
Subject: Distributions from CDTFA
Attachments: CDTFA - #1.pdf

From: Phil Koen [REDACTED]
Sent: Sunday, December 13, 2020 9:26 AM
To: Laurel Prevetti; Stephen Conway
Subject: Distributions from CDTFA

Laurel,

I went to the website for the State of California Department of Tax and Fee Administration and downloaded the information below. That department has an online portal where you can obtain a report which shows monthly payments to cities and counties from the 1% local sales and use tax. You can go to www.cdtfa.ca.gov and see the portal. If you haven't, I recommend that you do. They have posted information through November 2020.

What I found was from July to November 2020 the Department had distributed \$2,772,560 to the Town of Los Gatos. For the same period prior year the Department distributed \$3,422,952. That represents a 19% decline in distributions YTD from FY 20.

The report also showed that for FY 20 the department distributed \$7,103,708 which appears to be 95% of \$7,531,425 total sales tax receipts reported for FY 20. Based on this information, the MuniServices estimate of \$7.3 million for FY21 sales tax receipts appears optimistic since this represents only a 3% decrease from FY 20 level when YTD receipts from CDTFA are 19% below prior year. What is your view of this difference?

I have no idea how accurate MuniServices forecasts have been in the past. However, based on the data I am sharing with you, I would advise the Council to take a more conservative view of Sales Tax receipts for FY21 than the \$7.3m projection provided by MuniServices. If the year over year decline is only 10%, that would represent a \$1.2m revenue shortfall from the adopted FY 21 budget of \$8m, and not the \$700,000 noted in the Staff memo.

I hope this is helpful. I realize that sales tax receipts are difficult to forecast, but being overly optimistic could result in significant financial harm to the Town. I recommend that appropriate posture the Council and Staff should take is to plan for the downside case, make the appropriate spending adjustments quickly and then build from there.

Thank you,

Phil Koen

2010	2011	43003	City	TOWN OF LOS GATOS	\$7,360,720.86	\$410,800.00	\$547,800.00	\$
2011	2012	43003	City	TOWN OF LOS GATOS	\$7,275,212.45	\$494,400.00	\$659,200.00	\$
2012	2013	43003	City	TOWN OF LOS GATOS	\$5,858,884.16	\$537,800.00	\$717,000.00	\$
2013	2014	43003	City	TOWN OF LOS GATOS	\$5,917,194.52	\$420,000.00	\$560,000.00	\$
2014	2015	43003	City	TOWN OF LOS GATOS	\$6,150,485.99	\$411,500.00	\$545,700.00	\$
2015	2016	43003	City	TOWN OF LOS GATOS	\$6,570,521.43	\$431,900.00	\$576,000.00	\$
2016	2017	43003	City	TOWN OF LOS GATOS	\$7,766,553.87	\$558,100.00	\$744,100.00	\$
2017	2018	43003	City	TOWN OF LOS GATOS	\$7,510,783.37	\$528,500.00	\$704,500.00	\$
2018	2019	43003	City	TOWN OF LOS GATOS	\$7,505,407.20	\$643,877.80	\$566,599.20	\$
2019	2020	43003	City	TOWN OF LOS GATOS	\$7,103,708.94	\$684,476.68	\$869,404.82	\$
2020	2021	43003	City	TOWN OF LOS GATOS	\$2,772,560.78	\$692,324.56	\$244,857.10	\$
2010	2011	43004	City	MORGAN HILL	\$4,255,311.53	\$229,400.00	\$305,900.00	\$
2011	2012	43004	City	MORGAN HILL	\$4,942,711.74	\$289,900.00	\$386,500.00	\$
2012	2013	43004	City	MORGAN HILL	\$5,909,461.98	\$330,200.00	\$440,300.00	\$
2013	2014	43004	City	MORGAN HILL	\$6,176,853.94	\$404,500.00	\$539,400.00	\$
2014	2015	43004	City	MORGAN HILL	\$6,355,517.00	\$443,900.00	\$589,400.00	\$
2015	2016	43004	City	MORGAN HILL	\$7,147,597.80	\$461,400.00	\$615,100.00	\$
2016	2017	43004	City	MORGAN HILL	\$9,458,088.34	\$613,000.00	\$817,200.00	\$
2017	2018	43004	City	MORGAN HILL	\$10,179,691.75	\$639,300.00	\$852,500.00	\$
2018	2019	43004	City	MORGAN HILL	\$10,539,189.29	\$922,495.79	\$752,689.71	\$
2019	2020	43004	City	MORGAN HILL	\$9,452,476.37	\$966,412.95	\$687,698.77	\$
2020	2021	43004	City	MORGAN HILL	\$4,490,277.31	\$1,135,947.18	\$828,379.29	\$

