2026F	2027F
Salaries & Wages	14.5	14.8	16.1	17.9	19.3	20.3	20.6	20.6	21.2	21.8	22.3	22.8
Retirement Benefits	3.6	3.9	4.3	5.3	6.1	6.4	6.6	6.9	7.3	7.7	7.6	7.9
Other employee benefits	3.2	3.2	3.3	3.6	3.6	3.7	3.8	4.0	4.1	4.2	4.3	4.4
Total Salaries, Wages, Benefits	21.3	21.9	23.7	26.8	29.0	30.4	31.0	31.5	32.6	33.7	34.2	35.1
FTE Headcount	144	146	148	149	150	150	150					
Salaries, Wages & Benefits per FTE head (\$k)	148	150	160	180	193	203	207					
General Fund Inrease (decrease)			3.3	7.5	-8.6	-7.1	-1.5	-1.6	-2.0	-2.4	-2.1	-2.3
General Fund Balance		27.2	30.4	37.9	29.3	22.2	20.8	19.2	17.2	14.8	12.7	10.4
Revised Forecast (\$ million)								2023F*	2024F*	2025F*	2026F*	2027F*
Salaries & Wages - actuals and forecast using 6.9% 5-year actual historical CAGR for 2023 forward								22.0	23.6	25.2	26.9	28.8
Pension - actuals and forecast using 12.2% 5-year actual historical CAGR for 2023 forward								7.4	8.3	9.3	10.5	11.7
All Other Benefits - actuals and forecast using 6.9% 5-year actual historical CAGR for 2023 forward								4.3	4.8	5.3	6.0	6.7
Total Salaries, Pension & Wages - actuals and forecast using 5-year actual historical CAGR for 2023 forward								33.7	36.6	39.9	43.4	47.2
Difference from Town staff forecast								(2.2)	(4.0)	(6.2)	(9.2)	(12.1)
Cumulative difference from Town staff forecast								(2.2)	(6.2)	(12.4)	(21.6)	(33.7)
Revised General Fund Balance								17.0	10.9	2.4	(8.9)	(23.3)



The Town Is Forecasting Deficits

- In The Next 5 Years The Town Staff Is Forecasting That The General Fund Balance Will Decrease by 50% - From \$20.8M At The End Of 2022 To \$10.4M At The End Of 2027
- The Town Staff Forecast Assumed An Annual Growth Rate Of Just 2% For Salaries, Pension and Benefits.



- However, over the last 5 years salaries, wages and benefit costs have actually grown at 8.7% annually
- That is more than 4 times the growth rate the Town Staff is forecasting.
- Over the last 3 years the actual growth rate has accelerated to 11%
- We Are Entering An Inflationary Period
- What Happens If We Change The Forecast Assumption From 2% To 8.7%?



Modified Forecast Using Historical Growth Rates

- Using the actual historical growth rates in Salaries, Pension and Benefit costs would add nearly \$34 million to the cumulative deficit over the next 5 years
- The General Fund would be completely wiped out by 2026 and have a deficit balance greater than -\$23 million at the end of 2027



Town Spending on Headcount Has Increased Dramatically in the Last 5 Years

- Salaries Have Grown 6.9% per Year (up 40% in 5 years)
- Pension Expense has grown 12.1% per year (up 78% in 5 years)
- Benefits have grown 12.0 % per year (up 76% in 5 years)
- Total of the 3 costs have grown 11% per year (up 52% in 5 years)
- While headcount has grown by only 0.4% per year (up 4% in 5 years)



Some Concerns

- The ACFR of 2021 Said There Was A Salary Increase of 1% Plus A Bonus of 2%.
- Salaries, Wages and Benefits Actually Increased By 8.7% Over 5 Years, But Accelerated To 11% In The Last 3 Years.
- Unfortunately, You Won't See That Noted Anywhere In The ACFR.
- The Town Has Refused To Do A Thoughtful Fiscal Impact Analysis. Yet They Have Agreed To A "High-Level" Report Based On Faulty Data. Mr. Koen will tell you more shortly.
- The Council Pushed The Mute Button When Brought To A Council Meeting



Concerns, Cont'd

- The 2016 Council Rejected A \$4.8M Annual Sales Tax That 64% Of Those Polled By The Town Was Approved – That Would Total \$29M For Los Gatos Today.
- In 2016, we found the OPEB buried in Footnote 10 - \$12.5 M
- The Town Council Is In Charge, Not The Staff.
- We Gave The Town Council A Finance Commission Available to Them At Any Time.

