



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 05/18/2021

ITEM NO:

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DATE: May 11, 2021  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager on behalf of the Finance Commission  
SUBJECT: Receive Measure G, FY 2020/21, FY 2021/22 Proposed Operating and Capital Budgets, and Five-Year Forecast Recommendations from the Town Finance Commission per Measure A

**RECOMMENDATION:**

Receive Measure G, FY 2020/21, FY 2021/22 Proposed Operating and Capital Budgets, and Five-Year Forecast recommendations from the Town Finance Commission per Measure A.

**BACKGROUND:**

On April 19, 2021, the Town Manager's Proposed FY 2021/22 Operating and Capital Budgets were posted on the Town's website for the public's review and comment. The Proposed Budgets were published a month earlier than prior practice and 22 business days before May 18, 2021 (Council's public hearing on the Budgets), in accordance with Measure A.

With the passage of Measure A, the Finance Commission has been tasked with several mandated duties as described in the provisions of the adopted Ordinance. Section 2.50.225. – Duties states that:

- (a) The Finance Commission shall:
  - (2) Review the Town Manager's annual proposed budget prepared in accordance with section 2.30.295(6) of the Town Code. and provide written comments and recommendations to the Town Council.
  
- (A) The Finance Commission's comments and recommendations shall include a recommendation about whether the Town Council should approve or disapprove the proposed budget. The Finance Commission may make a recommendation of

**PREPARED BY:** Arn Andrews  
Assistant Town Manager

ATTACHMENT 1

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

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BACKGROUND (continued):

approval of the budget conditional upon the Town Council's acceptance of one or more of the Finance Commission's recommendations.

- (B) The Town Manager must provide a proposed budget to the Finance Commission at least twenty (20) business days before the first meeting at which the proposed budget is considered by the Town Council.

In addition, the Measure A ballot initiative disbanded the prior Measure G Sales Tax Oversight Committee. Among other responsibilities, the Finance Commission is charged with reviewing proposed Measure G expenditures prior to the Town's expenditure of those revenues. Following is the language established in the Measure A Finance Commission pertaining to Measure G:

- (6) Prior to the Town's expenditure of any revenues from the tax authorized by sections 25.60.010 et seq. of the Town Code, review the proposed expenditures and advise the Town Council on whether such expenditures meet the Town Council's objectives for that tax:
- (A) Maintaining and enhancing neighborhood police patrols and local crime prevention programs;
  - (B) Improving traffic flow to reduce congestion;
  - (C) Repairing potholes and maintaining the Town's streets, roads. and sidewalks: and
  - (D) Maintaining the Town's long-term financial stability.
- (7) Issue an annual public report of the expenditures and appropriations of sales tax revenues approved by the Town Council during each fiscal year.

The Finance Commission established the following schedule to discuss and provide comments on the Proposed Budgets and Measure G allocation (meeting Agenda and Minutes link provided):

- April 19, 2021 – Special Finance Commission meeting
- April 26, 2021 - Special Finance Commission meeting
- May 3, 2021 – Special Finance Commission meeting
- May 10, 2021 – Regular Finance Commission meeting

<https://meetings.municode.com/PublishPage/index?cid=LOSGATOS&ppid=548dac6e-53b3-414b-85a3-1e2ab00d8040&p=0>

BACKGROUND (continued):

In addition, the meeting schedule provided ample opportunities for the public to engage in the process either through written comment or verbal comment through Zoom.

The discussion section of this report details the deliberations of the Finance Commission and its recommendations to the Town Council.

DISCUSSION:

*Finance Commission Current Budget Cycle Deliberations*

Over the course of the Commission's budget proceedings the Commission received presentations on the Proposed Operating and Capital Budgets, Measure G allocation requirements per Measure A, and expense and revenue alternative assumption scenarios. In addition, staff provided responses to Commissioner inquiries throughout the process.

The Commissions deliberations coalesced around the following goals and observations:

- Enhance transparency in budget development, budget assumptions, and budget presentation.
- The Proposed Budget significantly restricts capital expenditures relative to historic allocations.
- The Proposed Capital Improvement Plan (CIP) is challenged by a lack of dedicated funding.
- The higher percentage increases in the primary expenditures of Salary and Benefits relative to revenues is constraining other investments.
- Recommend strategies to slow the growth in expenditures until there is greater clarity on impacts to revenues.

Based on the aforementioned areas of emphasis, the Commission ultimately made a series of nine recommendations to the Town Council. In addition, the Commission made a recommendation to approve both the Proposed Operating and Capital Budgets based on acceptance of the following nine recommendations:

**Capital Improvement Plan Recommendations**

As previously mentioned, Commissioners expressed that the Town needed to plan and budget proactively for its capital needs and find reliable funding source(s). The Commission agreed that the previous approach that created year-end surpluses was inadequate. As such, the Commission recommended that additional funding be programmed to ensure continued investment in critical Town infrastructure.