Subject: Agenda Item #10 - A different perspective

From: jvannada@ [REDACTED]
Sent: Saturday, December 12, 2020 10:55 AM
To: Laurel Prevetti <LPrevetti@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>
Subject: Fwd: Agenda Item #10 - A different perspective

Dear Laurel and Arn

**This is for the Town Council meeting of 12-15-20
Item 10**

Dear Council members,

We would like to offer a different perspective than the conclusion presented in the Staff Report on Agenda Item #10 for your consideration and review.

Based on the information presented in the Staff report, the best estimate of the FY 21 revenue shortfall between the adopted budget and projected revenues can be summarized as follows (all numbers in 000's of dollars):

Property Tax	(300)
RDA claw back	(789)
ERAF claw back	(433)
Sales Tax	(700)
TOT	(1,000)
Total	(3,222)

The above analysis does not include other non-tax revenues which were disclosed in the FY 20 CAFR as being impacted by Covid-19, which were permits and fees and business licenses. In FY 20 these two revenue sources combined for a negative variance from the original FY 20 adopted budget of \$(619,000) and totaled \$4.0 million. The FY 21 adopted budget calls for \$4.4 million in revenue, which is an increase of \$400,000 (10%) from the prior year's actual results. Given the extended impact of COVID 19 in FY 21, it is difficult to imagine that the Town will see an increase in these fees in FY 21 and therefore is exposed. Our best estimate is that there is a potential for \$400,000 variance from the FY 21

adopted budget since it is reasonable to assume FY 21 will track FY 20 actuals. If we include this in the above total, the Town is potentially looking at a FY 21 revenue shortfall of \$3,622,000.

In addition, the Staff report discloses that Q1 departmental and non-departmental expenses annualized totaled \$43,932,000. If this holds, that spending level exceeds the adopted budget of \$43,518,821 by \$413,000. This potential over spending variance when combined with the potential revenue shortfall indicates that the Town is facing a budget hole of \$4,035,000 (\$3,622,000 plus the \$413,000).

The Council should be reminded that while the Town adopted a “balance budget” which projected a \$11,905 “surplus” on paper, this was achieved by using \$769,308 from the General Fund Capital/Special Projects reserve to fund tree services, code compliance officer, engineering consultants, etc. Assuming the Staff is contemplating tapping the General Fund Capital/Special Projects Reserve to fund the \$4,035,000 projected budget hole, that means the Town would use \$4,804,308 of that reserve in FY 21. Per the FY 20 CAFR, the balance in that reserve as of June 30, 2020 is \$8,787,958. Stated another way, if this scenario occurs, the Capital/Special Project Reserve would experience a 54% reduction – which is a material decrease. We want to draw the Council’s attention to this potential.

We believe that the Town is facing some very difficult choices resulting from the continued impact of the pandemic and the conscious decision not to take any action regarding adjusting the FY 21 expenditure budget. When the Staff sends the Council the mid-year review in mid-February there will be only 4.5 months left in the current fiscal year. This gives the Council little time to make a material change in spending plans.

We would encourage the Council to fully involve the new Finance Commission to work with the Staff to generate fiscally responsible recommendations for the Council to consider. Allowing \$4.8m of the Capital/Special Project Reserve to be consumed because we took no action would be hard to understand.

Thank you.

Jak Van Nada

Los Gatos Community Alliance.