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**Subject:** FW: ARPA Funds  
**Attachments:** ARPA - FY 22.pdf; Pages from MEET-Packet-73dd39da048d496eae5e1d18a27745ed.pdf; ARPA adjustment.xlsx

**From:** Phil Koen  
**Date:** February 10, 2023 at 2:52:14 PM PST  
**To:** Gitta Ungvari <[GUngvari@losgatosca.gov](mailto:GUngvari@losgatosca.gov)>  
**Subject:** ARPA Funds

[EXTERNAL SENDER]

Hi Gitta,

Thank you for your time today. We covered a lot, but there is a lot more to discuss.

I do want to nail down our ARPA discussion and see if we can come to a common understanding. I have attached a spreadsheet which shows the impact of allocating the \$1,348,659 programmed ARPA uses to ARPA and away from the GF surplus. By applying the \$1,348,659 in programmed uses that are listed on page 228 against the ARPA Transfer In, you reduce the ARPA contribution to total liquidity by that amount. The ending ARPA balance of \$2,065,302 is adjusted downward and becomes an element of the year end GF Balance.

Since the total liquidity can not change (it is what it is) the counter entry is to increase the General Fund Surplus by the same \$1,348,659. This means that on an adjusted basis, the GF Surplus for FY 2022 was \$4,639,554. As you can see pre and post the adjustment for the programmed uses of ARPA, Total Liquidity remains the same at \$6,704,856. All you have done is move funds from your left pocket to your right pocket – no liquidity is created by this bookkeeping entry. For this reason, I believe there is still \$6.7m of incremental liquidity available to the Town as of June 30, 2022. This analysis does not include the second tranche of ARPA funds received after the fiscal year end,

Please let me know if you agree with this analysis.

I do have a few other comments I will submit to you over the weekend.

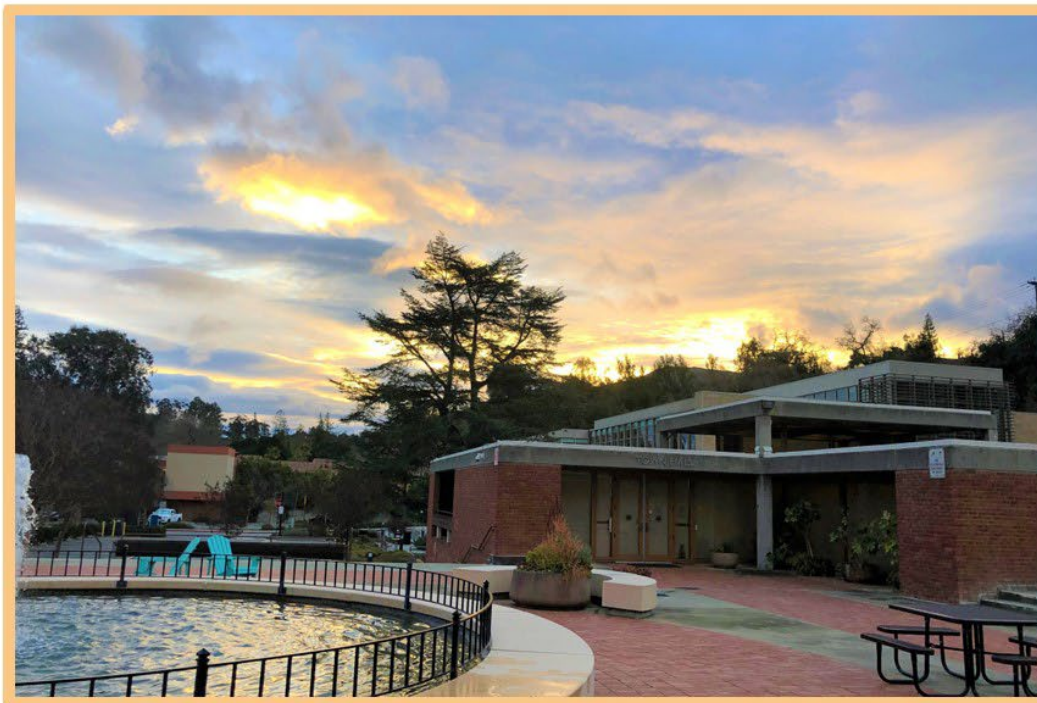
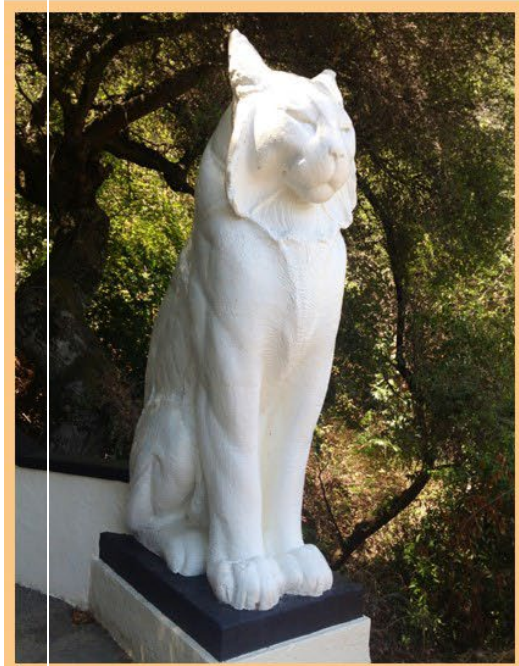
All the best,

