



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 05/03/2021

ITEM NO: 2

DATE: April 29, 2021

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Finance Commission Recommendations to the Town Council for the Allocation of Measure G Funds Consistent with Measures G and A for the Following:

- a. Measure G Recommended Allocation for FY 2020/21
- b. Measure G Recommended Allocation for FY 2021/22
- c. Measure G Recommended Allocation for the Five-year Forecast Fiscal Years 2022/23 Through 2026/27

RECOMMENDATION:

The Finance Commission should provide recommendations to the Town Council for the allocation of Measure G funds consistent with Measures G and A for the following:

- Measure G Recommended Allocation for FY 2020/21
- Measure G Recommended Allocation for FY 2021/22
- Measure G Recommended Allocation for the Five-year Forecast Fiscal Years 2022/23 Through 2026/27

BACKGROUND:

On June 19, 2018, the Los Gatos Town Council adopted Ordinance No. 2274 establishing a General Transaction and Use Tax ("Ordinance 2274") for a period of twenty years and put forth the required ballot measure for voter consideration. On November 6, 2018, the voters of the Town approved the 1/8 Sales Tax dedicated to Los Gatos (Measure G). Among other items, Ordinance 2274 and Measure G required Citizens Oversight to ensure funds are spent according to the Measure's stated intent.

PREPARED BY: Arn Andrews
Assistant Town Manager

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

BACKGROUND (continued):

On November 3, 2020, voters of Los Gatos approved the Measure A ballot initiative establishing a new Finance Commission and disbanding both the Finance Committee and Sales Tax Oversight Committee. Among other responsibilities, the Finance Commission is charged with reviewing proposed Measure G expenditures prior to the Town's expenditure of those revenues. Following is the language established in the Measure A Finance Commission pertaining to Measure G:

- (6) Prior to the Town's expenditure of any revenues from the tax authorized by sections 25.60.010 et seq. of the Town Code, review the proposed expenditures and advise the Town Council on whether such expenditures meet the Town Council's objectives for that tax:
 - (A) Maintaining and enhancing neighborhood police patrols and local crime prevention programs;
 - (B) Improving traffic flow to reduce congestion;
 - (C) Repairing potholes and maintaining the Town's streets, roads, and sidewalks; and
 - (D) Maintaining the Town's long-term financial stability.
- (7) Issue an annual public report of the expenditures and appropriations of sales tax revenues approved by the Town Council during each fiscal year.

At the only meeting of the former Sales Tax Oversight Committee on December 9, 2019, the Committee opined that the Council should utilize Measure G funds accrued through June 30, 2020 toward Capital Projects. Since that time, those funds were assigned to a new Measure G District Sales Tax Reserve and to date none of those Measure G funds have been allocated or spent by the Town Council.

On April 26, 2021, the newly constituted Finance Commission discussed the Measure G Sales Tax Reserve, concurred with the former Sales Tax Oversight Committee, and voted to recommend to the Town Council that the accumulated funds through June 2020 (\$1.2 M) be transferred to the Capital/Special Projects Reserve for the FY 2021/22 Capital Program.

For the Commission's consideration, this report lays out the options for use of the Measure G funds for FY 2020/21 (estimated \$900 K), FY 2021/22 (estimated \$1 M), and the Five-Year Forecast (approximately \$1 M annually). The Commission's recommendations to the Council on the potential expenditure of the Measure G funds is required by Measure A.

DISCUSSION:

At the April 26, 2021 Finance Commission meeting, Commissioners began deliberating the remaining unallocated Measure G funds and their current programming in the FY 2021/22 Proposed Operating Budget as operating funds given the funding needs of the Capital Program.

DISCUSSION (continued):

Per Measure A, the Finance Commission should now review the proposed programmed expenditures as reflected in the Proposed Operating Budget and advise the Town Council on whether such expenditures meet the objectives for that tax as stated above.

The current Proposed Budget has Measure G revenues programmed in the following manner:

Measure G District Tax	2020/21 Estimate	2021/22 Proposed	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Revenues (millions)	\$0.9	\$1.0	\$1.0	\$1.0	\$1.1	\$1.1	\$1.1

Although Measure G allows expenditures to maintain the Town's long term fiscal stability, staff recommends that the associated expenditures would be programmed in the Police Department, consistent with Measure G to maintain neighborhood police patrols.

The Commission may recommend the use of Measure G funds for any expenditure consistent with the objectives of the tax as noted on page two of this report. On April 26, 2021, the Commission discussed a potential recommendation to put FY 20/21, FY 21/22, and future forecast years towards the Capital Program. If the Commission moves forward with this recommendation to the Town Council, the following Proposed Operating Budget changes would occur:

	2020/21 Estimate	2021/22 Proposed	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Current Surplus/(Deficit)	\$0.0	\$0.0	(\$1.3)	(\$0.8)	(\$0.8)	\$0.1	\$0.5
Measure G Revenues Dedicated to CIP (millions)	\$0.9	\$1.0	\$1.0	\$1.0	\$1.1	\$1.1	\$1.1
New Surplus/(Deficit)	(\$0.9)	(\$1.0)	(\$2.3)	(\$1.8)	(\$1.8)	(\$1.0)	(\$0.6)

As the table above illustrates, programming Measure G funds exclusively dedicated to the Capital Program will require additional budget balancing strategies for FY 2020/21 and FY 2021/22. The additional deficits in the Forecast will not require balancing at this point; however, as discussed in the Proposed Budget, if impacted revenues do not return to pre-pandemic levels in the near future this could exacerbate the possible development of deficits

DISCUSSION (continued):

more structural in nature. If this occurs, then a community process would be needed to help the Council determine potential service cuts.

