

1. Question: Page A-4: *Head Count* Since FY 2013 FTE headcount has increased from 136 to 153 budgeted for FY 24. This is an increase of 17 FTE's. Please provide detail of the FTE increase.

Answer: Every year, the Adopted Budget explains the changes from the prior year in detail both in the Departmental Narrative sections and in the Summary of Personnel Changes in the Financial Summary Sections. Please see the FY 2023/24 Proposed Budget from page C-48 to C-55 for the change from the prior year. It is not feasible to provide detailed historical changes from 2013 given other workload priorities.

2. Question: Page A-21/C-9: *Property Tax* Why is property tax forecasted to increase only \$0.7 from prior year estimates if the SCC Assessor is projecting a 6.14% increase in the FY 23/24 assessor roll? Why wouldn't property taxes increase by this amount?

Answer: The Town receives a quarterly update from the Santa Clara County Assessor's Office (SCCAO) that is based on actual receipts. Property Tax has many different elements, current year secured, current year unsecured, ERAF, and property transfer tax. While most of the elements are estimated to grow by 3%, ERAF and property tax estimates are different and will change the overall total percentage growth. Staff used the most recent estimates (January 2023) for the Property Tax base. In addition, staff had additional estimates related to the North 40 regarding unit sales and ERAF that all fold into the total property tax estimates as described on page A-21.

3. Question: Page A-21/C-9: *ERAF* Preliminary estimate for FY 24 excess ERAF distribution is \$2.2m for the Town. How much is in the FY 24 budget? Is this included in the Property tax number?

Answer: Please refer to page A-21 "SCCAO recommends 70% of the 2022/23 anticipated proceeds" due to the outstanding lawsuit. ERAF is included in the total property tax number. FY 2022/23 estimates are \$1.6 million and FY 2023/24 estimates are \$1.5 million based on information provided by the SCCAO.

4. Question: Page A-21 *Franchise Fee* Please provide the supporting detail for FY 24 franchise fees of \$2,116,470. Please explain decrease from FY 23 \$2,716,470

Answer: Please refer to pages A-21, C-5, and C-25 regarding Franchise Fees and Solid Waste Contract pages D-216- D-218. The decrease is due to anticipated partial proceeds from the Garbage Franchise Fee from July 2023 until Feb 2023 instead of the full fiscal year.

5. Question: Page A-21: *Garbage Franchise Fee* The new Solid Waste Management agreement calls for LG to receive \$1,594,375 in various fees other than franchise fees. Where are these fees recorded? Is the garbage fee in addition of these fees? Why is it reasonable to assume there will be \$0 from the franchise fee?

Answer: The Town's current agreement will expire at the end of February 2024. Under the current agreement, Town receives franchise fees, annual fees, Household Hazardous Waste (HHW) Management Fees, Street Sweeping Fees, and Vehicle Impact Fees. HHW and Street Sweeping Fee are programmed in Parks and Public Works Programs. Please refer to pages D-215 – D-230. The vehicle Impact Fee is programmed directly to the Annual Street Maintenance Capital project. (Please refer to pages A-5 and C-5 of the Capital Budget). The Garbage franchise fee is an additional fee. Staff assumed a \$1.2 million garbage franchise fee for FY 2023/24 and \$0.9 million annually over the five years of the forecast period as can be seen on page A-21.

6. Question: PageA-22: *Transient Occupancy Tax*. What is the basis for a 3% increase from prior year's actual? Other cities in SCC are using estimates of 5% - 11%. Please explain.

Answer: Staff considers current proceeds coupled with historical occupancy rate. The Town's the historical highest Transient Occupancy Tax collection was \$2.6 million. The TOT already predicted a decrease slightly before the pandemic. The current assumptions almost take the Town back to the pre-pandemic level.

7. Question: Page A-23: *Salaries*. Are all positions programmed for a step increase in addition to a COLA?**Answer:** Please refer to page A-23 as it describes the personnel budgeting assumptions.

8. Question: PageA-23: *Operating Expenditures*. What are the 3 biggest components of operating expenditures and what are the inflation assumptions for each?

Answer: There are close to 200 items in this category. Most of the items are increased by 3% in the forecast, and the Proposed FY 2023/24 reflects all contractual increases. Please note that there are items that are cyclical in nature, such as election fees that occur every other year in the forecast. All the pass-through items are housed in this category, and usually, those items remain flat in the budget and the forecast. With each estimated pass-through expenditure an equal pass-through revenue is recorded. Pass-throughs do not have an effect on the fund balance.

