



**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 05/2/2022

ITEM NO: 3

DESK ITEM

DATE: May 2, 2022
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Continue Discussion of the Proposed Fiscal Year (FY) 2022/23 Operating and Capital Budgets, Including Responses to Commissioner Questions

REMARKS:

Provided below are answers to the questions from the Chair regarding the Proposed Operating and Capital Budgets. Commissioner questions are in **bold** type and responses are in regular type.

1. Discuss using the remaining ARPA balance, potentially including the \$1 mln used to fund 2023 deficit, toward current capital needs. This would reduce the transfer proposed from the GFAR.

The Town Council has currently allocated \$1,285,000 in ARPA funds toward Economic Development/Vitality efforts and \$1,235,208 toward Community Assistance. If the \$1,000,000 in ARPA funding proposed for Revenue Loss is not allocated to that use, there would be approximately \$4,709,536 in unallocated ARPA funding remaining.

2. On A10 and C41, ARPA funds are proposed to be used for rent forgiveness for certain non-profit organizations that are tenants. Is this approximately \$300K rent forgiveness anticipated to continue after 2023? What is the annual attendance at the Los Gatos museums?

The rent forgiveness referenced in the proposed budget for NUMU (\$25,000) and LGS Rec (\$258,756) is only requested for one additional year. The NUMU annual attendance is approximately 430 in-person and 400 virtual visitors per year. This attendance is proportionately similar to pre-pandemic years.

PREPARED BY: Stephen Conway
Finance Director

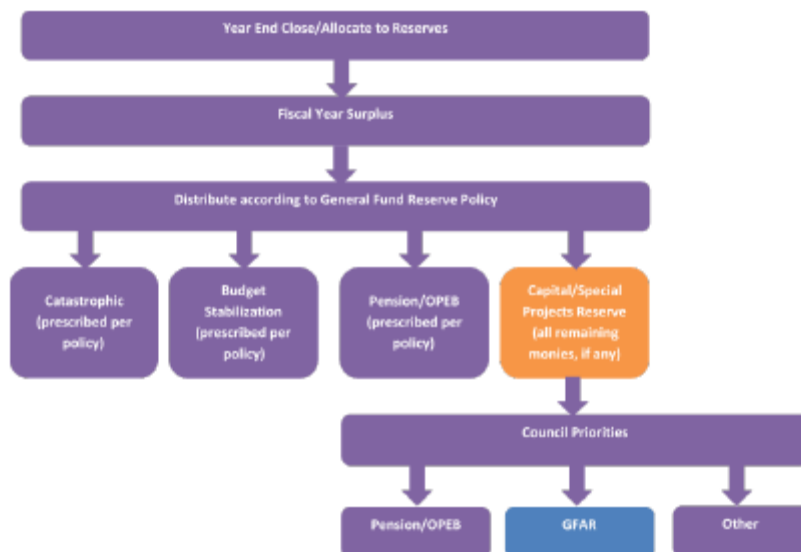
Reviewed by: Town Manager and Town Attorney

REMARKS (continued):

3. Does the projected \$600,000 2021 surplus get contributed to the GFAR automatically or require specific council action?

Per General Fund Reserve Policy, the anticipated surplus (after filling the required level of reserves and contributing to the Pension/OPEB Reserve) will be deposited to the Capital/Special Project General Fund Reserve. Council action is required for funds to be distributed from the reserve for identified special and capital projects. Funds dedicated by Council to capital projects will be transferred to the General Fund Appropriated Reserve (GFAR).

FISCAL YEAR SURPLUS FLOW OF FUNDS



4. Two of the three new FTEs are considered temporary given the need for transition. What is the time period that these two new positions will be overlapping?

Lead Maintenance Worker will overlap with incumbent's retirement possibly through this calendar year. The incumbent is currently on disability leave. The Urban Forestry Manager may overlap until the retirement of the Arborist expected in December of this year.

5. Will the Shannon Road embankment work need to be completed before the anticipated settlement of the lawsuit with Santa Clara County? Noted that \$1.5 mln is currently allocated to the project.

According to the Town's project consultant, there is no imminent hazard and therefore, there is no current need to complete the repair prior to the lawsuit being resolved. The current budget is not sufficient for the complete construction of the project, which has a total cost estimate of \$5M.

REMARKS (continued):

6. Discuss the timing around the uncertainty of ERAF payments. SCCA recommends 70% of anticipated proceeds to be budgeted. Will this always be the case?