Phil



# TOWN OF LOS GATOS

## CALIFORNIA



## Annual Comprehensive Financial Report

### For the Fiscal Year ended June 30, 2022

of \$1,156,412, increasing beginning fund balance and net position by \$0.7 million. See Note 4 for additional information.

- The Town received the first tranche payment of \$3,614,872 from the American Rescue Plan Act (ARPA) grant on July 13, 2021. For FY 2020/21, \$200K of ARPA proceeds was recognized as revenue to reimburse the Town for qualifying expenditures under the provisions of the Act including boosting economic recovery and providing rent forgiveness and direct grants to non-profit and social welfare organizations. For FY 2021/22, the Town recognized \$3.4 million in ARPA revenues related to recovery of revenue loss. 7 8
- Despite the ongoing economic impacts resulting from the nationwide pandemic, the Town's economically sensitive major revenues of property tax, sales tax, and business license tax were able to record gains from amounts reported the prior fiscal year. Property taxes collected increased \$1.3 million, sales taxes increased \$0.6 million, while business license tax increased by a modest \$94K from amounts collected the prior year.
- The economic impacts related to the pandemic and initial travel restrictions continued into FY 2021/22. FY 2021/22 Transient Occupancy Tax (TOT) revenue collection increased by \$840K compared to the level collected in FY 2020/21. However, the current year proceeds of \$1.9 million is still \$0.8 million lower than FY 2019/20 level of TOT collection.
- Total expenses as reported in the Statement of Activities increased \$2.2 million from the prior year. The increase primarily was driven by a one-time \$6.9 million State pass-through grant payment in General Government for wildfire protection. Excluding the one-time payment, total expenses actually decreased from the prior year by \$4.7 million primarily due to the \$3.1 million calculated pension expense credit, salary and benefit savings, and other miscellaneous operational savings. As previously noted, the pension expense credit was mostly from actual investment earnings in excess of estimated assumed investment earnings and additional discretionary payments in excess of contractually required contributions.
- The cost of all governmental activities as presented in the Statement of Activities this year was \$52.7 million. The Town's governmental program revenues were \$41.2 million including charges for services of \$12.8 million, operating grants and contributions of \$6.2 million, and capital grants and contributions of \$22.2 million. After taking governmental program revenues into consideration, the net amount of taxpayer supported governmental activities was \$11.5 million. The Town paid for the remaining "public benefit" portion of governmental activities from total taxes and general revenues of \$35.7 million. This \$11.5 million in net cost of governmental activities is net of the \$12.2 million Los Gatos Theatre contribution that occurred during FY 2021/22. Excluding the theatre contribution, the net cost of governmental activities would be \$23.7 million which represents an approximate 32% decrease from the prior fiscal year (\$35.1 million). The decrease reflects reduced costs related to the pension credit and increased governmental grant revenues from the prior year.
- At the end of FY 2021/22, the General Fund balance was \$26,896,789 compared to \$23,914,618 in the prior year. The ending fund balance of \$26,896,789 represents approximately 62% of General Fund expenditures for the current fiscal year excluding



