

From: [Phil Koen](#)
To: [Wendy Wood](#); [Rick Tinsley](#)
Cc: [Rob Rennie](#); [Matthew Hudes](#); [Gitta Ungvari](#); [Laurel Prevetti](#)
Subject: Distribute to FC as background reading for Jan FC meeting
Date: Wednesday, December 20, 2023 7:13:12 AM
Attachments: [May 2022 - FY 23 Budget Memo's .pdf](#)

[EXTERNAL SENDER]

Wendy,

Please distribute this to the FC as background reading for the Jan FC meeting. I would like to revisit the “structural deficit” issue that was identified with the development of the FY 23 budget given the TC discussion on increasing taxes.

Thank you,

Phil Koen



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 05/17/2022

ITEM NO: 7

DATE: May 9, 2022
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Consider the Recommendations of the Finance Commission and Staff, and Provide Direction on the Town of Los Gatos Proposed Operating and Capital Budget for Fiscal Year (FY) 2022/23 and on the Proposed Capital Improvement Program for FY 2022/23 – FY 2026/27; Including but Not Limited to:

- a. Provide direction to Balance the FY 2022/23 Proposed Budget;
- b. Provide Direction on the Proposed Operating Budget;
- c. Provide Direction on the Proposed Capital Budget; and
- d. Consider the FY 2022/23 List of Potential Donations Consistent with the Town's Donation Policy

RECOMMENDATION:

Staff recommends the Town Council consider the recommendations of the Finance Commission and staff, and provide direction on the Town of Los Gatos Proposed Operating and Capital Budgets for Fiscal Year 2022/23 and the Town of Los Gatos Proposed Capital Improvement Program for Fiscal Years 2022/23 - 2026/27, including but not limited to:

- a. Provide direction balancing the FY 2022/23 Proposed Budget;
- b. Provide direction on the Proposed Operating Budget;
- c. Provide direction on the Proposed Capital Budget; and
- d. Consider the FY 2022/23 List of Potential Donations consistent with the Town's Donation Policy.

PREPARED BY: Arn Andrews
Assistant Town Manager

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

BACKGROUND:

On April 18, 2022, the Town Manager's Proposed FY 2022/23 Operating and Capital Budgets were posted on the Town's website for the public's review and comment (see Attachments 1 and 2). Per Measure A, the Finance Commission received the Proposed Budgets 21 business days before May 17, 2022, which is the first meeting at which the Proposed Budgets will be considered by the Town Council. The transmittal letter in the Proposed FY 2022/23 Operating Budget provides an executive summary of the budget, including the fiscal outlook, key budget assumptions, and other information.

The Proposed Operating and Capital Budget for FY 2022/23 (Attachment 1) is the Town Manager's recommended comprehensive financial plan to provide services to the Town of Los Gatos and address the priorities set by the Town Council. The Proposed FY 2022/23 – 2026/27 Capital Improvement Program (Attachment 2) is a five-year capital improvement plan which identifies projects to construct and maintain the Town's infrastructure. Please see the transmittal letters contained in each Budget document for a detailed overview and summary.

Both budget documents were prepared with contributions from all Town Departments. Of particular note, the Finance Department took the lead in developing revenue and expenditure forecasts, ensuring that the most current information was used in the preparation of the proposed budgets. In addition, the Department of Parks and Public Works identified high priority projects for inclusion in the Capital Budget based on its familiarity with the Town's facilities, equipment, and infrastructure, and its work with various Town Commissions on these assets.

The FY 2022/23 Budget endeavored to maintain essential public services while controlling operational costs in light of the Five-Year Financial Forecast, which predicts operating shortfalls in subsequent fiscal years. The loss of previously projected future growth in revenues in conjunction with increasing expenses continues to illustrate persistent deficits in future years. The deficits are on the order of approximately \$2.0 to \$3.0 million per year and can currently be resolved through a combination of expenditure controls, revenues reverting to pre-pandemic trends, and the use of one-time funds.

Even with areas of continued uncertainty, this Budget positions the organization well for continued excellence in service delivery to the community. However, in the event pre-pandemic revenue growth projections do not return and/or new revenue sources are not identified, the current projected deficits may need to be addressed through service delivery reductions or service outsourcing. If this occurs, the Council will need continued input from the community to identify acceptable organizational changes and service levels. The recently completed community survey provide useful insight into community prioritization of service delivery.

BACKGROUND (continued):

In addition to the Town Manager's Proposed Budget, the Town Council is being asked to consider the Finance Commission recommendations contained in Attachment 3. The Town Council is also being asked to consider corrections based on additional review and analysis since publication (Attachment 5). Any recommended changes and additional direction to the Proposed Operating and/or Capital Budgets provided by Council at the May 17, 2022 budget hearing will be incorporated into the implementing resolution to be presented for final Council approval on June 7, 2022. Finally, the Council is asked to review the annual list of donations (Attachment 8).

To help the Council work through all of this material, staff recommends that the Council discuss and make individual motions as appropriate on the items in the following order as presented in this staff report:

- Five-Year Forecast (motions are welcome to change any of the assumptions in the Forecast)
- Direction to Balance the Proposed FY 2022/23 Operating Budget
- Finance Commission's four recommendations
- Consideration of any funding requests (as of the date of this report, the Town has not received any)
- Any other direction on the Proposed FY 2022/23 Operating Budget
- Any other direction on the Proposed FY 2022/23 – 2026/27 Capital Budget
- Consideration the Proposed Donation List

DISCUSSION:

Overview of Proposed Operating Budget and Five-Year Forecast

The FY 2022/23 General Fund Budget programs total revenues and reserve transfers of \$50.4 million, and expenditures and allocations of \$50.4 million. The Budget currently anticipates no significant new programming and does maintain existing service levels with modest staffing additions. Even with the budgetary challenges of the last several years associated with the COVID-19 pandemic, many of Council's primary goals and priorities have been programmed in the FY 2022/23 Operating and Capital Budgets. Specifically, the Council would like continued progress on wildfire protection safety; emergency preparedness; semi-permanent parklets; diversity, equity, and inclusion; community policing; parking study implementation; and the General Plan and Housing Element updates.

The Five-Year Forecast takes a forward look at the Town's General Fund revenues and expenditures and is updated regularly. Its purpose is to identify financial trends, potential shortfalls, and other issues so the Town can proactively address them and budget accordingly. It does so by projecting out into the future the fiscal results of continuing the Town's current

DISCUSSION (continued):

service levels and policies. This process helps to provide a snapshot of what the future may look like as a result of the decisions made to date. The economic ramifications of the pandemic have created lower revenue bases than in prior years which reverberate throughout the forecast period as future revenue growth is extrapolated from the lower initial base revenues. Revenue forecasts for the current Budget (Attachment 4) have been developed in close consultation with the Santa Clara County Assessor, Town Sales Tax consultant MuniServices, and a review of national and regional hospitality research.