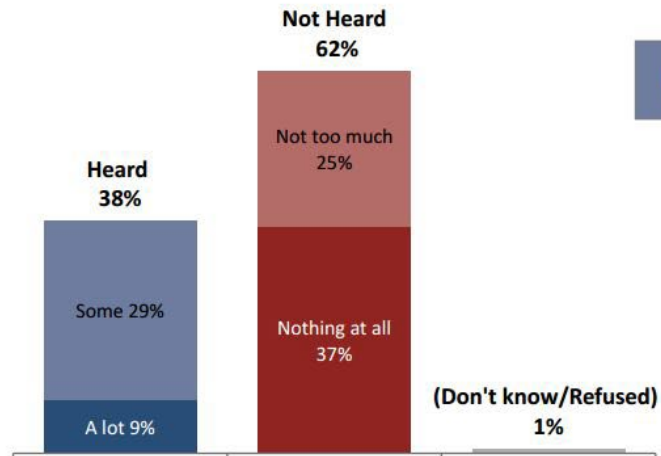


Awareness of General Plan



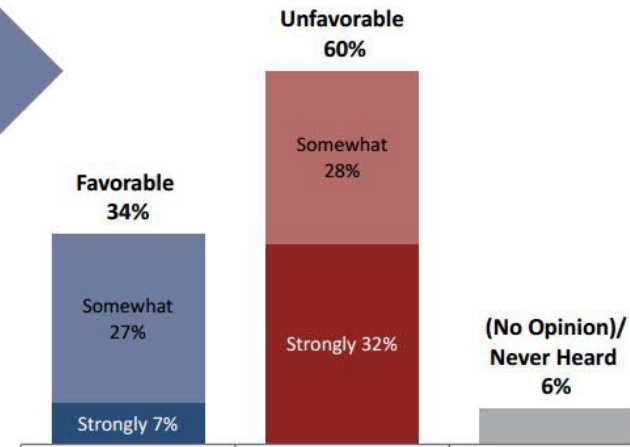
More than a third of voters have heard something about the General Plan, and among those who are familiar it is overwhelmingly unpopular.

How much, if anything, have you heard or seen recently about the Los Gatos 2040 General Plan?
Have you heard a lot, some, not too much, or nothing at all?



Heard (n=158)

And do you have a favorable or unfavorable opinion of the Los Gatos 2040 General Plan?



Q12 and 15.