**TOWN OF LOS GATOS, CALIFORNIA**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property Taxes	\$ 21,129,082	\$ -	\$ 38,640	\$ 21,167,722
Sales Taxes	8,483,673	-	-	8,483,673
Other Taxes	1,909,816	-	66,382	1,976,198
Licenses & Permits	5,096,318	420,055	538,667	6,055,040
Intergovernmental	1,263,352	9,400,918	4,828,712	15,492,982
Charges for Services	5,460,613	1,464,746	-	6,925,359
Fines and Forfeitures	319,170	-	-	319,170
Franchise Fees	2,822,515	-	-	2,822,515
Developer Fees	1,200,000	535,571	-	1,735,571
Interest	(1,404,527)	34,805	90,739	(1,278,983)
Use of Property	32,400	93,001	19,500	144,901
Other	311,040	-	38,105	349,145
Total Revenues	46,623,452	11,949,096	5,620,745	64,193,293
<b>EXPENDITURES</b>				
Current:				
General Government	9,053,968	6,900,000	-	15,953,968
Public Safety	16,451,190	-	-	16,451,190
Parks and Public Works	8,605,457	-	33,671	8,639,128
Community Development	6,313,511	-	-	6,313,511
Library Services	2,752,397	-	74,813	2,827,210
Sanitation and Other	-	-	194,969	194,969
Capital Outlay	-	9,570,780	907,890	10,478,670
Debt service:				
Principal	156,034	-	-	156,034
Total Expenditures	43,332,557	16,470,780	1,211,343	61,014,680
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>3,290,895</b>	<b>(4,521,684)</b>	<b>4,409,402</b>	<b>3,178,613</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Gain from sale of assets	2,151	-	-	2,151
Transfers in	4,047,313	4,074,141	32,853	8,154,307
Transfers (out)	(4,358,188)	(427,616)	(3,524,881)	(8,310,685)
Total Other Financing Sources (Uses)	(308,724)	3,646,525	(3,492,028)	(154,227)
<b>NET CHANGES IN FUND BALANCES</b>	<b>2,982,171</b>	<b>(875,159)</b>	<b>917,374</b>	<b>3,024,386</b>
<b>BEGINNING FUND BALANCES</b>	<b>23,914,618</b>	<b>15,115,912</b>	<b>8,807,222</b>	<b>47,837,752</b>
<b>ENDING FUND BALANCES</b>	<b>\$ 26,896,789</b>	<b>\$ 14,240,753</b>	<b>\$ 9,724,596</b>	<b>\$ 50,862,138</b>

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

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- d. Partnerships for the conversion of existing residential developments dedicated to affordable housing
- e. Grants to the Santa Clara County Housing Trust for the development of affordable housing.

During the fiscal year ended June 30, 2012, the rights and obligations resulting from this cooperative agreement were transferred to the Successor Agency Trust Fund as a part of the Town's dissolution of its Redevelopment Agency.

**NOTE 15 - COVID-19 PANDEMIC PROGRAMS**

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law by President Biden. The \$1.9 trillion package (the Act) provided financial aid to families, governments, businesses, schools, nonprofits and others impacted by the COVID19 public health crisis. Of the \$1.9 trillion, \$350 billion is being directed toward state and local governments. All 19,000 municipal governments are entitled to a direct, noncompetitive federal formula grant from the U.S. Treasury Department. The portion allocated to cities, towns, and villages totals \$65.1 billion of which \$19.5 billion is obligated toward cities with less than 50,000 residents. The Act will allocate \$7,229,744 to the Town over a two-year period. The first tranche payment of \$3,614,862 was received on July 13, 2021, and the second payment no earlier than 12 months after the first payment.

Section 603. CORONAVIRUS LOCAL FISCAL RECOVERY FUND of the Act identified four eligible uses for funding, as follows:

- A. Respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19) or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
- B. Respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of the metropolitan city, nonentitlement unit of local government, or county that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;
- C. Provide government services to the extent of the reduction in revenue of such metropolitan city, nonentitlement unit of local government, or county due to the COVID-19 public health emergency relative to revenues collected in the most recent full fiscal year of the metropolitan city, nonentitlement unit of local government, or county prior to the emergency; or
- D. Make necessary investments in water, sewer, or broadband infrastructure.