In addition to revenue growth projections, the Proposed Budget also forecasts anticipated increases in the Town's pension obligation payments and salaries as well as other expenditures (Attachment 4). As a service delivery enterprise, the cost of salaries and benefits are a significant portion of the budget. The delivery of Town services is highly dependent on recruiting and retaining talent which comprises 66% of budgeted General Fund expenditures for FY 2022/23. Given the high dependence on labor for service delivery, the Town has helped manage salary escalation (and benefits) through the maintenance of lower staffing levels. However, even with the Town reducing its full-time employees by 15.0% to 153 FTE employees since 2001, pension benefit costs per employee continue to escalate as evidenced by an average 11.9% increase per year versus a 3.3% average increase for regular salaries per year in the past seven years.

Balancing the Proposed FY 2022/23 Operating Budget

For FY 2022/23 the Proposed Operating Budget was balanced utilizing two primary budget balancing strategies. The first was direction to all Departments to develop a status quo budget. To that end most Departments programmed existing resources by either maintaining current structures or realigning operations to remain effective while staying within prior year budgets. In addition, Departments were provided guidance to enhance capacity where necessary through limit-dated, non-benefited personnel options and increases to temporary staffing when possible.

The second strategy is the use of \$1.0 million of the Town's \$7.2 million allocation from the American Rescue Plan Act (ARPA) to replace lost revenue anticipated in FY 2022/23. This is consistent with prior Council direction for the use of ARPA in FY 2020/21 (\$1.4 million) and FY 2021/22 (\$1.9 million). It's important to note, that as the economically sensitive revenues of sales tax and transient occupancy tax continue to revert toward pre-pandemic levels, no ARPA funding was ultimately expensed for revenue loss replacement in FY 2020/21. At this time, staff estimates that no ARPA funding will be needed at the close of FY 2021/22. The actual surplus/shortfall will be determined upon the final close and audit of the fiscal year.

DISCUSSION (continued):

Overview of Proposed Capital Budget

The FY 2022/23 – FY 2026/27 Capital Improvement Program (CIP) sets forth a five-year plan for proposed streets, parks, and public facility projects. The transmittal letter contained in the CIP provides a summary of the program including funding sources, recently completed projects, and the proposed projects for FY 2022/23. The proposed \$32.5 million in the first year of the CIP is comprised of approximately \$20.0 million in carryover funds from FY 2021/22 and approximately \$12.5 million in new funding. The \$12.5 million of new funding is comprised of \$6.0 million in General Fund Appropriated Reserve (GFAR), \$5.0 million in Grants and \$1.5 million from other sources. Only the first year of the plan is formally adopted with funds appropriated by the Town Council as part of the budget process.

The first year of the five-year CIP (FY 2022/23) continues funding for the Town Council Strategic Priorities, including basic infrastructure needs. In January 2022, the Town Council established the 2022-24 Strategic Priorities. In terms of capital projects, the Town Council stated its priorities to begin phased implementation of the recommendations in the Comprehensive Parking Study, continue mobility improvements for all transportation modes, manage the vegetation on Town lands to protect against wildfire, and advance other needed improvements.

Street maintenance remains a high Council priority as the Town is making efforts to improve its Pavement Condition Index (PCI), a standard rating of street conditions. The Town utilizes funding from the Metropolitan Transportation Commission (MTC) to hire a consultant to conduct a regular assessment of pavement condition with a full assessment occurring every three years. The recent assessment concluded that after completion of FY 2021/22 street pavement projects, PCI is anticipated to jump to 75 or 76. The assessment indicated that the Town can maintain a PCI of 75 with an annual funding of \$3.3M for the next five years. While this is welcome news, the Town will need to identify dedicated ongoing sources of revenue for future deferred and routine capital maintenance.

Town staff go through a rigorous process to evaluate all previously funded projects and potential new projects when preparing the CIP. There are more needs than available funding, and staff recommends high priority projects that are consistent with the Strategic Priorities. This year, due to limited available funds, the proposed CIP concentrates on funding key ongoing maintenance commitments (e.g., street paving), projects that have grant funding and a FY 2022/23 schedule obligation, and supplementing projects that are underway to ensure they are completed. These funding priorities leave funds for only one additional project. As a result, the CIP documents several unfunded projects within the respective programs. On April 27, 2022, the Planning Commission reviewed the proposed CIP, found it consistent with the General Plan, and recommended its adoption by the Town Council.

DISCUSSION (continued):

Finance Commission Recommendations

As previously mentioned, the newly constituted Finance Commission is tasked with a thorough review of the FY 2022/23 Proposed Operating and Capital Budgets. The Finance Commission recommended approval of the Proposed Budgets predicated on four recommended changes to the Proposed Budget (see Attachment 3).

The Commission's deliberations coalesced around the following goals and observations:

- The Commission's interest for continued enhancement of transparency in budget development, budget assumptions, and budget presentation.
- The Proposed Budget continues to restrict capital expenditures relative to historic allocations.
- The Proposed Capital Improvement Program (CIP) continues to be 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.
- The Forecast projects deficits throughout the forecast period.
- The Commission's continued review of the Town's Internal Service Funds.

The Finance Commission (FC) made two recommendations for additional funding allocations to the General Fund Appropriated Reserve (GFAR). The Council should consider the recommendations in relation to other budgetary priorities. For each FC recommendation, potential impacts are identified.

FC Recommendation: Recommend to Council the allocation of \$3.77 million to the General Fund Appropriated Reserve (GFAR) for FY 2022/23 for capital budgeting purposes as determined by the Town Council's priorities. (This amount is based on an historic average of 8.28% from 2005/06 through 2022/23 of operating revenues transferred to the Capital program.)

Potential Impacts: The recommendation would increase the FY 2022/23 operating deficit by approximately \$700k. The Finance Commission did not make a recommendation as to how to close this new deficit. If the Council moves forward with this recommendation, the Town Council would need to identify modifications to the Operating Budget to maintain a balanced budget. For example, the Council may wish to allocate \$700,000 from the unallocated American Rescue Plan Act (ARPA) monies.

FC Recommendation: Recommend to Council the allocation of approximately \$3.7 million of unallocated ARPA funds to the General Fund Appropriated Reserve (GFAR) for FY 2022/23 for capital budgeting purposes as determined by the Town Council's priorities.

DISCUSSION (continued):

Potential Impacts: ARPA funds would become unavailable for other uses.