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DISCUSSION (continued):

**Motion by Commissioner Rick Tinsley** to recommend to Council the allocation of the \$1.2 million Surplus Property Reserve (Winchester property sale proceeds) to the Capital/Special Project Reserve for capital budgeting purposes as determined by the Town Council's priorities. **Seconded by Chair Ron Dickel.**

**Motion passed unanimously**

**Motion by Commissioner Rick Tinsley** to recommend to Council the allocation of the accumulated Measure G funds through June 30, 2020 in the Measure G Reserve (\$1.2 million) to the General Fund Appropriated Reserve (GFAR) for capital budgeting purposes as determined by the Town Council's priorities. **Seconded by Chair Ron Dickel.**

**Motion passed 4 to 1, Commissioner Loreen Huddleston opposed.**

**Motion by Chair Ron Dickel** to allocate 50% Measure G proceeds for capital purposes in FY 2020/21 and all periods after. **Seconded by Commissioner Stacey Dell.**

**Motion passed 3 to 2, Commissioners Kyle Park and Rick Tinsley opposed.**

### **Capital Improvement Plan Expenditure Recommendations**

In addition to the recommended additional allocations to the Capital Program, the Commission believed that the continuation of the roadside vegetation management program was essential to be included in the workplan for FY 2021/22.

**Motion by Chair Ron Dickel** to add \$500k from the previously recommended additional allocations to the Capital Budget for continuation of the roadside vegetation management project. **Seconded by Commissioner Kyle Park.**

**Motion passed unanimously.**

### **Operating Budget Expense Recommendations**

The Commission reviewed historical time series and other data provided by staff as it relates to the organization's base salary and benefit expenses. As previously mentioned, the Commission observed that higher percentage increases in the primary expenditures of Salary and Benefits relative to revenues is constraining other investments. The table on the following page illustrates the salary and benefit trends from FY 2014/15 through FY 2019/20 used by the Commission during their deliberations.

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DISCUSSION (continued):

Combined GF & ISF Fund Salaries							
	2014_15	2015_16	2016_17	2017_18	2018_19	2019_20	
Salaries-Total	\$ 15,324,291	\$ 15,416,095	\$ 15,758,451	\$ 16,921,167	\$ 17,942,181	\$ 19,254,973	
Salaries-Temp	\$ 867,364	\$ 869,152	\$ 913,362	\$ 811,194	\$ 648,097	\$ 881,908	
Salaries-OT	\$ 436,917	\$ 415,372	\$ 545,427	\$ 583,001	\$ 707,046	\$ 708,955	
Benefits-Total	\$ 6,526,096	\$ 7,224,479	\$ 9,470,413	\$ 8,238,405	\$ 8,861,044	\$ 9,678,595	
Benefits-PERS	\$ 3,362,328	\$ 3,818,073	\$ 6,088,841	\$ 4,739,853	\$ 5,282,681	\$ 6,059,646	
<b>Adjustments for Temporary &amp; OT Salaries</b>							
Salaries	\$ 15,324,291	\$ 15,416,095	\$ 15,758,451	\$ 16,921,167	\$ 17,942,181	\$ 19,254,973	
Less:Temp Salaries	(867,364)	(869,152)	(913,362)	(811,194)	(648,097)	(881,908)	
OT Salaries	(436,917)	(415,372)	(545,427)	(583,001)	(707,046)	(708,955)	
	\$ 14,020,010	\$ 14,131,571	\$ 14,299,662	\$ 15,526,972	\$ 16,587,038	\$ 17,664,110	
<b>Year Over Year % Change</b>							
<b>Based Upon Actuals</b>							
Salaries		0.80%	1.19%	8.58%	6.83%	6.49%	
Benefits		10.70%	31.09%*	-13.01%	7.56%	9.23%	
<b>SALARY CHANGE ANALYSIS</b>							
Total Change FY 14/15 to FY 19/20						\$ 3,644,100	
Total % Change						25.99%	
Annual Change Unadjusted						5.20%	
Total Change FY 14/15 to FY 19/20						\$ 3,644,100	
Less One-Time Equity Adjustments							
FY 18/19 & 19/20 (salary only)						\$ (1,558,864)	
Total Adjusted Change						\$ 2,085,236	
Total Five Year % Change Adjusted						14.87%	
Annual Change Adjusted For One-Time Equity Adj.						2.97%	
<b>BENEFITS CHANGE ANALYSIS</b>							
Total Change FY 14/15 to FY 19/20						\$ 3,152,499	
Total % Change						48.31%	
Annual Change Unadjusted						9.66%	
Total Change FY 14/15 to FY 19/20						\$ 3,152,499	
Less One-Time Equity Adjustments							
FY 18/19 & 19/20 (benefits only)						\$ (580,321)	
Total Adjusted Change						\$ 2,572,178	
Total Five Year % Change Adjusted						39.41%	
Annual Change Adjusted For One-Time Equity Adj.						7.88%	

\* Benefits impacted by Implementation  
beginning in FY 2016/17 of  
annual calculated Pension Expense  
for Internal Service Funds as  
per provisions of GASB 68-  
(Accounting and Financial Reporting  
for Pensions)

SUBJECT: Finance Commission Budget Recommendations to the Town Council per Measure A

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DISCUSSION (continued):

In addition, the Commission received information from staff regarding current staffing vacancies and associated savings if unfilled for six months.