21-8285 Los Gatos 2040 General Plan | 10

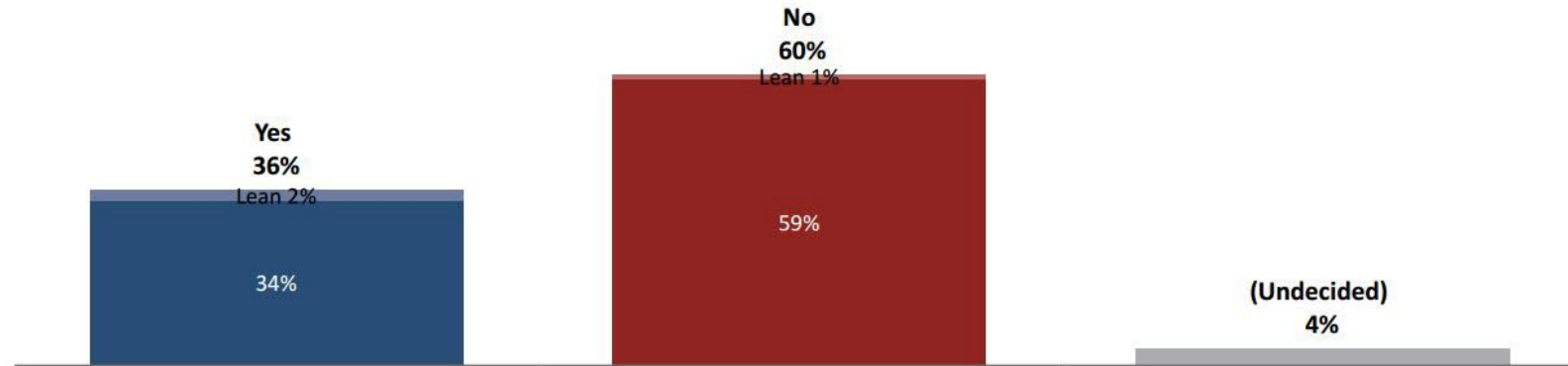


Informed Referendum Vote Preference



If the Town Council adopts the 2040 General Plan, voters may have an opportunity on a future ballot to vote in a referendum to approve or reject the plan.

If the election were held today, would you vote yes to approve or no to reject the proposed 2040 General Plan?



21-8285 Los Gatos 2040 General Plan | 17



LOS GATOS
COMMUNITY
ALLIANCE

What If The General Plan Costs More \$\$?



LOS GATOS
COMMUNITY
ALLIANCE

Fiscal Impact Analysis

APRIL 2022



General Plan and Fiscal Impact Analysis

- The General Plan is the primary tool for guiding future development in the Town of Los Gatos for the next 20 years
- The General Plan is the framework of making CHOICES about growth, housing, transportation, neighborhood improvement and service delivery.
- A Fiscal Impact Analysis documents the General Fund revenues and costs and capital investment that are attributable to alternative land use scenarios considered by the General Plan Update process.
- Just like an Environmental Impact report documents the environmental impacts, a FIA documents the fiscal impacts.

Does Growth Impact Operations?

- The Town provides services and infrastructure to residents and workers as reflected in the Town's budget
- Residents and workers consume services, and pay for those services through taxes and fees
- Therefore, new growth will consume additional services and pay additional taxes and fees
- Big Question – What is the balance of new costs and revenues from new growth?
- A Fiscal Impact Analysis will provide the answer

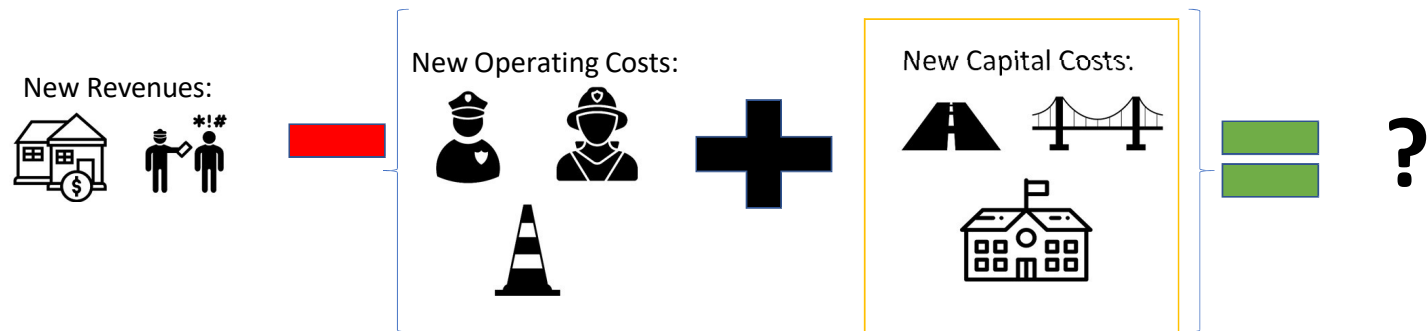
Alternative Population Growth Scenarios

The Draft General Plan contains by far the highest Compound Annual Growth Rate (CAGR) assumption

Population Growth Scenarios	2018 Population (Estimate)	2040 Population (Projected)	Growth 2018 to 2040	CAGR 2018-2040
ABAG Projections 2040	31,472	33,050	1,578	0.2%
Alternative A: Low Growth	30,995	33,769	2,774	0.4%
Alternative B: Medium Growth	30,995	35,533	4,538	0.6%
Alternative C: Medium-High Growth	30,995	36,522	5,527	0.7%
Alternative D: High Growth	30,995	38,617	7,622	1.0%
General Plan	30,995	39,966	8,971	1.2%

So What Is A Fiscal Impact Analysis (FIA)?