If the Commission opts to dedicate Measure G funds exclusively to the Capital Program, staff recommends that the Commission pair its recommendation to Council with budget balancing strategies for FY 2020/21 and FY 2021/22.

On February 8, 2021, the Finance Commission deliberated budget balancing strategies to address an approximate \$1.6 million operating deficit projected in the development of the Mid-Year Budget. Staff identified the following five potential strategies at that time for Commission consideration:

Budget Balancing Strategies
Use of either the Budget Stabilization or Catastrophic Reserves
Cancelation of the annual OPEB actuarial contribution funding
Utilization of the OPEB IRS 115 Trust for annual Pay Go healthcare expenses
Utilization of proceeds from the sale of the Winchester property to SCCFD
Delaying or canceling CIP projects

The Finance Commission had a detailed discussion of each of the options and formed consensus around several areas. Of note, all Commissioners agreed that the Catastrophic and Budget Stabilization Reserves should not be considered at this time and should remain intact in the event the pandemic impacts become even greater in severity or the Town experiences a serious event (e.g., earthquake or wildfire). While Commissioners acknowledged the unprecedented nature of the pandemic, they felt it prudent to maintain the reserves as other unforeseen disasters could befall the Town.

In addition, the Commission had general consensus that both of the OPEB options were reasonable given the benefit has less legal constraints as compared to pension benefits. However, it was noted that the removal of assets from the OPEB IRS 115 Trust would be contrary to the long-standing practice of trying to prefund benefit obligations. At the conclusion of the discussion, the Finance Commission recommended that the budget balancing options of Winchester property proceeds, OPEB Prefunding, and the utilization of OPEB IRS 115 Trust for Pay Go healthcare expenses be programmed in that order.

DISCUSSION (continued):

On April 6, 2021, the Town Council deliberated the American Rescue Plan Act (ARPA) Funds earmarked for Los Gatos and directed staff to utilize ARPA funding for balancing the FY 2020/21 and FY 2021/22 projected deficits. With that direction, the Winchester property proceeds were no longer necessary to cure budget deficits. On April 26, 2021, the Finance Commission voted to recommend that the Winchester property proceeds be transferred to the Capital/Special Projects Reserve for the Capital Program.

Provided below are the remaining strategies that were under consideration in February and some additional options provided by staff with some pros and cons of each.

Budget Balancing Strategies	Pros	Cons
Use of either the Budget Stabilization or Catastrophic Reserves	<ul style="list-style-type: none"> Sufficient funding available in each reserve 	<ul style="list-style-type: none"> Funds are required to be replenished
Cancellation of the annual OPEB actuarial contribution funding	<ul style="list-style-type: none"> Legally viable \$600k in FY 20/21 and \$500k in FY 21/22 	<ul style="list-style-type: none"> Counter to past funding objectives Potential rating agency implications
Utilization of the OPEB IRS 115 Trust for annual Pay Go healthcare expenses	<ul style="list-style-type: none"> Legally viable \$1.3M in FY 20/21 and \$1.3M in FY 21/22 	<ul style="list-style-type: none"> Counter to past funding objectives
Cancel programmed GF GFAR contribution for FY 21/22	<ul style="list-style-type: none"> \$600k 	<ul style="list-style-type: none"> Counter to the Commissions CIP funding objective
ARPA	<ul style="list-style-type: none"> \$1.4M FY 20/21 and \$650k FY 21/22 	<ul style="list-style-type: none"> Depletes resources available for other ARPA eligible purposes

CONCLUSION:

Per Measure A, the Commission should review the proposed Measure G programmed expenditures and vote on recommendations to the Town Council on:

- Measure G Recommended Allocation for FY 2020/21
- Measure G Recommended Allocation for FY 2021/22
- Measure G Recommended Allocation for the Five-year Forecast Fiscal Years 2022/23 Through 2026/27

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SUBJECT: Measure G Allocation Recommendations

DATE: April 29, 2021

CONCLUSION (continued):

In addition, depending on the Measure G allocation recommendations provided to Council, the Commission should provide recommendations to Council on preferred budget balancing options if necessary.

COORDINATION:

This staff report was coordinated with the Town Manager, Town Attorney, and Finance Director.

FISCAL IMPACT:

The Town is required to have a balanced budget. Any shortfall resulting from Commission recommendation(s) should have commensurate curing recommendations to the Town Council to maintain a balanced budget. The actual fiscal impact depends on recommendations provided to the Town Council and the Council's ultimate adoption.