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Sent: Wednesday, August 10, 2022 7:41 AM

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Subject: Impact of Operating Deficits on General Fund Balance - Agenda Item #1 Special Meeting August 11, 2022

EXTERNAL SENDER

Dear Mayor and Council Members,

I have attached an additional spreadsheet which shows two important pieces of information for your consideration as you receive the updated Five-Year Financial Forecast.

First, the updated forecast projects that the Town's General Fund Balance, which as of June 30, 2021, had a balance of \$23,914,618 will be essentially liquidated by the end of fiscal year 2028 assuming no further changes. Based on this revised forecast, which does not include realistic increases for further salary increases for Staff beginning in FY 25, the General Fund balance will be approximately \$1.1 million at the end of FY 28 .

The forecast assumes that all of the budget stabilization and catastrophic reserves will be consumed to fund the operating deficits and only restricted and non- spendable reserve balances totaling \$1.1 million will remain. Receiving this forecast as is, should not be taken lightly and hopefully the weakened projected financial condition of the Town is not lost on this Council. Additionally, I am unsure of the legal ramifications of liquidating all of the rainy-day funds since these are committed reserves controlled by the Council.

Secondly, I have added the projected surplus that was shown on the FY 18/19 budget book as a separate line item. I realize that this was pre- Covid and obviously the Town's finances have been impacted to some degree by Covid. As you can see, for FY 24 the FY 19 forecast was projecting a surplus of \$.2 million which has now been revised downward to a \$3.8m deficit. That is a \$4 million turn around in the FY 24 forecast, which is only two years away. Substantially all of this decrease can be directly attributed to a \$4.9 million increase in salary expenditures for FY 24 when comparing the two forecasts. One simply cannot blame the Town's dramatic financial reversal solely on the impact of Covid while ignoring financial decisions that have been made by this Council.

Let me close by saying, these forecasts have been produced by the Staff. Presumably, the forecasts are accurate based on all known data and are a fair representation of the Town's financial future. It might have been helpful for the Staff to include the impact on the General Fund in their work product and to show the forecasted impact of an increase in business license taxes on the General Fund Balance. Obviously if enacted, the incremental revenue will help, but it will not be sufficient to prevent the liquidation of the General Fund Balance as shown. It will only delay the timing of when the General Fund is exhausted.

Thank you.

Los Gatos Community Alliance

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DISCUSSION (continued):

meeting utilizing additional funding from the OPEB 115 Trust to fund retiree pay-go medical payments directly and allocating the remaining residual Measure G balance to the General Fund for FY 2022/23.

Given the recent budget adoption, the Forecast on the following page has been updated to reflect only the adjustments to salary and benefit costs.

Staff anticipates updating revenues and other elements of the Forecast in the coming months as part of the normal Mid-Year Budget and Forecast development cycle.

The following table illustrates the previous projected deficits relative to the updated Forecast.

Original 5 Year Forecast	2023/24 (\$M)	2024/25 Forecast (\$M)	2024/25 Forecast (\$M)	2024/25 Forecast (\$M)	2024/25 Forecast (\$M)
Original Surplus/Deficit	(\$2.2)	(\$2.9)	(\$2.3)	(\$2.5)	(\$2.6)
Updated Surplus/Deficit	(\$3.8)	(\$4.3)	(\$3.7)	(\$4.0)	(4.0)

This information was presented to the Finance Commission at its August 8, 2022 meeting. The Commission did not provide any specific comments on the updated Forecast. Rather, the Forecast provided a starting point for the Commission to identify the types of information it will need to evaluate costs and revenues and recommend deficit reduction options pursuant to Town Council direction.

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Original 5 Year Forecast Surplus/Deficit	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27	FY 27/28
FY 19/20	0.1	0.3	0.2				
FY 22/23 original	0.6	0	-2.2	-2.9	-2.3	-2.5	-2.6
FY 22/23 revised	0.6	0	-3.8	-4.3	-3.7	-4	-4
Projected GF Balance - ending	22.9	20.9	17.1	12.8	9.1	5.1	1.1