If Council wishes to proceed with one or both of these recommendations, staff suggests that the Council consider potential modifications to the CIP and specific projects in August. At that time, staff will be prepared to identify priority improvements within existing staff limitations that constrain the Town's ability to deliver a large Capital program.

The Finance Commission (FC) made one recommendation regarding the Town's existing Internal Service Fund structure.

FC Recommendation: Recommend to Council the dissolution of the Workers Compensation and Self-Insurance Internal Service Funds starting in FY 2022/23 with remaining balances being transferred to the General Fund.

Potential Impacts:

Workers Compensation and Self-Insurance are considered "risk financing" due to their associated liabilities. The use of the Internal Service funds (ISFs) is one of the only two types of funds permitted by the Governmental Accounting Standards Board (GASB) to be used for the accounting for risk financing, the other being the General Fund. The pros and cons of closing the Workers Compensation and Self-Insurance Internal Service Funds are discussed below.

Pros of Closing Internal Service Funds and Merging into the General Fund

- Because of the fees charged to the user Departments, there is an unavoidable doubling of costs in the budget which increases the total expenditures when looking at a financial summary of expenditures for all Town funds. This occurs because allocated costs for Workers Compensation is budgeted in the front-line program receiving workers compensation services such as public safety and the full cost of workers compensation is also budgeted in the home base Internal Service Fund where the costs are centralized leading to a "doubling up" of expenses. This "doubling up" leads to what some critics describe as an unnecessary artificial increase of revenue and expenditure budget totals. Recognizing this anomaly, GASB requires that for the Annual Comprehensive Annual Financial Report, the "doubling up" of expenses is eliminated.
- Frees up current ISF balances for any General Fund purpose desired by the Council.
- Operating Departments often desire to be informed and educated to fully understand the rationale for the internal service costs being allocated to their Departments and absorbed in their budgets in the form of user charges. Staff time required for users of the service and administrators of the Internal Service funds to provide the required analysis for rate setting of user charges including the development of sustainable

DISCUSSION (continued):

ongoing user fee charges that can be absorbed in future operating budgets may be better allocated to other activities.

- Net position balances can be viewed by some as excessive if believed to be above the amounts necessary to achieve a balance of revenues and expenses over the long term. Because of the unpredictability of claims, it is difficult to be definitive over the adequacy of net position at a given point in time

Cons of Closing Internal Service Funds and Merging into the General Fund

- Loss of the ability to assess reasonable user charges to increase/decrease the net position of the fund to provide resources for unanticipated catastrophic losses, the estimation of future anticipated losses and known hazards, or amounts derived from actuarial studies.
- Less disruption to the adopted budget process. ISF balances allow for the smoothing of variability associated with these risk-financing expense categories.
- Use of these funds allows for full accrual accounting and full cost of providing risk financing services as provided in the Internal Service Fund.
- Long term Self-Insurance/General Liability and Workers Compensation claims liabilities not paid from “expendable and available resources” (short term) will not be reported on the General Fund balance sheet. Instead, they will be reported as a long-term liability in Government Wide Statement of Net Position.

If the Council wishes to eliminate these two ISFs, staff recommends that full implementation occur with the Council’s consideration of the Mid-Year Review of the FY 2022/23 Budget (February 2023). Staff needs time to close the ISFs, recalculate the user fees for each Department, distribute the funds to the General Fund, and ensure all accounts are properly managed. All of this work is not feasible prior to the July 1, 2022 start of the fiscal year.

The Finance Commission (FC) made one recommendation regarding projected deficits in the current Five-Year Forecast.

FC Recommendation: Recommend to Council that the Commission believes that a “Structural Financial Deficit” currently exists and for Council to acknowledge the Commission’s finding and direct the Commission to work with Town management to confirm the actual amount of the

DISCUSSION (continued):

deficits that the Town is facing and come back to the Council with suggestions/ideas on how we can fix this “Structural Financial Deficit” and fund capital projects.

Potential Impacts: The recommendation has no direct impact on the Proposed Operating Budget for this fiscal year.

If the Council agrees with this recommendation, then staff would work with the Commission on refined projections of revenues and costs; identification of potential revenue enhancements and cost cutting strategies; and determination of other balancing mechanisms that would ultimately be forwarded to the Town Council for its consideration.

Consideration of Any Funding Requests

If there are individual requests for new spending, the Council should consider these requests in the context of the Proposed Operating Budget and identify the source(s) of funding for the(se) item(s). At the time of the preparation of this report, no requests have been submitted to the Town. On May 4, 2021, the Council approved “Principles for Considering Future Funding Requests” (Attachment 6), which the Council may find helpful.

Donation Opportunities - FY 2022/23 List of Town Needs

As part of the budget development process, the List of Town Needs is updated annually per Town Council Donation Policy (Attachment 7) to reflect goods, services, and other contributions that would help enhance Town services, programs, and events (Attachment 8).

CONCLUSION AND NEXT STEPS:

At its May 17, 2022 meeting, the Council will have an opportunity to listen to public testimony, ask questions, consider the Finance Commission’s recommendations, deliberate, and direct changes to the Proposed Operating and/or Capital Improvement Program Budgets. Any changes to the Proposed Operating and/or Capital Budgets directed by Council or identified by staff (see Attachment 5.) will be included for Council consideration in the resolution formally adopting the Budgets to be considered by Council on June 7.

During and after the Budget adoption, staff continues to monitor revenues and expenditures closely and will report to the Town Council actual revenues and expenditures later in the year as the data become available. Any modifications needed will be brought back to the Council as Budget Adjustments.

Public comment received after the Finance Commission meetings and before 11 a.m. on May 12, 2022 is contained in Attachment 9.

COORDINATION:

The preparation of the budget documents involved the participation of all Town Departments. The Finance Commission deliberated and provided its recommendations to the Council as discussed in this report.

FISCAL IMPACT:

Under State law, the Town Council is required to enact a balanced budget. The Proposed Operating and Capital Budgets are balanced and as the Council directs changes, the outcome must be a balanced fiscal plan.