Vacant Position	Department	Vacancy Date	Salary Range	Hourly Rate	Current Status	6 Mos. Salary/Benefits Cost
1 Communications Dispatcher	Police	Dec-20	TEA - 14	\$39.05 - \$50.41	New employee scheduled to start in May	\$ 76,902
2 Communications Dispatcher	Police	Jan-21	TEA - 14	\$39.05 - \$50.41	Background	\$ 76,902
3 Communications Dispatcher	Police	Mar-21	TEA - 14	\$39.05 - \$50.41	Background	\$ 76,902
4 Communications Dispatcher	Police	Apr-21	TEA - 14	\$39.05 - \$50.41	Recruitment in progress	\$ 76,902
5 Legal Administrative Assistant	Town Attorney	Jan-21	Conf - 02	\$33.43 - \$43.26	Dept Review of Applications	\$ 67,344
6 Parks & Maintenance Worker*	Parks & Public Works	Oct-20	AFSCME - 05	\$29.90 - \$38.17	Interviews Scheduling	\$ 59,794
7 Police Officer	Police	Dec-20	POA - 02-0710	\$48.90	New employee scheduled to start June - Police Officer Trainee	\$ 81,317
8 Police Officer	Police	Apr-21	POA - 02-0711	\$51.47 - 62.57	Final stages of background	\$ 133,224
* Recruitment Timeline Events:						
- Oral Board 12/8/20						
- Invited 6, 3 no show						
- 2 offers extended, both declined						
- Next Oral Board 5/13/21						

The following recommendations are based on the Commission's desire to slow the growth in expenses in FY 2021/22 and reflect historic trends in expense assumptions in the Five-Year Forecast:

**Motion by Commissioner Park** to freeze budgeted FTE's at 145 for six months.

**Seconded by Chair Ron Dickel.**

**Motion passed unanimously.**

**Motion by Chair Ron Dickel** to use a 2% inflation factor for development of base salary expenses for FY 2021/22 and the remaining forecast period, without implying a particular outcome for negotiations with bargaining units. **Seconded by Stacey Dell.**

**Motion passed unanimously.**

In addition, the Commission recommended the inclusion of a destination marketing allocation into the budget to expedite the return of Transient Occupancy Tax revenues.

**Motion by Chair Ron Dickel** to allocate \$55K to destination marketing utilizing ARPA funds. **Seconded by Loreen Huddleston.**

**Motion passed 4-0-1, Rick Tinsley abstained.**

### Operating Budget Balancing Recommendations

Based on the recommendation to divide Measure G proceeds evenly (50%/50%) between eligible Operating and Capital uses, the Commission recommended utilizing anticipated Other Post-Employment Benefit (OPEB) actuarial contributions as the budget balancing strategy for FY 2020/21 through the forecast period. This recommendation would replace the proposed use of Measure G allocations for eligible 100% Operating purposes.

SUBJECT: Finance Commission Budget Recommendations to the Town Council per Measure A

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DISCUSSION (continued):

**Motion by Commissioner Rick Tinsley** to cancel the FY 2020/21 and future years' Other Post-Employment Benefits (OPEB) actuarial contribution(s) to the extent necessary to close, fund the CIP, increased salaries, and address uncertainties.

**Seconded by Chair Ron Dickel.**

**Motion passed unanimously.**

**Motion by Commissioner Rick Tinsley** to cancel the FY 2021/22 and future years' Other Post-Employment Benefits (OPEB) actuarial contribution(s) to the extent necessary to close, fund the CIP, increased salaries, and address uncertainties.

**Seconded by Chair Ron Dickel.**

**Motion passed unanimously.**

*Finance Commission Coming Year Workplan*

During the current budget cycle deliberations, the Commission identified areas for continued review in addition to specific work items already identified in Measure A. Following are the highlights of anticipated Commission review in the coming year:

- Further review of expenses in the coming year to better understand the cost structure of the organization.
- A review of revenue enhancements and cost containment strategies.
- A framework for capital project decision making should be developed to assess projects through the lens of: recurring, upkeep, quality of life, mandate, and improvement.
- During budget discussions, a 36% decline in the liability Internal Service Fund was identified and attributable to increases in settlements in insurance pool. In addition, a 73% decline in the workers compensation fund was attributable to increased settlements. These and other Internal Service Funds and other reserve accounts will be reviewed.
- Town Service Fees will be reviewed, including the Police Services for Monte Sereno.
- OPEB funding and expense will be reviewed for options to lower costs.
- Financial practices and policies will be reviewed.
- Key performance Indicators and Town Investments will be reviewed quarterly in addition to the CAFR and Auditor reviews.

CONCLUSION:

Per Measure A this report provides written comments and recommendations to the Town Council regarding the Commission's review of the Proposed FY 2021/22 Operating and Capital Budgets.

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Measure A

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The Commission would like to express its thanks to the Town staff for their engagement in the budget review process.

COORDINATION:

This staff report was coordinated with the Town Manager, Town Attorney, Director of Finance, and Finance Commission Chair.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.