- A fiscal impact analysis is a test to see whether or not the growth-related demand for services and infrastructure, as reflected in the city's budget expenditures, will be balanced by the additional revenues generated by growth



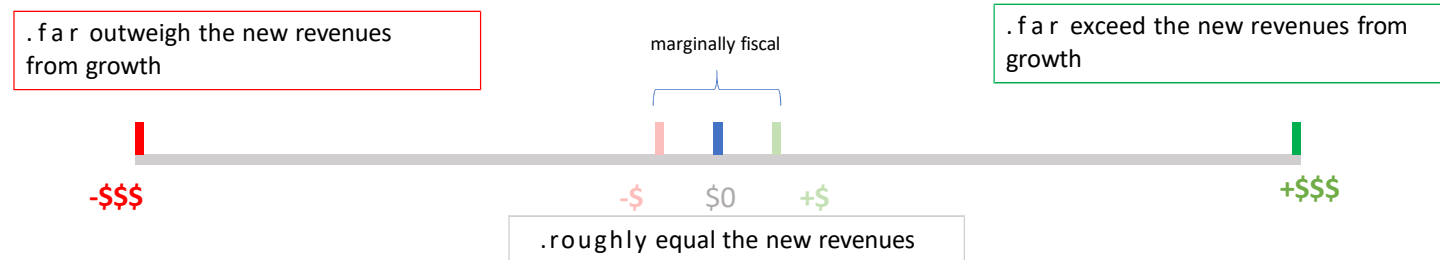
A FIA Provides Support To Decision Makers and Community Stakeholders

- Identifies projected changes to local services and revenues
- Helps define achievable levels of service
- Projects capital facility needs
- Clarifies development policy impacts
- Calculates revenues and helps in the development of revenue strategies
- Encourages “what if” questions
- Promotes public education of the connection between land use and fiscal conditions.



What Will The Findings Tell Us?

The costs that will be required to scale operations and/or provide new infrastructure to accommodate growth projected in the General Plan.



- There are **many potential interpretations** for the range of fiscal results
- The fiscal results **do not** provide a projection of future budget levels

Alternative Mix of Housing Analyzed

	Alt. A	Alt. B	Alt. C	Alt. D	General Plan
Net New Dwellings	681	1,416	1,828	2,700	2,763
Pending/Approved Dwelling Units	475	475	475	475	475
Subtotal	1,156	1,891	2,303	3,175	3,238
Accessory Dwelling Unit (ADU)	-	-	-	-	500
Total Residential Units	1,156	1,891	2,303	3,175	3,738
Single Family	391	328	371	550	550
Multi-Family	765	1,563	1,932	2,625	3,188
Below-Market Purchase (BMP) Units	149	238	293	464	847
BMP Units: % of Total Residential	13%	13%	13%	15%	23%

FIA Development Assumptions

Land Use Designation	Alternative D: High Growth						
	Redevelopment Percent		Density Range (DU/AC)		Typical Density (DU/AC)		FAR
	Outside OA	Inside OA	Outside OA	Inside OA	Outside OA	Inside OA	
LDR	10%	15%	5 to 12	12 to 20	10	16	0.75
MDR	15%	15%	14 to 24	14 to 24	20	20	1
HDR	15%	20%	20 to 30	30 to 40	26	36	1.5
NC	15%	15%	20 to 30	20 to 30	26	26	1
MU	15%	20%	30 to 40	30 to 40	36	36	1.5

- Redevelopment percentage is the percentage of the total area under each land use designation assumed to be redeveloped within the 2040 planning period