ENVIRONMENTAL ASSESSMENT:

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

Attachments Provided to the Council Prior to the Distribution of this Report:

1. FY 2022/23 Proposed Operating and Capital Budget
<https://www.losgatosca.gov/DocumentCenter/View/30442/FY-2022-23-Proposed-Budget>
2. FY 2022/23 – 2026/27 Proposed Capital Improvement Program Budget
<https://www.losgatosca.gov/DocumentCenter/View/30428/FY-2022-23-Capital-Budget>

Attachments Provided with this Report:

3. FY 2022/23 Finance Commission Operating and Capital Budget Recommendations
4. Revenue and Expense Forecast Assumptions
5. List of proposed changes related to corrections and adding clarifications
6. Council's Principles for Considering Funding Requests (Approved May 4, 2021)
7. Town of Los Gatos Donation Policy
8. Town of Los Gatos Donation Opportunities: FY 2022/23
9. Public Comment Received Before 11 a.m. on May 12, 2022

The FY 2022/23 Proposed Operating and Capital Budget can be found here:

<https://www.losgatosca.gov/DocumentCenter/View/30442/FY-2022-23-Proposed-Budget>

The FY 2022/23 – 2026/27 Proposed Capital Improvement Program Budget can be found here:

<https://www.losgatosca.gov/DocumentCenter/View/30428/FY-2022-23-Capital-Budget>



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 05/17/2022

ITEM NO:

DATE: May 10, 2022
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager on behalf of the Finance Commission
SUBJECT: Receive Fiscal Year (FY) 2022/23 Proposed Operating and Capital Budget Recommendations from the Town Finance Commission per Measure A

RECOMMENDATION:

Receive Fiscal Year (FY) 2022/23 Proposed Operating and Capital Budget recommendations from the Town Finance Commission per Measure A.

BACKGROUND:

On April 18, 2022, the Town Manager's Proposed FY 2022/23 Operating and Capital Budgets were posted on the Town's website for the public's review and comment. The Proposed Budgets were published 21 business days before May 17, 2022 (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

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

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.

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 25, 2022 – Special Finance Commission meeting
- May 2, 2022 – Special Finance Commission meeting
- May 9, 2022 – Regular Finance Commission meeting

<https://losgatos-ca.municodemeetings.com/>

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, evolution of forecasted budget deficits, allocated/unallocated American Rescue Plan Act (ARPA) funding, historic base salary, and benefit expenditures, historic Capital Improvement Program (CIP) expenditures, employee vacancies, and a summary of the Community Survey results. In addition, staff provided responses to Commission and public inquiries throughout the process.

The Commission's deliberations coalesced around the following goals and observations:

- The Commission's interest for continued enhancement of transparency in budget development, budget assumptions, and budget presentation.
- The Proposed Budget continues to restrict capital expenditures relative to historic allocations.
- The Proposed Capital Improvement Program (CIP) continues to be 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.
- The Forecast projects deficits throughout the forecast period.
- The Commission's continued review of the Town's Internal Service Funds.

Based on the aforementioned areas of emphasis, the Commission ultimately made four 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 four recommendations:

Capital Improvement Program 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.

Motion by Commissioner Rick Tinsley to recommend to Council the allocation of \$3.77 million to the General Fund Appropriated Reserve (GFAR) for FY 2022/23.

Seconded by Chair Ron Dickel.

Motion passed unanimously

Motion by Chair Ron Dickel to recommend to Council the allocation of approximately \$3.7 million of unallocated ARPA funds to the GFAR for FY 2022/23. **Seconded by Vice Chair Kyle Park.**

Motion passed unanimously

Operating Budget Recommendations

As previously mentioned, Commissioners expressed interest in the Town's current use of Internal Service Funds and concerns about projected deficits.

Motion by Chair Ron Dickel to recommend to Council the dissolution of the Workers Compensation and Self Insurance Internal Service Funds starting in FY 2022/23 with remaining balances being transferred to the General Fund. **Seconded by Commissioner Loreen Huddleston.**

Motion passed unanimously

Motion by Commissioner Kyle Park to inform Council the Commission believes that a "Structural Financial Deficit" currently exists and for Council to acknowledge the Commission's finding and direct the Commission to work with Town management to

confirm the actual amount of the deficits that the Town is facing and come back to the Council with suggestions/ideas on how we can fix this "Structural Financial Deficit" and fund capital projects. Seconded by Chair Ron Dickel.

Motion passed unanimously

CONCLUSION:

Per Measure A, this report provides written comments and recommendations to the Town Council regarding the Commission's review of the Proposed FY 2022/23 Operating and Capital Budgets.

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.

FORECAST ASSUMPTIONS

REVENUE BASELINE AND PROJECTION FACTORS

Type of Revenue Base Line Estimate	FY 2022/23 Budget	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast
Property Tax/VLF Backfill SCC Assessor Office January 2022 report.	3%	3%	3%	3%	3%	3%
North 40 Property Sales Starting in FY 2021/22	North 40 Sales	3%	3%	3%	3%	3%
ERAF SCC Assessor Office March 2022 report	SCCA recommend 70% of FY 2021/22 anticipated proceeds	\$400K	\$400K	\$400K	\$400K	\$400K
Sales Tax	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates
Sales Tax - Measure G	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates
Franchise Fee Current baseline set by FY 2021/22 Year End Estimates	Current baseline set by FY 2021/22 Year End Estimates	3%	3%	3%	3%	3%
Transient Occupancy Tax Current baseline set by FY 2021/22 Year End Estimates	Current baseline set by FY 2021/22 Year End Estimates	5%	5%	3%	3%	3%

FORECAST ASSUMPTIONS

REVENUE BASELINE AND PROJECTION FACTORS

Type of Revenue Base Line Estimates	FY 2022/23 Budget	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast
Business License Tax Current baseline set by FY 2021/22 Year End Estimates	3%	3%	3%	0%	0%	0%
License & Permits Current baseline set by FY 2021/22 Year End Estimates	3%	3%	3%	3%	3%	3%
Town Services Current baseline set by FY 2021/22 Year End Estimates	3%	3%	0%	3%	3%	3%
Fine & Forfeitures Current baseline set by FY 2021/22 Year End Estimates	3%	Varies	Varies	Varies	Varies	Varies
Interest Current baseline set by FY 2021/22 Year End Estimates	Varies based on portfolio	Varies based on portfolio	Varies based on portfolio	Varies based on portfolio	Varies based on portfolio	Varies based on portfolio
Other Sources Current baseline set by FY 2021/22 Year End Estimates	Varies	Varies	Varies	Varies	Varies	Varies

FORECAST ASSUMPTIONS

EXPENDITURE BASELINE AND PROJECTION FACTORS

Beginning in FY 2020/21, the Town is budgeting salaries at the actual salary plus a one-step increase. 68% of the workforce is already at top step or one step below top step. In the Five-Year Forecast, positions are forecasted at the actual rate of pay including salaries and benefits as of April 1, 2022 and rate is increasing in the actual anniversary date.