During the fiscal year ended June 30, 2022, the Town recognized \$3,413,961 as operating grant revenue in the ARPA special revenue fund and transferred \$3,413,961 to other funds, reimbursing the Town for qualifying expenditures under the provisions of the Act. For FY 2020/21, the Town recognized the initial \$200K of ARPA proceeds as revenue to reimburse the Town for qualifying expenses.

TOWN OF LOS GATOS  
BUDGETED NONMAJOR FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (GAAP)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	ARPA			LG Theatre		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
License and permits	-	-	-	-	-	-
Intergovernmental	3,413,961	3,413,961	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Use of property	-	-	-	-	19,500	19,500
Other	-	-	-	-	-	-
Total Revenues	3,413,961	3,413,961	-	-	19,500	19,500
<b>EXPENDITURES</b>						
Current:						
Parks and public works	-	-	-	-	-	-
Library services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total Expenditures	-	-	-	-	-	-
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	3,413,961	3,413,961	-	-	19,500	19,500
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	(3,413,961)	(3,413,961)	-	-	-	-
Total Other Financing Sources (Uses)	(3,413,961)	(3,413,961)	-	-	-	-
<b>CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>19,500</u>	<u>\$ 19,500</u>
<b>BEGINNING FUND BALANCE</b>		<u>-</u>			<u>-</u>	
<b>ENDING FUND BALANCE</b>		<u>\$ -</u>			<u>\$ 19,500</u>	

(Continued)

## Other Fund Revenues and Expenditures

- Landscape Maintenance: Staff recommends an expenditure budget increase in the amount of \$9,622 to the various Park Light and Landscaping Districts for increased landscape maintenance services.
- Theatre Needs: Staff recommends \$68,000 revenue increase to recognize the current tenants anticipated rent proceeds and \$55,814 expenditure budget increase from available rent proceeds for initial set-up, utility cost and additional expenses related to the Los Gatos Theatre Building maintenance and repairs.
- Gas Tax: Staff recommends revenue and expenditure budget decrease in the amount of \$67,218 reflecting most recent gas tax projections.
- West Valley Sanitation District Annual Fee: Staff recommends an expenditure budget increase in the amount of \$8,608 to for additional water meter connected and increased water usage fee.
- Library Trust programming: Staff recommends \$5,000 revenue and expenditure adjustment to recognize additional donation from the Friends of the Los Gatos Library. The Friends were able to donate an additional of \$5,000 this year. Staff anticipated spending \$5,000 of the additional donation in the current fiscal year.

### American Rescue Plan Act (ARPA) Fund:

In accordance with ARPA, the Town was awarded an ARPA grant in the amount of \$7,229,744 paid to the Town in two separate payments, the first payment of \$3,618,872 was received in early July 2022 and the second payment of \$3,614,872 was received in early July 2023.

Based on initial guidance of eligible uses of ARPA funds the Town allocated these funds to various purposes to respond and support the impacts of the pandemic on Town residents, non-profits, the business community including the construction of downtown parklets, non-profit fee and rent waivers, enhanced senior services, promenades, and increased funding for Town infrastructure capital improvements, among other initiatives.

Upon Treasury's release of the simplified reporting process for entities awarded less than \$10 million in ARPA funding and additional guidance received on federal compliance issues, the Town recognized the \$3.4 M of FY 2021/22 and the recommending recognizing the second tranche of \$3.6M cash collections of ARPA revenues in FY 2022/23 as qualified revenue loss under the Treasury provisions for use in providing government services. To further aid in compliance with federal uniform guidance and Single Audit requirements, staff claimed the lost revenue for use in providing essential government services and accounted for the use of ARPA revenue loss revenues for eligible public safety payroll costs for in FY 2021/22 and proposing the same for FY 2022/23.

The recommended action as illustrated in the below worksheet will allocate all ARPA "replacement" revenues to the General Fund which in turn will unencumber other General Fund operating revenues which were previously dedicated for public safety costs. The newly unencumbered General Fund revenues can then be allocated to the ARPA pandemic responses as identified.