A portion of the property tax revenue goes to the Educational Revenue Augmentation Fund (ERAF) to support local school districts. When the amount contributed to ERAF is more than the minimum cost of funding local schools, excess funds are returned to the County, Cities, and Special Districts. The County Assessor's Office provides to the Town estimates on an annual basis (usually in March) for the following budget year estimated ERAF proceeds. There are currently no estimates given beyond that year nor alternative proposed communication procedures .

7. Any update on the recently passed federal infrastructure bill and its impact on Los Gatos capital spends?

The Town continues to gather further information regarding the rollout of the federal infrastructure bill and potential funding possibilities. There are no details as to the specific allotment, if any, to Los Gatos.

8. On A13, the amount of the general fund assigned to capital projects goes from 7mln in 2022 to 4.7 in 2023. Why?

The detail of the General Fund Capital/Special Project Reserve estimated activities can be found on page C-31 in the Financial Summary Section of the Operating and Summary Budget. The reduction is primarily the result of the \$2.35 million transfer to the General Fund Appropriated Reserve (GFAR) for the proposed capital projects.

9. On C22, why is Parks and Public Works revenue going down by \$400K?

Current Year estimated revenues are based on current development activities. The FY 2022/23 estimate reflects an approximately \$300,000 reduction in licenses and Permits (D-185) based on next year's anticipated development activities.

10. On D18, the liability fund balance is decreasing by \$400K while claims are going up. Shouldn't this internal service fund be eliminated with its balance of \$200K and reflect only the current expenditures? The ending fund balance has been reduced by over \$1mln since 2019.

11. D80. The Workers' Comp fund is projected to be \$11K at end of 2023, down from a high of \$1.8 mln in 2020 and \$800K in 2022. Fund should be eliminated as balances are very inconsistent year to year. Discuss.

The below discussion answer questions 10 and 11.

Staff does not recommend closing the Workers Compensation or the General Liability Internal Service Funds. One of the important advantages of using Internal Service Funds to account for risk financing activities is that these funds use the "flow of economic resources" measurement

REMARKS (continued):

focus and full accrual basis of accounting. This allows the Town to account for the full cost of providing workers compensation and general liability risk financing. If risk financing activities were accounted for in the General Fund (a governmental fund type) such full costing would not be determinable given governmental funds use the "current financial resources" measurement approach. The current financial resources measurement approach is essentially a cash flow basis which is not full accrual of revenues and expenses.

Net position in both the General Liability and Workers Compensation Internal Service Funds has been decreasing in recent years due to adverse claims experience for the Town's self-insured workers compensation coverage. Additionally, there was significant adverse claim experience incurred by the Town's workers compensation excess insurance provider in recent years resulting in higher annual premiums. Staff is exploring options such as higher deductibles for self-insurance or contracting the self-insurance exposure by joining a pool or commercial workers compensation insurance.

Staff believes a key advantage of Internal Service fund types is the ability to provide full costing for risk financing and to development user charges that will provide sufficient balances on hand to have cash resources available to meet and smooth the impacts of adverse claims experience which can be very volatile from fiscal year to fiscal year.

| | SELF INSURANCE (GENERAL LIABILITY) | | | | | |
|--|-------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| | Actuals | Actuals | Actuals | Actuals | Estimated | Proposed |
| <u>Revenues</u> | | | | | | |
| From User Departments | 506,519 | 365,155 | 378,133 | 376,964 | 377,923 | 429,249 |
| Other | | 291,997 | | | | |
| Transfer From Vehicle Maintenance | | | | | | |
| Total Resources | 506,519 | 657,152 | 378,133 | 376,964 | 377,923 | 429,249 |
| <u>Expenses</u> | | | | | | |
| Salaries and Benefits | 174,750 | | | | | |
| Insurance "The Plan" liability premium & Admin | 224,495 | 309,634 | 322,542 | 419,305 | 587,027 | 629,535 |
| Insurance "The Plan" property premium & Admin | 27,170 | 45,699 | 56,061 | 73,318 | 116,780 | 156,866 |
| PERS Unfunded Liability Accrued Expense | 28,864 | | | | | |
| Other | 8,152 | 7,455 | | 3 | 1339 | 5,539 |
| Claims Against the Town (Paid and Accrued) | (66,241) | (24,171) | 22,220 | 153,869 | 55,000 | 55,000 |
| Total Expenses | 397,190 | 338,617 | 400,823 | 646,495 | 760,146 | 846,940 |
| Revenues (Under) Over Expenses | \$ 109,329 | \$ 318,535 | \$ (22,690) | \$ (269,531) | \$ (382,223) | \$ (417,691) |
| Net Position- Beginning | \$ 885,440 | \$ 994,769 | \$ 1,313,304 | \$ 1,290,614 | \$ 1,021,083 | \$ 638,860 |
| Net Position- Ending | \$ 994,769 | \$ 1,313,304 | \$ 1,290,614 | \$ 1,021,083 | \$ 638,860 | \$ 221,169 |