Type of Expenditure	FY 2022/23 Budget	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast
Salaries*	2%	2%	2%	2%	2%	2%
Benefit - Medical**	7%	7%	7%	7%	7%	7%
Operating Expenditures***	Varies	3%	3%	3%	3%	3%
Grants & Awards	0%	0%	0%	0%	0%	0%
Utilities***	Varies	3%	3%	3%	3%	3%
Internal Service Charges***	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement
Debt Service	Debt Service Schedules					

*Salary increases are based on actual step increases and approved Memoranda of Understanding with the bargaining units.

**Benefit increase estimates are provided by CalPERS/Public Employees' Medical and Hospital Care Act (PEMHCA).

***Based on historical trends.

The Town's required employer contribution rate estimates were developed using data provided by each plan's most recent CalPERS actuarial valuation. The employer contribution rates reflect percentages of covered payroll. Rates shown for FY 2022/23 are actual rates as prescribed by CalPERS. Forecasted rates for FY 2023/24 and subsequent years are based on the most recent CalPERS actuarial valuation reports and staff assumptions regarding staff's current estimate of returns for FY 2021/22 which are presently expected to be below the 6.8% discount rate.

FORECAST ASSUMPTIONS

Beginning in FY 2021/22, the estimates of employer contributions were credited with an anticipated reductions associated with the approximate \$4.8 million additional discretionary payment (ADP) toward the 2016 unfunded amortization base paid off in October 2019 and the total of approximately \$5.8 million in ADPs toward unfunded 2013 and 2015 amortization bases that were paid off in FY 2020/21. Employer contribution rate projections also include small percentage increases reflecting the anticipation of CalPERS gradually lowering its discount rate over the Five-Year Forecast period in accordance with the CalPERS adopted risk mitigation strategy, and the lowering of the discount rate to the present rate of 6.8% as of 6/30/2022. Estimates were also informed by recent rate estimates developed by the Town's actuary using the most recent actuarial valuation updated with current year projections of covered payrolls by plan type.

Type of Expenditure	FY 2022/23 Budget	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast
Safety POA	69.44%	72.01%	74.61%	75.68%	76.69%	76.66%
Safety Management POA	72.44%	75.01%	77.61%	78.68%	79.69%	79.66%
Safety POA - PEPRA	14.62%	14.65%	13.78%	13.75%	13.76%	13.76%
Miscellaneous TEA/Confidential/ Management	29.92%	30.04%	30.64%	28.45%	28.73%	28.42%
Miscellaneous TEA/Confidential/ Management PEPRA						
Separate PEPRA rate for Miscellaneous has not been established yet by CalPERS.	29.92%	30.04%	30.64%	28.45%	28.73%	28.42%

**Safety Classic Rate reflects 3% decrease in employer's contribution rate to reflect 3% contribution as negotiated with the Town's POA during the collective bargaining process effective FY 2019/20.*

From: [Phil Koen](#)
To: [Wendy Wood](#); [Rick Tinsley](#)
Cc: [Rob Rennie](#); [Matthew Hudes](#); [Gitta Ungvari](#); [Laurel Prevetti](#)
Subject: Staff memo
Date: Wednesday, December 20, 2023 7:17:24 AM
Attachments: [Aug 2022 staff memo - FY 23 budget.pdf](#)

[EXTERNAL SENDER]

Hi Wendy,

Would you please distribute this memo to the FC as background reading regarding the structural deficit discussion for the Jan FC.

Thank you,

Phil Koen



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 09/12/2022

ITEM NO: 7

Item 7.

DATE: August 26, 2022
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review of the Town's Structural Deficit per Town Council Directive.

RECOMMENDATION:

Review of the Town's Structural Deficit per Town Council Directive.

BACKGROUND:

On May 17, 2022, the Town Council considered recommendations from the Finance Commission regarding the development of the Fiscal Year (FY) 2022/23 Proposed Operating and Capital budgets. Among the Finance Commission recommendations was the communication to Council that the Commission believes that a "Structural Financial Deficit" currently exists, for Council to acknowledge the Commission's finding and direct the Commission to work with Town management to confirm the actual amount of the deficits that the Town is facing and come back to the Council with suggestions/ideas on how we can fix the "Structural Financial Deficit" and fund capital projects. At the conclusion of the May 17th meeting, Town Council approved the Finance Commission recommendation including the following excerpt from the motion:

"...acknowledge Finance Commission finding and direct the Commission to work with Town management to confirm the actual amount of the deficit and request recommendations on how to cure the deficit."

DISCUSSION:

On August 8, 2022, the Finance Commission held initial discussions regarding the process and inputs for analyzing the projected deficits in the Five-Year Forecast (Attachment 1). Commissioners determined that the review of the forecast should consist of three primary components which include:

PREPARED BY: Arn Andrews
Assistant Town Manager

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

PAGE 2 OF 2

SUBJECT: Structural Deficit Review

DATE: August 30, 2022

DISCUSSION (continued):

- Analysis of current and previous Forecasts – This will entail reviewing elements of previous adopted budgets versus final actual results. Of note, the Commission is seeking to develop a reasonable vacancy factor based on a five-year review of past vacancy savings (Attachment 2). The Commission also expressed an interest in staff developing a dataset of comparator agency metrics. Staff anticipates providing potential metrics/comparators at the October meeting.
- Development of potential cost containment/reduction packages – This will entail staff developing packages of potential expense reduction/containment strategies around varying service areas. Attachment 3 contains a recent staff report highlighting operational efficiencies achieved throughout the organization since the start of the pandemic.
- Align findings and any subsequent recommendations with the Town's established budget process (Attachment 4).

The Commission may find the recent staff presentation to Council on Police Department staffing and service delivery of interest (Attachment 5).

Attachments:

1. Five-Year Forecast
2. Vacancy Factor Analysis
3. August 16, 2022, Operational Efficiencies Staff Report
4. Town Budget Process
5. August 16, 2022, Police Department Staff Report

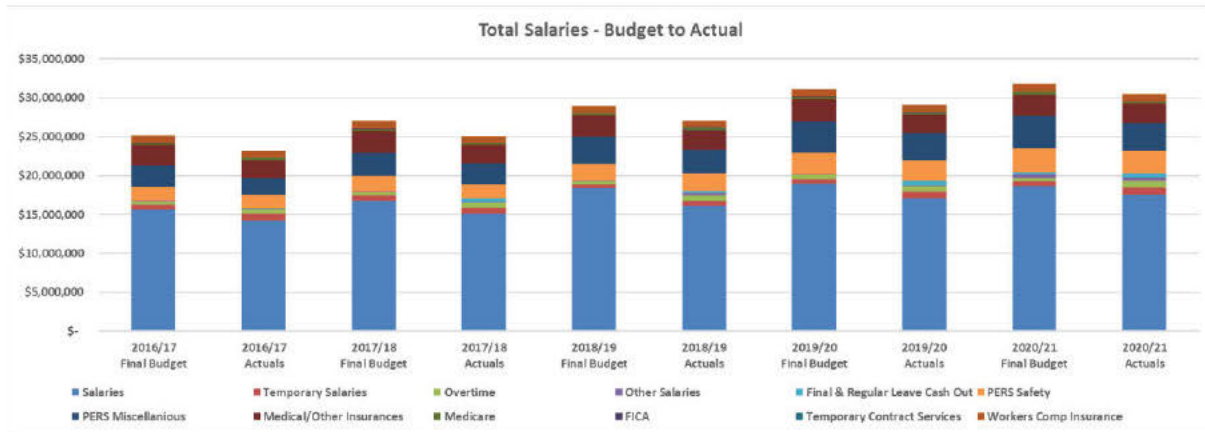
Town of Los Gatos General Fund 5-Year Forecast
(in \$ million)

