



**TOWN OF LOS GATOS  
FINANCE COMMISSION REPORT**

MEETING DATE: 05/2/2022

ITEM NO: 3

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DATE: April 28, 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

**RECOMMENDATION:**

Continue discussion of the Proposed FY 2022/23 Operating and Capital Budgets, including responses to Commissioner questions.

**REMARKS**

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

**Please provide a revised salary and benefits table which includes the percent changes for benefits as well as salary.**

The following page contains the requested table include the percent changes.

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 out. 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).

**PREPARED BY:** Stephen Conway  
Finance Director

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Reviewed by: Town Manager and Town Attorney

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REMARKS (continued):

Total Town Salaries and Benefits-All Funds												
	Actual 2014_15	Actual 2015_16	Actual 2016_17	Actual 2017_18	Actual 2018_19	Actual 2019_20	Actual 2020_21	Estimated 2021_22	Grand TOTAL			
Salary Recap												
Regular Salaries	\$ 13,620,986	\$ 13,749,539	\$ 14,164,796	\$ 15,100,261	\$ 16,066,399	\$ 16,968,446	\$ 17,512,199	\$ 17,000,348	\$ 124,182,974			
Temporary Staff	\$ 867,364	\$ 869,152	\$ 913,362	\$ 811,198	\$ 648,097	\$ 881,908	\$ 877,714	\$ 1,073,196	\$ 6,941,991			
Overtime	\$ 438,036	\$ 416,697	\$ 546,694	\$ 583,927	\$ 707,636	\$ 708,967	\$ 882,425	\$ 1,078,319	\$ 5,362,701			
Leave Cash Outs	\$ 316,635	\$ 338,361	\$ 92,553	\$ 391,998	\$ 305,745	\$ 604,605	\$ 556,908	\$ 893,514	\$ 3,500,319			
Elected Salaries	\$ 9,177	\$ 9,054	\$ 9,054	\$ 9,000	\$ 22,650	\$ 31,122	\$ 31,985	\$ 33,793	\$ 155,835			
All Other Salary	\$ 153,988	\$ 113,907	\$ 102,736	\$ 113,466	\$ 286,925	\$ 143,868	\$ 470,789	\$ 141,732	\$ 1,527,411			
Total Salaries	\$ 15,406,186	\$ 15,496,710	\$ 15,829,195	\$ 17,009,850	\$ 18,037,452	\$ 19,338,916	\$ 20,332,020	\$ 20,220,902	\$ 121,450,329			
Budgeted Benefits-PERS Actuals	\$ 3,380,254	\$ 3,838,167	\$ 6,109,808	\$ 4,762,532	\$ 5,308,521	\$ 6,090,231	\$ 6,400,040	\$ 6,495,359	\$ 42,384,912			
Budgeted Other Benefits Actuals	\$ 3,185,962	\$ 3,431,464	\$ 3,360,605	\$ 3,523,921	\$ 3,602,352	\$ 3,640,385	\$ 3,733,828	\$ 3,695,287	\$ 28,173,804			
Benefits-Total Actuals	\$ 6,566,216	\$ 7,269,631	\$ 9,470,413	\$ 8,286,453	\$ 8,910,873	\$ 9,730,616	\$ 10,133,868	\$ 10,190,646	\$ 70,558,716			
Grand Total Salaries & Benefits	\$ 21,972,402	\$ 22,766,341	\$ 25,299,608	\$ 25,296,303	\$ 26,948,325	\$ 29,069,532	\$ 30,465,888	\$ 30,411,548	\$ 212,229,947			
Average Growth Calculations												
Based on Actual Costs		Annual Growth Rate	Annual Growth Rate	Annual Growth Rate	Annual Growth Rate	Annual Growth Rate	Annual Growth Rate	Annual Growth Rate	Average Growth Rate based on 7 FYTD actuals			
Regular Salaries Growth Rate	N/A	0.9%	3.0%	6.6%	6.4%	5.6%	3.2%	-2.9%	3.3%			
Temporary Salaries Growth Rate	N/A	0.2%	5.1%	-11.2%	-20.1%	36.1%	-0.5%	22.3%	4.6%			
Overtime Salaries Growth Rate	N/A	-4.9%	31.2%	6.8%	21.2%	0.2%	24.5%	22.2%	14.5%			
Paid Leave & Final Leave Cash-Outs	N/A	6.9%	-72.6%	323.5%	-22.0%	97.7%	-7.9%	60.4%	55.2%			
Elected Salaries Growth Rate	N/A	-1.3%	0.0%	-0.6%	151.7%	37.4%	2.8%	5.7%	27.9%			
All Other Salaries Growth Rate	N/A	-26.0%	-9.8%	10.4%	152.9%	-49.9%	227.2%	-69.9%	33.6%			
Total Salaries Growth Rate	N/A	0.6%	2.1%	7.5%	6.0%	7.2%	5.1%	-0.5%	4.0%			
Budgeted CalPERS benefits Growth	N/A	13.5%	59.2%	-22.1%	11.5%	14.7%	5.1%	1.5%	11.9%			
Other Benefits Growth Rate	N/A	7.7%	-2.1%	4.9%	2.2%	1.1%	2.6%	-1.0%	2.2%			
Total Benefits Growth Rate	N/A	10.7%	30.3%	-12.5%	7.5%	9.2%	4.1%	0.6%	7.1%			