REMARKS (continued):

| WORKER'S COMPENSATION SELF INSURANCE FUND | | | | | | |
|--|--------------|------------|--------------|--------------|--------------|--------------|
| | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2022 |
| | Actuals | Actuals | Actuals | Actuals | Estimated | Proposed |
| <u>Revenues</u> | | | | | | |
| From User Departments | \$ 884,190 | \$ 875,419 | \$ 903,434 | \$ 917,555 | \$ 857,755 | \$ 1,033,315 |
| Insurance Claim Reimbursements | 250,945 | 412,667 | 526,552 | 327,768 | 112,215 | |
| Remove ISF Pension Liab | | 204,834 | | | | |
| Other | 5 | 8 | 7 | 5 | | |
| From General Fund | | | 1,061,256 | | | |
| Total Resources | 1,135,140 | 1,492,928 | 2,491,249 | 1,245,328 | 969,970 | 1,033,315 |
| <u>Expenses</u> | | | | | | |
| Salaries and Benefits | 117,475 | | | | | |
| CalPERS pension expense GASB 68 Allocation | 19,539 | | | | | |
| Membership Fees | | | | | | |
| WC & Safety Administration and Other | 109,300 | 111,621 | 158,642 | 248,486 | 156,000 | 156,000 |
| Insurance Premiums | 224,835 | 242,912 | 390,050 | 292,569 | 334,569 | 350,000 |
| Reimburse Dept Payroll | 63,242 | 294,931 | 90,811 | | 154,000 | 154,000 |
| Claims Against the Town | 882,277 | 621,165 | 886,086 | 839,994 | 1,180,000 | 1,180,000 |
| Total Expenses | 1,416,668 | 1,270,629 | 1,525,589 | 1,381,049 | 1,824,569 | 1,840,000 |
| Revenues (Under) Over Expenses | \$ (281,528) | \$ 222,299 | \$ 965,660 | \$ (135,721) | \$ (854,599) | \$ (806,685) |
| Net Position- Beginning | \$ 902,310 | \$ 620,782 | \$ 843,081 | \$ 1,808,741 | 1,673,020 | \$ 818,421 |
| Net Position- Ending | \$ 620,782 | \$ 843,081 | \$ 1,808,741 | \$ 1,673,020 | \$ 818,421 | \$ 11,736 |

12. D42. Why the decrease of \$500K in grants from last year? Isn't this inconsistent with proposing continued rent abatements for nonprofits?

The Town's ongoing funds for Community grants are approximately \$150,000 annually. FY 2021/22 included additional one-time ARPA funding of \$500,000.

REMARKS (continued):**13. Personnel--can you update us on all open positions in the KPI's chart?**