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	1.4	1.4	1.4	1.4	1.4	1.4
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	3.5	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	3.8	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	\$ 48.0	\$ 46.5	\$ 47.6	\$ 49.0	\$ 50.5	\$ 51.6
	Use of Capital/Special Project Reserve - 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	0.7	-	-	-	-	-
	ARPA Replacement Revenue	-	-	1.6	-	-	-	-	-
TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES		\$ 51.0	\$ 49.0	\$ 52.7	\$ 47.3	\$ 48.4	\$ 49.8	\$ 51.3	\$ 52.4
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	23.2	23.0	23.5	23.9	24.5	25.0
5120	CalPERS Benefits	7.3	6.2	7.7	7.9	8.3	8.1	8.4	8.5
5200	All Other Benefits	4.2	3.4	4.6	4.4	4.5	4.6	4.7	4.8
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	\$ 49.3	\$ 49.2	\$ 50.8	\$ 51.6	\$ 53.3	\$ 54.4
	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	\$ 49.7	\$ 49.6	\$ 51.2	\$ 52.0	\$ 53.7	\$ 54.8
	Capital Transfers Out to GFAR	2.8	2.8	2.3	0.8	0.8	0.8	0.8	0.8
	Capital Transfer Out - 1/2 of Measure G Proceeds	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8
AMOUNTS AVAILABLE FOR RESERVE ALLOCATIONS									
	Allocate to Budget 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	\$ 52.7	\$ 51.1	\$ 52.7	\$ 53.5	\$ 55.3	\$ 56.4
NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES & RESERVE ALLOCATIONS FOR FINAL ALLOCATION AFTER YEAR END CLOSE		\$ 0.5	\$ 0.6	\$ -	\$ (3.8)	\$ (4.3)	\$ (3.7)	\$ (4.0)	\$ (4.0)
* 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.									

Vacancy Information

Item 7.

The following chart compares actual salaries and benefits to budgeted salaries and benefits.



	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Salary & Benefit Savings Actuals to Budget	8%	7%	7%	7%	4%*

* The Town traditionally budgeted miscellaneous employees at the top step, and sworn and management employees one step above their actual steps to anticipate merit increases. Beginning in FY 2020/21 consistent with Council direction, the Town is budgeting salaries at the actual salary plus a one-step increase for all classifications.

From: [Phil Koen](#)
To: [Wendy Wood](#); [Gitta Ungvari](#); [Laurel Prevetti](#); [Rick Tinsley](#)
Cc: [Rob Rennie](#); [Matthew Hudes](#)
Subject: Budget vs actual
Date: Wednesday, December 20, 2023 7:19:29 AM
Attachments: [FY 23 Budget vs Actual .pdf](#)

[EXTERNAL SENDER]

Hi Wendy,

Would you please distribute this schedule to the FC as background reading for the Jan FC meeting.

Phil

TOWN OF LOS GATOS, CALIFORNIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 20,907,894	\$ 22,484,118	\$ 22,743,087	\$ 258,969
Sales Taxes	9,174,944	8,959,134	8,806,477	(152,657)
Transient Occupancy Taxes	1,642,460	2,348,547	2,228,190	(120,357)
Other Taxes	7,000	7,000	6,454	(546)
Licenses & Permits	4,122,529	5,140,684	5,630,362	489,678
Intergovernmental	1,051,814	1,273,910	1,553,396	279,486
Charges for Services	4,257,261	5,540,465	4,646,705	(893,760)
Fines and Forfeitures	201,750	226,750	416,950	190,200
Franchise Fees	2,493,870	2,716,470	3,074,624	358,154
Interest	432,947	670,021	605,789	(64,232)
Use of Property	41,211	41,211	38,126	(3,085)
Other	1,203,657	863,964	859,571	(4,393)
Total Revenues	45,537,337	50,272,274	50,609,731	337,457
EXPENDITURES				
Current:				
General Government:				
Town Council	217,238	217,240	186,337	30,903
Town Attorney	707,555	811,427	699,143	112,284
Administrative Services	5,298,494	5,759,393	5,302,281	457,112
Non-Departmental	3,194,526	3,334,931	2,641,018	693,913
Total General Government	9,417,813	10,122,991	8,828,779	1,294,212
Public Safety	19,225,985	19,331,330	18,446,048	885,282
Parks & Public Works	9,798,967	10,368,194	8,998,088	1,370,106
Community Development	5,772,004	6,543,199	5,065,412	1,477,787
Library Services	3,139,449	3,247,730	3,096,486	151,244
Capital Outlay	-	435,416	300,000	135,416
Debt Service:				
Principal	-	156,034	156,034	-
Total Expenditures	47,354,218	50,204,894	44,890,847	5,314,047
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(1,816,881)	67,380	5,718,884	5,651,504
OTHER FINANCING SOURCES (USES)				
Gain from sale of assets	600	600	2,162	1,562
Transfers In	2,183,817	3,381,544	4,153,408	771,864
Transfers Out	(3,006,978)	(5,842,011)	(7,242,939)	(1,400,928)
Total Other Financing Sources (Uses)	(822,561)	(2,459,867)	(3,087,369)	(627,502)
NET CHANGES IN FUND BALANCE	\$ (2,639,442)	\$ (2,392,487)	2,631,515	\$ 5,024,002
BEGINNING FUND BALANCE			26,896,789	
ENDING FUND BALANCE			\$ 29,528,304	

The notes to the financial statements are an integral part of this statement.