REMARKS (continued):

**Please provide historical trend of capital transfers made to the General Fund Appropriated Reserve (GFAR) Capital Project Fund expressed as a percentage of General Fund Operating Revenues.**

FY		ONGOING OPERATING REVENUES	OPERATING TRANSFERS IN	Total GF Ongoing Operating Revenues	GEN FUND TRANSFERS OUT TO GFAR CAP PROJ FUND	% of Capital Transfers out to Ongoing GF Oper Rev.
2005/06	Actuals	\$ 29,180,285	\$ 430,839	\$ 29,611,124	\$ 205,081	0.69%
2006/07	Actuals	\$ 32,820,857	\$ 393,657	\$ 33,214,514	\$ 4,242,454	12.77%
2007/08	Actuals	\$ 32,909,281	\$ 148,369	\$ 33,057,650	\$ 6,099,894	18.45%
2008/09	Actuals	\$ 31,535,568	\$ 437,925	\$ 31,973,493	\$ 1,916,500	5.99%
2009/10	Actuals	\$ 31,353,140	\$ 814,696	\$ 32,167,836	\$ 825,000	2.56%
2010/11	Actuals	\$ 32,795,830	\$ 626,694	\$ 33,422,524	\$ 786,525	2.35%
2011/12	Actuals	\$ 34,229,319	\$ 231,723	\$ 34,461,042	\$ 1,849,882	5.37%
2012/13	Actuals	\$ 35,999,754	\$ 623,096	\$ 36,622,850	\$ 2,043,695	5.58%
2013/14	Actuals	\$ 36,704,642	\$ 546,810	\$ 37,251,452	\$ 2,683,746	7.20%
2014/15	Actuals	\$ 39,599,811	\$ 504,376	\$ 40,104,187	\$ 7,271,491	18.13%
2015/16	Actuals	\$ 38,961,814	\$ 508,926	\$ 41,644,860	\$ 531,014	1.28%
2016/17	Actuals	\$ 38,750,558	\$ 313,825	\$ 39,064,383	\$ 7,298,187	18.68%
2017/18	Actuals	\$ 40,529,416	\$ 538,536	\$ 41,067,952	\$ 2,638,224	6.42%
2018/19	Actuals	\$ 43,630,249	\$ 538,536	\$ 44,168,785	\$ 2,335,220	5.29%
2019/20	Actuals	\$ 42,716,563	\$ 599,699	\$ 43,316,262	\$ 6,982,591	16.12%
2020/21	Actuals	\$ 42,741,130	\$ 652,056	\$ 43,393,186	\$ 3,401,479	7.84%
2021/22	Estimated	\$ 43,237,259	\$ 633,352	\$ 43,870,611	\$ 3,423,211	7.80%
2022/23	Budgeted	\$ 45,556,299	\$ 538,536	\$ 46,094,835	\$ 3,006,978	6.52%

Average % Cap Transfers-  
Out to GFAR 8.28%

The Chair requested answers to the following questions from the public:

**Could you provide a quick explanation for the variance between the adjusted budget and estimate for Streets & Signals and Gas Tax Streets and Signals. The variances combine for over \$3 m.**

**DEPARTMENTAL EXPENDITURES  
BY PROGRAM**

	2018/19 Actuals	2019/20 Actuals	2020/21 Actuals	2021/22 Adjusted	2021/22 Estimated	2022/23 Adopted
<b>Parks &amp; Public Works</b>						
5101 Administration	\$ 570,096	\$ 614,753	\$ 636,015	\$ 628,201	\$ 627,119	\$ 595,779
5201 Engineering Program Services	1,215,300	1,480,068	1,385,830	1,311,552	1,442,088	1,551,610
5202 Engineering Development Svcs	742,264	757,990	759,203	842,533	855,663	844,226
5203 Non-Point Source Fund	628,241	162,839	166,173	221,045	185,952	178,666
5301 Park Services	1,737,287	1,965,843	2,013,263	2,206,816	2,102,442	2,275,527
5302 Environmental Services	337,937	278,918	362,378	477,128	246,955	438,062
5401 Street & Signals	2,220,248	2,084,477	1,950,873	2,484,223	1,019,490	2,667,362
5402 Equipment Replacement	601,961	540,036	254,194	713,267	733,421	816,240
5403 Vehicle Maintenance	252,204	-	-	-	-	-
5404 Facilities Maintenance	1,011,905	1,161,003	1,160,152	1,223,193	1,234,999	1,240,344
5405 Property Damage	56,226	18,632	5,197	25,000	25,000	25,000
5406 Vehicle Maintenance Management	221,062	199,072	251,390	268,729	302,190	247,015
5407 Facilities Maintenance Management	305,042	316,130	333,628	393,171	356,929	401,319
5501 Lighting & Landscape Districts	27,266	54,572	53,958	95,279	33,143	95,642
5999 Pass Thru Accounts	564,170	452,157	481,981	140,000	140,000	140,000
8011 GFAR	7,552,806	5,567,263	4,743,911	20,507,902	6,272,006	6,082,937
8021 Grant Funded CIP Projects	379,494	484,403	698,512	7,869,300	4,126,407	4,967,041
8031 Storm Drain #1	-	-	-	200,000	-	-
8032 Storm Drain #2	-	-	-	200,000	13,400	-
8033 Storm Drain #3	29,700	11,000	611	259,447	25,848	-
8041 Traffic Mitigation	64,626	76,290	354,436	1,431,246	541,315	-
8042 Utility Undergrounding	-	49,000	24,626	348,003	427	-
8051 Gas Tax - Street & Signals	960,881	1,719,384	43,241	2,544,576	868,215	1,497,689