| Department | Position | | Jul-21 | Aug-21 | Sep-21 | Oct-21 | Nov-21 | Dec-21 | Jan-22 | Feb-22 | Mar-22 | |
|-------------------------|--|------------|--------------------|----------------|---------------------|---------------------------|--------------------|---------------|--------------------|--------------------|--------------------|--|
| Town Attorney | Legal Administrative Assistant | Separation | Vacant | | | | | Filled - Temp | | | | |
| Town Attorney | Town Attorney | Retirement | Filled - Permanent | | | | | | | Filled Interim | | |
| Administrative Services | Emergency Manager - Temp | Separation | Vacant | | | | | | | | Filled - Permanent | |
| Administrative Services | Administrative Technician | Retirement | Filled - Permanent | | | | | Vacant | Filled - Permanent | | | |
| Administrative Services | Finance Director | Retirement | Filled - Permanent | | | | | | | Filled Interim | | |
| Community Development | Planning Manager | Retirement | Vacant | Filled Interim | | | Filled - Permanent | | | | | |
| Community Development | Assistant Planner | Promotion | Filled - Permanent | | | Vacant | | Filled - Temp | Filled - Permanent | | | |
| Community Development | Senior Planner | Promotion | Filled - Permanent | | | | | Vacant | Filled - Permanent | | | |
| Community Development | Associate Planner | Separation | Filled - Permanent | | | | | | | Vacant | | |
| Community Development | Permit Technician | Separation | Filled - Permanent | | | | | | | Filled - Temp | | |
| Police | Police Dispatcher | Separation | Vacant | | | | | | | | Filled - Permanent | |
| Police | Police Dispatcher | Separation | Vacant | | | | | | | | | |
| Police | Police Dispatcher | Separation | Vacant | | | | | | | | Filled - Permanent | |
| Police | Police Dispatcher | Separation | Filled - Permanent | | Vacant | | | | | | | |
| Police | Police Officer | Separation | Vacant | | | | | | | | | |
| Police | Police Officer | Separation | Vacant | | | | | | | | Filled - Permanent | |
| Police | Police Officer | Separation | Filled - Permanent | | Vacant | | | | | Filled - Permanent | | |
| Police | Police Officer | Retirement | Filled - Permanent | | | | | Vacant | Filled - Permanent | | | |
| Police | Police Officer | Retirement | Filled - Permanent | | | | | Vacant | | | | |
| Police | Police Officer | Retirement | Filled - Permanent | | | | | Vacant | | | | |
| Police | Police Chief | Separation | Filled - Permanent | | | Vacant | | | Filled - Permanent | | | |
| Police | Police Captain | Promotion | Filled - Permanent | | | | | | | Vacant | | |
| Police | Police Records & Communication Manager | Separation | Filled - Permanent | | | | | Vacant | | | | |
| Police | Police Record Specialist | Promotion | Filled - Permanent | | | | | | | Vacant | | |
| Parks & Public Works | Streets Maintenance Worker | Separation | Filled with Temp | | Filled with Trainee | | | | | | | |
| Parks & Public Works | Administrative Assistant | Promotion | Filled - Permanent | | | | | | | Vacant | | |
| Parks & Public Works | Parks & Public Works Director | Separation | Filled - Permanent | | | | | | | | Vacant | |
| Library | Library Specialist | Separation | Vacant | | Filled - Permanent | | | | | | | |
| Library | Librarian | Separation | Vacant | | | Filled - Permanent | | | | | | |
| Library | Senior Library Page | Separation | Filled - Permanent | | | Vacant - Filled with Temp | | | Filled - Permanent | | | |

14. What is the maximum amount of capital spend that the staff is capable of overseeing in 2023?

The capital amount that staff can expend may depend on whether there are large projects that would go into construction that year. In addition, the Town may need to bring in additional construction support through temporary employees or consultants since PPW has one Construction Project Manager. Design phase would normally account for less than 15% of a project budget. In FY 2023, staff anticipates overseeing CIP expenditures up to \$5M. If the Trailhead Connector project moves forward into construction, that number can jump to almost \$10M.

15. What is the current time period for the Monte Sereno police contract?

The current agreement providing police services to Monte Sereno was entered into on July 1, 2015 and expires June 30, 2025.

REMARKS (continued):

16. Is the Roadside Fire Fuel Reduction project thought to be needed in FY2024 and forward? It is noted that it is not funded beyond 2023.

This project entails approximately 31 miles of hillside ingress/egress roadways. To date the program has expended \$1.07 million on 11.12 miles of Priority 1 and Priority 2 roadways over two years. It is anticipated that the \$700K in federal funding will complete most of the remaining 7.71 miles of Priority 1 and 2 roadways in FY 2022/23. The remaining Priority 3 roadways would be an ongoing effort for fire protection so funding would be needed for FY 2024 and beyond. The current CIP budget does not include additional funding needs for outyears.

The Chair requested this question from the public to be answered: I would like to point out that the FY 22 total salary and benefits expenditures of \$30,411,548 on the attached schedule is greater than the reported number shown on schedule C-13 in the FY 23 Operating Budget Financial Summary. The number reported there is \$29,019,556. I am assuming the \$30.4m is the more accurate estimate. Reading between the lines, the Staff's April 28 report hints at the idea the General Fund ending Balance as of year end FY 22 will be material lower than what is projected in the 5 year forecast. We don't know that for sure, but that seems to be the "new news". Putting the pieces together, my analysis suggests the GF Balance will be at least \$1.4m less. That is about a 5% reduction."

As staff mentioned in the April 28, 2022 staff report, staff found that salaries and benefits for the Street and Signals program 5401 were erroneously not included in the summary tables in the Proposed FY 2022/23 Operating Budget. While implementing the correction for this table, staff took the opportunity to also update estimated salaries based on newly available information regarding employee final leave cash outs. Staff will update the year-end estimated number in the final adopted budget. This error does not impact the proposed FY 2022/23 revenues and expenditures. The actual fiscal revenues, expenditures, and fund balances will be determined at the final close of the FY 2021/22 and reported in the Town Annual Comprehensive Financial Report (ACFR). Staff will continue to update these estimates for the June 7th budget adoption meeting and will bring the fund balance resolution with the most recent estimates.

Attachment Previously Received with the Addendum:

1. Public Comment