From: [Phil Koen](#)
To: [Wendy Wood](#)
Cc: [Gitta Ungvari](#); [Laurel Prevetti](#); [Rick Tinsley](#); [Mary Badame](#)
Subject: RE: Budget vs Actual
Date: Friday, December 22, 2023 10:23:27 AM
Attachments: [image001.jpg](#)

[EXTERNAL SENDER]

Hi Wendy,

I am not sure of the process, but my desire is to have these documents as backup material to for a potential agenda item for our January meeting which would enable the FC **to begin** discussing the usefulness of the 5-year plan as a financial management tool. I am hoping we could have an opening conversation to level set the FC. Given that Staff is recommending tax increases based on a 5-year forecast that appears very out of date, I feel this is a timely matter and the FC needs to be addressing this issue sooner rather than later.

There are several new people on the FC that were not there (including myself) when the “structural deficit” issue was first raised by Kyle Park (see May 10, 2022, staff report). Based on the reports that I have reviewed, the structural deficit comment was mainly focused on the FY 23 plan and trying to determine whether that plan had a “structural deficit”. I have submitted the Staff reports dated August 26, 2022, May 9, 2022, and May 10, 2022, as background reading so the FC has the necessary context.

In the August 26, 2022 Staff report, the FC recommended

several actions to help analyze the projected deficits in the version of 5-year forecast then under review. One of the thoughts was to analyze the original adopted budgets vs actual results to gauge the accuracy and usefulness of the forecasts. I don't believe there was any follow up on the FC recommendations.

Staff reports have consistently stated that the purpose of the 5-year forecast is to identify financial trends, potential shortfalls, and other issues so the Town can proactively address them and budget accordingly. I concur with that view. The question I believe the FC first needs to address is – is the 5-year forecast indeed useful in identifying trends and potential shortfalls? Are they serving their intended purpose and helping the TC make high quality financial decisions? How do we determine this?

To begin the discussion, I have submitted the actual vs budget schedules for FY 22 and FY 23 that are in the ACFR. These schedules are incredibly informative and begin to answer the question around predictive capability of the 5-year forecast.

My question to you is how do I get this discussion teed up for our January meeting?

Happy Holidays to you,

Thank you.

From: Wendy Wood <WWood@losgatosca.gov>
Sent: Thursday, December 21, 2023 12:20 PM
To: Phil Koen <pkoen@monteropartners.com>
Cc: Gitta Ungvari <GUngvari@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>
Subject: RE: Budget vs Actual

Hello Commissioner Koen,

Thank you for your e-mails. Please consider this correspondence as confirmation of receipt of four e-mails received on December 20, 2023. This information will be included and distributed as part of the January Finance Commission Agenda packet.

Thank you,



Wendy Wood, CMC • Town Clerk

110 E. Main Street, Los Gatos CA 95030
Ph: 408.354.6888 • Fax: 408.399.5786 • WWood@losgatosca.gov

www.losgatosca.gov • <https://www.facebook.com/losgatosca>

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From: Phil Koen <pkoen@monteropartners.com>

Sent: Wednesday, December 20, 2023 7:21 AM

To: Wendy Wood <WWood@losgatosca.gov>

Subject: Budget vs Actual

[EXTERNAL SENDER]

Hi Wendy,

Could you please distribute this schedule to the FC meeting as background reading for the Jan FC meeting.

Thank you,

Phil Koen

From: [Phil Koen](#)
To: [Wendy Wood](#)
Cc: [Gitta Ungvari](#); [Laurel Prevetti](#); [Rick Tinsley](#); [Mary Badame](#)
Subject: Fwd: Budget vs Actual
Date: Wednesday, January 3, 2024 8:24:01 AM
Attachments: [image001.jpg](#)

[EXTERNAL SENDER]

Hello Wendy,

Happy New Year to you.

I am resending the email below because I have not heard back as to how best to have a background and introductory discussion regarding the usefulness of the 5 year forecasts that have been used as financial management tool to assist the TC in identifying trends and potential operating shortfalls. Given the narrative about “structural deficits”, the need for increase in taxes and having finished the audit of FY 2023 actual, I would like to begin this conversation now with the members of the FC so we can tackle this issue in 2024.

How do I get this on the agenda so all of the FC can begin to discuss this topic at the January 9th meeting?

Thank you,

Phil Koen

Begin forwarded message:

From: Phil Koen <[REDACTED]>
Date: December 22, 2023 at 10:23:00 AM PST
To: Wendy Wood <WWood@losgatosca.gov>
Cc: Gitta Ungvari <GUngvari@losgatosca.gov>, Laurel Prevetti <LPrevetti@losgatosca.gov>, Rick Tinsley <[REDACTED]>, Mary Badame <MBadame@losgatosca.gov>
Subject: RE: Budget vs Actual

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recommendations.

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Thank you.

From: Wendy Wood <WWood@losgatosca.gov>
Sent: Thursday, December 21, 2023 12:20 PM
To: Phil Koen <[REDACTED]>
Cc: Gitta Ungvari <GUngvari@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>
Subject: RE: Budget vs Actual

Hello Commissioner Koen,

Thank you for your e-mails. Please consider this correspondence as confirmation of receipt of four e-mails received on December 20, 2023. This information will be included and distributed as part of the January Finance Commission Agenda packet.

Thank you,



Wendy Wood, CMC • Town Clerk

110 E. Main Street, Los Gatos CA 95030
Ph: 408.354.6888 • Fax: 408.399.5786 • WWood@losgatosca.gov
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disclosure unless otherwise exempt by law.

From: Phil Koen <[REDACTED]>

Sent: Wednesday, December 20, 2023 7:21 AM

To: Wendy Wood <WWood@losgatosca.gov>

Subject: Budget vs Actual

[EXTERNAL SENDER]

Hi Wendy,

Could you please distribute this schedule to the FC meeting as background reading for the Jan FC meeting.

Thank you,

Phil Koen

From: [Phil Koen](#)
To: [Gitta Ungvari](#)
Cc: [Laurel Prevetti](#); [Rick Tinsley](#); [Mary Badame](#); [Wendy Wood](#)
Subject: Re: Budget vs Actual
Date: Wednesday, January 3, 2024 12:58:41 PM
Attachments: [image001.jpg](#)
[image001.jpg](#)

[EXTERNAL SENDER]

Thanks Gitta. To confirm, there will be an agenda item "2024 WorkPlan" on the Jan 9 agenda or are you saying this will fall under "Commissioner Comments" on the Jan 9 agenda? Please advise. I have not heard anything about what will be on the Jan 9 agenda.

To me this is an important and timely topic since we currently have one TC member putting out a public email stating the Town is facing a structural deficit and there is a need to raise taxes via a ballot measure. There is no discussion of how large a structural deficit or the specific use of new taxes. A similar message is being put forth by Staff.

The only document I am aware of that supports this view was the 5 year forecast prepared at the time the FY 24 budget was prepared which is stale and does not build from FY 23 actual results.

