



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 08/11/2022

ITEM NO: 1

DESK ITEM

---

DATE: August 11, 2022  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Receive the Updated Five-Year Financial Forecast to Reflect the Town's New Labor Agreements

**REMARKS:**

One of the key responsibilities of the Town Manager is to keep the Town Council apprised of the Town's financial condition and future needs, and to make recommendations to the Town Council to address these issues. The financial circumstances of the Town have been a high priority for the Town for many years. Working with the former Council Finance Committee, current Finance Commission, and directly with the Council, staff has brought forward many recommendations to ensure that the Town maintains an annual balanced budget, plans for future needs, anticipates trends, and prepares accordingly. To this end, the following items have been brought forward and acted upon by the Town Council:

- The Town Council approved placing a ballot measure for the November 2016 election to increase the Transient Occupancy Tax (TOT) from 10 percent to 12 percent. The voters approved Measure T and the 2% increase raises approximately \$400,000 annually in additional revenue.
- In 2016, the Town's bargaining groups approved the introduction of dependent cost sharing and a reimbursement cap to Medicare eligible employees.
- May 2018, the Council updated the General Fund Reserve Policy to provide for additional discretionary payments (ADPs) of \$400,000 per year to address the unfunded pension liability. Under the updated Policy, a 20-year amortization equivalence will be achieved through additional Unfunded Actuarial Liability (UAL) payments of approximately \$400,000 per year. The total savings associated with the ADP methodology is approximately \$13.8 million.

---

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

---

REMARKS (continued):

- The Town Council approved placing a ballot measure for the November 2018 election to create a 1/8 cent dedicated district sales tax for a 20-year period. The voters approved Measure G and the dedicated tax provides approximately \$1,200,000 annually in additional revenue.
- In 2018, the bargaining groups agreed to the elimination of the Town's existing retiree healthcare benefit prospectively. The Normal Cost per employee per year will go from \$8,300 to \$1,800 or a difference of \$6,500 per year. When calculated for 150 employees, this results in an ongoing savings of \$975,000 per year. In addition, the Town currently has 37 employees in this group out of 150.
- In February 2019, Council approved an Ordinance allowing regulated short-term rentals subject to TOT. Approximately \$60,000 of additional TOT is collected annually.
- In March 2019, the Town entered into a Public/Private Partnership with Imwalle Asset Management for the renovation/lease up of 4 Tait Avenue and Forbes Mill properties.
- In May 2019, the Town sold 148000 Winchester Blvd to Santa Clara County Fire District ("County Fire") for \$1.9 million.
- In June 2019, the Council voted to annex 24 unincorporated County pockets. This action results in approximately \$1,000,000 in property taxes remaining in the Town instead of being diverted to the County.
- From 2019 to the present, allocated additional discretionary pension funding totaling \$10.4 million. These additional discretionary payments will ultimately yield an approximate \$12.7 million in contribution savings.
- Beginning in February 2019, staff began providing scenarios (sensitivity analyses) of economically sensitive revenues and costs as part of the Five-Year Forecast discussion, anticipating a future downturn.
- In April 2020, the Town sold 14850 Winchester Blvd to Santa Clara County Fire District ("County Fire") for \$1.2 million.
- In Summer 2022, the Council is considering placing a ballot measure for the November 2022 election to modernize the Town's Business License program. Approximately \$1,200,000 of additional revenue would be received annually if the Council places it on the ballot and it is passed by the voters.

REMARKS (continued):

As the Council considers the updated Five-Year Financial Forecast, the Town Manager's Office is already preparing for future fiscal year budgets. Staff is fully aware that the budget balancing options of the past are not going to be available in the future and therefore, it is critical that the Town begin planning proactively now. The Manager's Office together with other Department Directors will be evaluating the cost structure of different services to identify potential savings without significantly reducing service levels. Management is also looking at potential cost controls and other mechanisms to save resources and plan for the future. Staff also carefully monitors revenues and expenses throughout the budget year. All of this work builds upon the Council's past actions that provide significant savings over the short and long term as described above.

In addition, staff is supporting the Finance Commission in its Council directed consideration of potential recommendations to the Town Council regarding cost savings and enhanced revenues.

Attachment Provided with Previous Addendum:

1. Public Comment