2040 General Plan

- Density changes Town wide

	Density Range (du/ac)		Typical Density		Redevelopment Assumptions		Draft General Plan	
Land Use Designation	Existing General Plan	Draft General Plan	Existing General Plan	Draft General Plan	Derived Draft GP Total Units	Assumed Redevelop %	New Housing (redev)	New Housing (vacant)
Low Density Residential	0 to 5	1 to 12	4	12	1,680	5%	84	283
Medium Density Residential	5 to 12	14 to 24	10	20	3,430	10%	343	224
High Density Residential	12 to 20	30 to 40	18	36	1,787	15%	268	110
Neighborhood Commercial	10 to 20	10 to 20	16	18	910	10%	91	26
Community Commercial	0	20 to 30	0	26	1,040	15%	156	
Mixed-Use	10 to 20	30 to 40	16	36	3,025	20%	605	126
Central Business District	10 to 20	20 to 30	16	26	753	15%	113	21
Office Professional	0	30 to 40	0	36	1,700	15%	255	4
Service Commercial	0	20 to 30	0	26	293	15%	44	10
Subtotal					14,618		1,959	804
Housing Units, New and Redeveloped								2,763
Housing Units, ADUs								500
Subtotal								3,263
Housing Units, Existing Projects								475
Total								3,738

Comparison of Alternatives – Net Fiscal Impact

	Alt. A	Alt. B	Alt. C	Alt. D	General Plan
Annual Revenues	\$ 4,320,000	\$ 5,796,000	\$ 6,564,000	\$ 8,378,000	???
Annual Costs	\$ (3,710,000)	\$ (5,280,000)	\$ (6,264,000)	\$ (8,413,000)	???
Net Fiscal Impact	\$ 610,000	\$ 516,000	\$ 300,000	\$ (35,000)	???
Residential Net Impact	\$ 190,000	\$ 96,000	\$ (120,000)	\$ (455,000)	???
Non-residential Net Impact	\$ 420,000	\$ 420,000	\$ 420,000	\$ 420,000	\$ 420,000

- Alternative C – 2,303 units – annual revenues exceed annual costs by \$300,000
- Alternative D – 3,175 units – annual costs exceed annual revenues by \$35,000
- General Plan – Unknown but must be worse than Alt D given higher growth and housing mix shift



Alternative D							
	Total	Single Family	Multi-Family	Commercial	Industrial	Office	Institutional
REVENUES							
Property Tax	\$3,419,046	\$744,996	\$2,186,673	\$391,559	\$29,284	\$60,067	\$6,467
Property Tax in lieu of VLF	\$915,576	\$199,500	\$585,563	\$104,854	\$7,842	\$16,085	\$1,732
Sales Tax	\$1,178,463	\$213,283	\$598,593	\$290,125	\$11,293	\$64,645	\$524
Franchise Fees	\$477,885	\$75,883	\$362,169	\$23,001	\$6,671	\$9,852	\$310
Transient Occupancy Tax	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other taxes	\$272,131	\$43,211	\$206,236	\$13,098	\$3,799	\$5,610	\$176
Licenses and Permits	\$657,495	\$104,403	\$498,287	\$31,646	\$9,179	\$13,555	\$426
Intergovernmental	\$228,500	\$39,583	\$188,917	\$0	\$0	\$0	\$0
Town Services	\$841,339	\$133,595	\$637,614	\$40,494	\$11,745	\$17,345	\$545
Fines and Forfeitures	\$92,376	\$14,644	\$69,891	\$4,528	\$1,313	\$1,939	\$61
Interest Earnings and Rents	\$121,642	\$23,534	\$80,524	\$13,372	\$1,231	\$2,839	\$153
Other Revenues	\$69,232	\$10,993	\$52,468	\$3,332	\$966	\$1,427	\$45
Transfers in	\$104,680	\$16,622	\$79,333	\$5,038	\$1,461	\$2,158	\$68
TOTAL REVENUES	\$8,378,365	\$1,620,237	\$5,546,267	\$921,048	\$84,785	\$195,521	\$10,507
EXPENDITURES							
General Government	\$1,426,709	\$223,897	\$1,068,600	\$90,283	\$17,380	\$25,712	\$836
Community Development	\$1,138,904	\$177,787	\$848,529	\$80,834	\$12,504	\$18,523	\$726
Police Dept.	\$3,289,855	\$512,610	\$2,446,546	\$237,738	\$36,776	\$54,478	\$1,707
Library	\$570,505	\$90,590	\$432,361	\$27,459	\$7,964	\$11,761	\$370
Parks and Public Works	\$479,596	\$76,028	\$362,859	\$23,507	\$6,818	\$10,068	\$316
Transfers Out	\$1,507,050	\$239,303	\$1,142,128	\$72,536	\$21,039	\$31,069	\$977
TOTAL EXPENDITURES	\$8,412,619	\$1,320,214	\$6,301,023	\$532,357	\$102,482	\$151,612	\$4,932
TOTAL BUDGET NET (DEFICIT)/SURPLUS	(\$34,253)	\$300,023	(\$754,755)	\$388,691	(\$17,697)	\$43,910	\$5,575