Council has already allocated all the \$7.2 million proceeds for various priorities as illustrated in the below table. Staff will bring back any residual balance not used for the original purpose after completing the program for Council re-programming reconsideration

## AMERICAN RESCUE PLAN ACT (ARPA) SUMMARY WORKSHEET

	FY 2020/21	FY 2021/22		FY 2022/23		GRAND
	ACTUALS	BUDGET ADJ. ESTIMATED	ACTUALS BAL REMAINING	ESTIMATED	EST. MID-YEAR	TOTAL
ARPA FUNDS REVENUE RECOGNIZED	\$ 200,911	\$ 3,413,961		\$ 3,614,872		\$ 7,229,744
GOV SERVICES (WAIVERS,CUP&ADA,DIRECT GRANTS)	200,911					200,911
REVENUE LOSS -GOV SERVICES (PUBLIC SAFETY)		3,413,961	3,413,961	3,614,872		7,028,833
	\$ 200,911	\$ 3,413,961		\$ 3,614,872		\$ 7,229,744
GENERAL FUND ARPA REPLACEMENT REVENUES AVAILABLE	\$ 200,911	\$ 3,413,961		\$ 3,614,872		\$ 7,229,744
LESS APPROVED USES TO BE BUDGETED:						
PARKLETS (DOWNTOWN IMPVTS PROJECT)	\$ -	\$ 680,000	\$ 466,428	\$ 250,000	\$ -	\$ 930,000
RENT WAIVERS	121,255	341,452	341,452	283,756		746,463
CUP/ADA FEE WAIVERS	19,656	27,672	27,672	27,672		75,000
DESTINATION MARKETING		55,000	55,000			55,000
K-RAILS (DOWNTOWN IMPVTS PROJECT)		68,000	88,654			68,000
PROMENADES		80,000	69,855	120,000	90,628	200,000
DIRECT GRANTS	60,000	50,000	50,000			110,000
ENHANCED SENIOR SERVICES		500,000	249,597			500,000
CAPITAL IMPROVEMENT PROGRAM SUPPORT TRANSFERS				2,900,000	580,000	2,900,000
REQUIRED FOR GF BALANCING OF OPERATING REV_EXP				1,645,281		1,645,281
TOTAL ALLOCATIONS OF GENERAL FUND ARPA REPLACEMENT REVENUES	\$ 200,911	\$ 1,802,124	\$ 1,348,659	\$ 5,226,709	\$ 670,628	\$ 7,229,744

While the Town already recognized the full first tranche of the ARPA proceeds during FY 2020/21 and FY 2021/22, only \$1,549,570 was utilized during those fiscal years, \$2,065,302 is part of the General Fund balance and tracked by staff to ensure that the proceeds are spent by Council adopted uses.

The FY 2022/23 budget was adopted prior to the simplified guideline so staff is proposing the following budget adjustments to recognize the revenue and track the Council approved uses.

## FY 2022/23 MID-YEAR BUDGET ADJUSTMENT REQUESTS - ARPA RECLASSIFICATION

Fund	Program	Account	American Rescue Plan Act (ARPA) Fund	
111	4301	48219	ARPA - Intergovernmental Revenue	3,614,872
111	5301	48219	ARPA - Intergovernmental Revenue	40,431
111	3201	48219	ARPA - Intergovernmental Revenue	27,672
111	2101	48219	ARPA - Intergovernmental Revenue	120,000
411	411-813-0235	48219	ARPA - Intergovernmental Revenue	250,000
633	5404	48219	ARPA - Intergovernmental Revenue	243,325
241	1241	43217	ARPA - Intergovernmental Revenue	2,310,176
				<b>\$ 6,606,476</b>
241	1241	68219	ARPA - Income Replacement Expense	2,310,176
111	1201	68219	ARPA - Income Replacement Expense	3,581,428
				<b>\$ 5,891,604</b>



	ACFR 2022	Adjustments	Adjusted ACFR 2022
Surplus - General Fund	3,290,895	1,348,659	4,639,554
Transfer In - ARPA	3,413,961	(1,348,659)	2,065,302
Total Liquidity	6,704,856	0	6,704,856

Notes:

The \$1,348,659 adjustment reflects the actual amounts programmed by the TC as a use of ARPA funds during FY 2022.

The \$2,065,302 is the balance amount of ARPA funds which is in the GF Balance of \$26,896,789 as of FYE 2022.

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