9. Question: Page C-6: *Salaries*. Please provide a schedule showing the salary increases planned in FY 24 of each separate bargaining unit and the non-represented group showing Base, COLA, and step increases vs. FY 23 actuals

Answer: Please refer to assumptions as described on page A-23. There is no staff capacity to provide the requested analysis that would involve separating out the impact on Base, COLA, and step increases by bargaining units.

10. Question: PageC-9: *Other Sources*. Please provide details of \$3,487,264 other sources of revenue and explain the decrease from FY 23 estimated \$5,887,554.

Answer: Please refer to FAQs posted on April 24, 2023, regarding Other Sources.

11. Question: Page C-9: *Other Taxes*. What other taxes are included in the \$2,440,766?

Answer: Other Tax refers to Business License Tax.

12. Question: PageC-9: *Interest*. Please provide the actual mark to market adjustment recorded for FY 22.

Answer: FY 2021/22 Mark to Market Adjustment is negative\$438,333 reversing the FY 2020/21 entry and FY 2021/22 adjustment of negative \$1,577,168.

13. Question: PageC-9: *Salaries/Benefits*. Please provide the detail for FY 24 budget of \$36,166,293 and FY 23 estimate of \$33,229,787 broken into base salary, overtime, retirement and other benefits. Please refer to the Mid-Year Review schedule of Salaries and Benefits shown on page 13 as an example. Please provide a detail explanation of the year over year increase of \$2,936,506. What are the cost drivers of this increase? How much is because of increase in headcount vs. COLA vs. step merit vs reduction in OT? Is overtime budgeted separately?

Answer: Staff provided multiple historical analyses for both the Finance Commission and the Town Council during the last couple of years. Historical and current year information is available on salaries, pension benefits, and other benefits in the Proposed Budget, please refer to pages A-7 to A-8. In addition, pages A-3 to A-5, and C-6 to C-7 provides detailed descriptions of the cost drivers of salaries and benefits.

14. Question: PageC-9: *Operating Expenditures* Please explain the \$3,374,655 decrease from FY 23 estimate.

Answer: Please refer to the first question of the FAQs published on 4-26-2023.

15. Question: PageC-9: *Internal Service Funds* Please explain the \$728,613 increase from FY 23 estimate.

Answer: The increase is related to the planned replacement activity, higher workers' compensation, and Town liability insurance premiums. Please refer to pages C-26, D-17, D-81, D-245, and D-246.

16. Question: PageC-9: *Operating Margin* The GF FY 24 is budgeting a structural deficit of \$(3,417,763). This is computed by subtracting normalized revenues of \$49,174,584 from normalized operating expenditures of \$52,592,347. Please confirm this is correct.

Answer: Staff estimated FY 2023/24 deficit is \$1.6 million as referenced on page A-5 in the Proposed Budget.

17. Question: PageC-24: *Other Sources* Please provide the detail that makes up \$5,381,814 and explain the decrease from \$7,781,267.

Answer: Please refer to FAQs posted on April 24, 2023, regarding Other Sources for the primary driver of the decrease.

18 Question: Separate from these questions, I do think we need to have a discussion regarding how the ARPA funds are being accounted for. I do not understand why the Staff stopped using the ARPA Fund as the primary control mechanism to track and report ARPA revenues and expenditures. I question whether GAAP is being followed. I look forward to having that discussion.

Answer: Staff did not stop using the ARPA Special Revenue fund to account for the grant proceeds and following all the accounting guidelines. Please refer to pages A-15, C-15, C-17, C-40 and C-41 of the Proposed Budget and to the ACFR. The Town will recognize the revenue with the ARPA fund during the period of the qualifying expenditure that occurs for public safety costs under the revenue loss categories, the same way as it did in FY 2021/22. The Town will fully expend the ARPA grant proceeds and fulfill Federal Requirements. This enables the organization to leverage the proceeds and fund Council Economic Recovery and Capital priorities. In addition, staff is tracking the \$7.2 million proceeds already recognized as loss revenue spending via pass-through revenues and expenditures (Pass -Through revenues are equal to Pass-Through Expenditures with no effect on the fund balance).

19. Question: PageC-29/C-32D-77: *ARPA Funds* \$746,000 is shown being transferred from a new GF Reserve - Council Priorities. This is ARPA funds. Where is the \$746,000 being transferred to?

Answer: Please refer to FAQs published on 4-25-2023.

20. Question: PageC-32 *ARPA Fund* What is the rational for zeroing out the \$1,645,281 ARPA Fund Balance as of FY 23? Is this consistent with GAAP?