- The mix of single family VS. multi-family units has a material impact on the fiscal analysis



Major Shortcomings of The Town's FIA

- The fiscal analysis did not study the 2040 Draft General Plan –
 - Studied the impact of adding **3,175 total units** including **464 BMP** units and **0 ADU's**
 - 2040 GP consists of **3,738 total units** including **847 BMP** units and **500 ADU's**
- No base case or downside case scenarios were presented – consultants stated “consider a best-case scenario over the long run”
- Amount of property tax revenues and sales tax is extremely dependent on the mix of units in each land use alternative
- The revenue generating potential of development will decline as Prop 13 limits the escalation of assessed values compared to inflation of municipal service costs

Major Shortcomings of The Town's FIA

- The analysis is for full buildout at one point in time and does not consider effects of inflation over 20-year period, which will affect the Town's revenues and costs differently
 - From FY 2018 -21 total salaries, wages and benefits increased at a 11% CAGR VS Total General Fund Revenues increased at 1.8% CAGR
 - A 20 year build out of cost/revenue trends by year is required to determine fiscal impacts of inflation and growth
- The analysis is based on pre-pandemic financial information and does not reflect the Town's current budget and most recent five- year outlook
 - Five-year outlook is projecting annual operative deficits each year and a cumulative deficit of \$10.4m



Major Shortcomings of The Town's FIA

- Analysis did not evaluate current departmental capacity nor additional staff or facilities needed to support planned growth
 - Police and Fire safety costs are highly variable with growth
- Analysis did not evaluate the Town's ability to maintain service standards
 - A negative fiscal impact would suggest the Town would must reduce service standards

Major Shortcomings of The Town's FIA

- The analysis did not expand beyond the General Fund to the Appropriated Reserves Fund (GFAR) which is used to fund capital projects
 - Money transferred from the General Fund to GFAR
 - FY 19 - \$2.8m, FY 20 - \$8.1m, FY 21 - \$3.4m
 - Ability to fund \$80.0m of unfunded capital projects
- The analysis did not address cost of increasing facilities and infrastructure capabilities resulting from 2040 GP growth
 - A 25% growth in VMT will require more street and road maintenance expenditures
 - Storm water system is outdated, shallow and undersized



But....not all is lost.....some obvious conclusions

- Less residential growth is better – limit to RHNA 1,993 plus required buffer
- Land use mix should be planned to generate a fiscally neutral outcome – will be challenging given mix of BMP to total units
- Residential growth focused in Opportunity Areas will have a different fiscal impact than growth Town wide
- Commercial growth such as work/live units would appear to have a net positive fiscal impact
- Given the difference in historical growth rates in salary, wages and benefits vs total revenues, impact of inflation and large unfunded capital needs, substantial new sources of revenues will need to be found
 - How much and how quickly can be answered by a proper FIA.

In Closing – two key questions that need to be asked

- How do we really know if the 2040 draft General Plan is Fiscally Stable and Responsible?
- Who benefits from NOT doing a FIA of the 2040 General Plan ?



LOS GATOS
COMMUNITY
ALLIANCE

Thank you