REMARKS (continued):

As mentioned previously, staff erroneously did not carry forward FY 2021/22 estimated salary and benefit costs for the Street and Signals Program. The estimated numbers will be updated in the proposed budget.

Programs 8011 to 8051 represent capital projects, staff only estimates current year progress on the capital projects. At the close of each fiscal year any leftover budget is carried forward to the next fiscal year until the project is completed. The Town's separate Capital Improvement Program Budget lists the carry forward balances for each project. The summary tables do not include the carryforward amounts.

**The ending GFAR Balance is increasing by approximately \$800 - \$900K per year. This results in the June 30, 2027 GRAR balance growing to \$4.5m. Why not program additional capital projects so 100% of the annual capital revenue sources are fully programmed? There certainly appears to be unmet capital needs which could be addressed by the unspent revenue. For example there is no spending programmed for roadside fuel reduction beyond FY 22. Why was the capital plan programmed not to spend all capital sources each year?**

The ending fund balance is growing primarily because of the anticipated 50% collection of Measure G proceeds and the anticipated proceeds from Tesla for charging station lease. Staff anticipates that Council will provide further direction annually on the specific capital use of the Measure G proceeds. On February 2, 2021, Council directed staff to set aside the Tesla charging lease proceeds in the General Fund Appropriated Reserve that will be transferred to a Future Downtown Parking Fund to collect parking revenue for infrastructure improvements in the downtown.

**The capital plan has programmed \$1.2m to upgrade the Town's ERP software. \$700k of funding is coming from a transfer from the Internal Services IT Fund which has a projected FY 23 ending balance of \$1.8m. Why not fund the entire \$1.2m program from the Internal Services IT Fund? The Internal Services IT Fund has capacity to do this and would allow the Town to reprogram \$500k to other pressing capital needs. Additionally, the fund balance for the Internal Services IT Fund has remained unchanged for years suggesting that a large portion of the balance is surplus.**

The cost of software and license subscriptions is increasing with recent changes and improvements to the Town-wide information technology solutions. The current IT replacement schedule (based on the \$700,000 transfer) cash flow analysis estimates the fund being depleted by FY 2027/28. If the transfer is increased by \$500,000, the estimated fund balance will approach zero at a faster rate. This would require increased user (Department) charges for IT services.

REMARKS (continued):

The GFAR has \$1.9m programmed for a Streetscape/Economic recovery project. There does not appear to be a specific plan to spend these programmed funds. Why not remove these funds from the GFAR project list and record them as a committed reserve in the General Fund? This would “clean up” the GFAR project list by removing a project that does not have a council approved program spend and properly segregates these funds in a General Fund Committed Reserve that is controlled by the Town Council. By doing this, it is more transparent to the public that these funds exist (currently it is hidden from sight as a project in the GFAR) and the funds are committed for a future capital improvement project. The current treatment frankly makes no sense if the goal is to improve transparency.

The Streetscape/Economic Recovery Project is the funding source for all the Council approved discretionary items and American Recovery Plan (ARPA) funded efforts for economic recovery. In terms of project timing, all ARPA proceeds must be obligated by December 31, 2024 and expended by December 31, 2026.

	Allocations/Commitments
Estimated ARPA Funds	\$7,229,744
Replace Lost Revenue (FY 2022/23)	\$1,000,000
Economic Development	
• Parklets	\$930,000
• CUP Fee waiver	\$50,000
• ADA Fee Waiver	\$25,000
• Destination Marketing	\$55,000
• K-Rail	\$25,000
• Promenades	\$200,000
Totals	\$1,285,000
Nonprofit/Community Assistance	
• Rent Waiver	\$625,208
• Direct Grants	\$110,000
• Enhanced Senior Services	\$500,000
Totals	\$1,235,208
Total Allocations	\$3,520,208
Total ARPA Funds Unallocated	\$3,709,536