Answer: Please refer to previous answers.

21. Question: PageC-32 *General Fund Reserve* Why not establish a unassigned GF Reserve to be used to fund unplanned expenditures? Historically the Capital/Special Projects reserve has been tapped.

Answer: By changing the General Fund Reserve Policy, Council can establish an unassigned or assigned General Fund Reserve for unplanned expenditures.

22. Question: Page C-35 *GFAR* Please explain why the GFAR Fund Balance has increased 40% from \$12,400,872 in FY 20 to an estimate of \$17,462,275 in FY 24?

Answer: Prior Year Actual Fund Balances reflect the actual capital projects completed. FY 2022/23 estimates do not include carry forward activities. Actual fund balances will be determined at the close of the fiscal year. Additional funding programmed that the Capital Program but not fully expended on the project will contribute to the increased fund balances. One of the additional sources was the \$2.9 million ARPA.

23. Question: PageC-36 *Patrol* Please explain the decrease of \$2,927,088 in FY 24 revenue from FY 23 estimate patrol revenue

Answer: The primary driver of the decrease is that the ARPA revenue will be fully recognized for public safety services in FY 2022/23.

24. Question: Page C-40 *ARPA Spending* Please provide the detail behind the FY 23 estimated ARPA spending of \$4,034,893. As of the end of April, how much has actually been spent? Under GAAP, funding should be reported as unearned revenue until eligible costs have been incurred. No expenditure under the revenue loss standard allowance

Answer: Please refer to the answers above. Staff is tracking the \$7.2 million spending for the Council's Priorities for the use of the funding. The ARPA Federal Proceeds will be fully spent for public safety expenditures under loss revenue categorized following the Treasury guideline.

For tracking purposes, staff anticipates that all items earmarked by Council on Parklets, Rent Waivers, CUP/ADA Fee waivers, Destination Marketing, K-Rails, Direct Grants, and Enhanced Senior Services up to FY 2022/23 will be spent or transferred to the Capital Program by the end of FY 2022/23 as shown in page C-40. The total of those items is \$5.5 million, deducting FY 2020/21 (\$ 0.2 million), and FY 2021/22 (\$1.3 million) spending will result in \$4 million as detailed on page C-40.

25. Question: PageC-41 *ARPA Capital Spending* Why were these projects identified as the best use of ARPA funds?

Answer: These projects were established by prior Council actions. Please refer to page C-41 and to the Proposed Capital Improvement Plan

26. Question: PageC-42 *Market Rate* Is the \$3.70 market rate per sq. ft. per month validated by actual FMV transactions for like property leases in LG?

Answer: The market rate per square foot is determined by the corresponding agreements, please see page C-42.

27. Question: PageC-43-C-44 *Impact Fees* When the impact fee is paid, where is the money recorded? Is it recorded as a deposit? When is the money recognized as revenue?

Answer: The Traffic Mitigation Impact Fee is recognized in a deposit account and the revenue is recognized when qualifying expenditures occur. Traffic Impact Fee recognized directly to the Annual Street Repair and Resurfacing Program (see page C-5 of the Proposed Capital Improvement Plan).

28. Question: Page C-50 *Overtime* How much was paid in overtime in FY 22 and FY 23? How much is budgeted for FY 24? Please explain "the departments absorb the additional overtime expenses from anticipated salary savings". How much anticipated salary savings is budgeted in FY 24?

Answer: Please refer to page C-50 regarding the FY2023/24 budgeted overtime. The FY 2021/22 overtime was \$1.1 million. The FY 2022/23 estimated overtime is \$1.6 million due to vacancies, protected leaves, and current storm activities. Staff fully fund all vacant positions and there is no anticipated salary savings is budgeted.

29. Question: PageC-51 *Workers Comp* The balance of the Workers Comp Fund at the end of FY 24 is \$56,696. Why is Staff comfortable with this low balance? In FY 22 the balance was \$1,295,185. This suggests that the Internal Service Charge for Worker's Comp does not reflect true loss experience.

Answer: Please refer to D-181.

30. Question: PageD-13 *Operating Expense* Why has operating expenditures increased from approximately \$30,000 per year to a FY 24 budget of \$275,856?

Answer: The increase is attributable to increased outside legal consulting services needed.

31. Question: Page D-18 *Operating Expense* How was the operating expense for the liability self-insurance program determined? As mentioned above, the fund balance is abnormally low.

Answer: Please refer to page D-17 third paragraph.