And then on the other hand, we have a TC member who has publicly expressed concerns over the usefulness of the 5 year forecast as a financial planning tool given the historical inability to reasonably predict on even an annual basis an operating surplus or deficit, coupled with the fact the Town had a GF operating surplus in 2023 and in 2022 totaling approximately \$9m. And this surplus did not include the \$7.2m in ARPA grant funds received.

Taken as a whole, this has to be confusing to the public. This is not a good position for the Town to be in.

The sooner we can rally around a 5 year forecast everyone believes in, the better off we will be. I really hope the FC can dig into this issue with the objective of providing useful advice to the TC prior to any priority setting for the coming year. Without a reasonable understanding of the Town's most likely financial landscape over the next 3 - 5 years, it is going to be very difficult for the TC to set actionable priorities.

Thanks,

Phil

On Jan 3, 2024, at 11:34 AM, Gitta Ungvari <GUngvari@losgatosca.gov> wrote:

Good morning Phil,

Thank you for your inquiry. Per the voter approved ordinance, the Chair of the Finance

Commission determines the agenda. As staff liaison to the Commission, I will discuss your request with the Chair for his consideration for the January 8, 2024 meeting. If the Chair chooses not to place this topic on the January agenda, we will include your email and related correspondence as Commissioner comments for the 2024 Work Plan item. In this way, the entire Commission can decide whether or not to add this topic to its work plan.

Thank you,

Gitta

From: Phil Koen <[REDACTED]>
Sent: Wednesday, January 3, 2024 8:24 AM
To: Wendy Wood <WWood@losgatosca.gov>
Cc: Gitta Ungvari <GUngvari@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>; Rick Tinsley <[REDACTED]>; Mary Badame <MBadame@losgatosca.gov>
Subject: Fwd: Budget vs Actual

[EXTERNAL SENDER]

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How do I get this on the agenda so all of the FC can begin to discuss this topic at the January 9th meeting?

Thank you,

Phil Koen

Begin forwarded message:

From: Phil Koen <[REDACTED]>

Date: December 22, 2023 at 10:23:00 AM PST

To: Wendy Wood <WWood@losgatosca.gov>

Cc: Gitta Ungvari <GUngvari@losgatosca.gov>, Laurel Prevetti <LPrevetti@losgatosca.gov>, Rick Tinsley [REDACTED], Mary Badame <MBadame@losgatosca.gov>

Subject: RE: Budget vs Actual

Hi Wendy,

I am not sure of the process, but my desire is to have these documents as backup material to for a potential agenda item for our January meeting which would enable the FC **to begin** discussing the usefulness of the 5-year plan as a financial management tool. I am hoping we could have an opening conversation to level set the FC. Given that Staff is recommending tax increases based on a 5-year forecast that appears very out of date, I feel this is a timely matter and the FC needs to be addressing this issue sooner rather than later.

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deficit”. I have submitted the Staff reports dated August 26, 2022, May 9, 2022, and May 10, 2022, as background reading so the FC has the necessary context.

In the August 26, 2022 Staff report, the FC recommended several actions to help analyze the projected deficits in the version of 5-year forecast then under review. One of the thoughts was to analyze the original adopted budgets vs actual results to gauge the accuracy and usefulness of the forecasts. I don’t believe there was any follow up on the FC recommendations.

Staff reports have consistently stated that the purpose of the 5-year forecast is to identify financial trends, potential shortfalls, and other issues so the Town can proactively address them and budget accordingly. I concur with that view. The question I believe the FC first needs to address is – is the 5-year forecast indeed useful in identifying trends and potential shortfalls? Are they serving their intended purpose and helping the TC make high quality financial decisions? How do we determine this?

To begin the discussion, I have submitted the actual vs budget schedules for FY 22 and FY 23 that are in the ACFR. These schedules are incredibly informative and begin to answer the question around predictive capability of the 5-year forecast.

My question to you is how do I get this discussion teed up for our January meeting?

Happy Holidays to you,

Thank you.

From: Wendy Wood <WWood@losgatosca.gov>
Sent: Thursday, December 21, 2023 12:20 PM
To: Phil Koen <[REDACTED]>
Cc: Gitta Ungvari <GUngvari@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>
Subject: RE: Budget vs Actual

Hello Commissioner Koen,

Thank you for your e-mails. Please consider this correspondence as confirmation of receipt of four e-mails received on December 20, 2023. This information will be included and distributed as part of the January Finance Commission Agenda packet.

Thank you,



Wendy Wood, CMC • Town Clerk

110 E. Main Street, Los Gatos CA 95030
Ph: 408.354.6888 • Fax: 408.399.5786 • WWood@losgatosca.gov
www.losgatosca.gov • <https://www.facebook.com/losgatosca>

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From: Phil Koen <[REDACTED]>
Sent: Wednesday, December 20, 2023 7:21 AM
To: Wendy Wood <WWood@losgatosca.gov>
Subject: Budget vs Actual

[EXTERNAL SENDER]

Hi Wendy,

Could you please distribute this schedule to the FC meeting as background reading for the Jan FC meeting.

Thank you,

Phil Koen

From: [Phil Koen](#)
To: [Gitta Ungvari](#)
Cc: [Laurel Prevetti](#); [Rick Tinsley](#); [Mary Badame](#); [Wendy Wood](#)
Subject: Re: Budget vs Actual
Date: Wednesday, January 3, 2024 1:27:45 PM
Attachments: [image001.jpg](#)
[image001.jpg](#)

[EXTERNAL SENDER]

Gitta,

One other question.....when will the FC approve the required sales tax report for FY 23 that was mandated by the sales tax initiative? That is a required duty of the FC since the Sales Tax Oversight Committee's duties were assigned to the FC.

Thank you,

Phil

On Jan 3, 2024, at 11:34 AM, Gitta Ungvari <GUngvari@losgatosca.gov> wrote:

Good morning Phil,

Thank you for your inquiry. Per the voter approved ordinance, the Chair of the Finance Commission determines the agenda. As staff liaison to the Commission, I will discuss your request with the Chair for his consideration for the January 8, 2024 meeting. If the Chair chooses not to place this topic on the January agenda, we will include your email and related correspondence as Commissioner comments for the 2024 Work Plan item. In this way, the entire Commission can decide whether or not to add this topic to its work plan.

Thank you,

Gitta

From: Phil Koen <[REDACTED]>
Sent: Wednesday, January 3, 2024 8:24 AM
To: Wendy Wood <WWood@losgatosca.gov>
Cc: Gitta Ungvari <GUngvari@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>; Rick Tinsley <[REDACTED]>; Mary Badame <MBadame@losgatosca.gov>
Subject: Fwd: Budget vs Actual

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