32. Question: Page D-77 *Unfunded Pension* In what revenue line on C-24 is the \$390,000 recorded?

Answer: The \$390,000 is recorded under other sources.

33. Question: Page D-78 *Other Sources* Please provide a detail breakout of the \$1,801,830. Why has this increased from \$513,418?

Answer: Non-Departmental Other Sources includes credit card merchant fees, OPEB Trust Withdrawal, and ARPA tracking pass-through revenues. The significant decrease is because FY 2022/23 estimated revenue does not include an OPEB Trust withdrawal.

34. Question: Page D-78 *Pass Throughs* Please provide a detail breakout of \$1,971,600. Why has this decreased from \$4,034,893?

Answer: Please refer to FAQs published on April 26, 2023.

35. Question: Page D-78 *BMP in-lieu Fees* What is the current balance of the BMP in-lieu deposits held by the Town?

Answer: The Town Monthly Financial and Investment Report (Page 7) includes the estimated Below Market Housing (BMP) deposit account balance. The most recent report was presented to the Finance Commission on April 17, 2023, under Item 2, and to the Town Council on April 18, 2023, under Item 7. The reports are also listed on the Town website at the following link:

<https://www.losgatosca.gov/2401/Monthly-Financial-and-Investment-Reports>

The estimated BMP deposit account balance was \$3,698,538 as of February 28, 2023.

36. Question: Page D-119 *General Plan Fees* What is the current balance of General Plan Fees deposits held by the Town?

Answer: The Town Monthly Financial and Investment Report (Page 7) includes the estimated General Plan Update deposit account balance. The most recent report was presented to the Finance Commission on April 17, 2023, under Item 2, and to the Town Council on April 18, 2023. The reports are also listed on the Town website at the following link: <https://www.losgatosca.gov/2401/Monthly-Financial-and-Investment-Reports>

The estimated General Plan Update deposit account balance was \$933,628 as of February 28, 2023.

37. Question: PageD-129 *Other Revenues* Why has the FY 24 budget decreased from \$3,673,313?

Answer: Please refer to the answer to Question 23.

38. Question: PageD-280 *Total Revenues* Where is the FY 24 lease payment to the Town from the Friends of Library bookstore recorded?

Answer: The Friends of the Library lease and utility payment are recorded in the Facilities Maintenance Program.

Responses to Question 39 through Question 42 will be posted as FAQs on Wednesday, May 3, 2023.

39. Question: What is the budgeted total capital outlay (as defined by GAAP) planned for FY 24? The transmittal letter and schedule B-4 shows \$37,771,823 as the FY 24 Capital Plan. However, that does not reflect what is planned to be spent as capital outlays in FY 24. On schedule C-33 in the Operating Plan capital expenditures are shown as \$10,125,131. But that looks like the total of new funding being requested for all projects and not a budget for FY 24 capital outlay. Where can I find for FY 24 the planned capital outlay (eg cash disbursement) for each capital project? Is there a robust capital project tracking and reporting mechanism in place which can show actual cash vs the budget and provide percentage of completion status in place?

40. Question: On schedule B-5 Project 9901 is shows an estimated carryforward of \$4,748,250 for FY 24 and a total Budgeted of \$45,569,868. On schedule C-5 the carryforward is shown as \$4,928,250 and total Budgeted as \$48,266,496 – which is almost \$3m more. Which is correct? Please also provide additional information regarding the Footnote comment on C-5 regarding “making it challenging to clearly define the annual spending”? Why is it challenging?

41. Question: Since FY 20 the total annual budget for Project 9901 has increased from \$5,969,299 to \$8,352,226. Why has this happened? Has the scope of work expanded by 40% or has the cost materially increased? Can the Town spend wisely \$8,352,226 in a year? Are the projects clearly outlined for the \$8,352,226 programmed? Frankly this doesn't look right.

42. Question: Why don't the detail project descriptions for each project include necessary information to help the TC under the entirety of the current state of the capital project? For instance, the project summary could include the following – date project was first approved, first approved budget, first completion date estimate, current completion status based on engineering estimates, total spent to date on project and estimate to spend to complete. A good example of where this information would be useful would be for project 813-0227 Traffic Signal Modernization. That project was first opened in FY 17 for a total project cost of \$1,685,790 and a target completion date of Spring 2017. Target completion date is now Summer of 2023 with a target cost of \$2,622,973. The project detail provides no explanation as to why the project is 6 years late and \$1 million more in estimated cost. This would be helpful to understand.