



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 11/14/2022

ITEM NO: 3

DATE: October 27, 2022
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Financial Information and Continue Review and Analysis of the Town's Five-Year Forecast

RECOMMENDATION:

Receive financial information and continue review and analysis of the Town's Five-Year Forecast.

BACKGROUND:

On June 21, 2022, the Town Council adopted revisions related to salary and benefit costs associated with labor agreements adopted on June 7, 2022. The Forecast was partially updated to reflect the adjustments to salary and benefit costs. The following table illustrates the previous projected deficits relative to the partially updated Forecast.

5 Year Forecast	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)
Original Surplus/Deficit	(\$2.2)	(\$2.9)	(\$2.3)	(\$2.5)	(\$2.6)
Updated Surplus/Deficit	(\$3.8)	(\$4.3)	(\$3.7)	(\$4.0)	(4.0)

On August 11, 2022, the Town Council adopted a Resolution to modernize the Town's existing business license structure. Preliminary results from the November 8, 2022 election indicate that Measure J was approved by voters. The estimated additional revenue generated by the modernization is approximately \$1,100,000 annually. The table on the following page illustrates the potential impacts to the forecast of the modernization preliminarily approved by voters.

PREPARED BY: Arn Andrews
Assistant Town Manager

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

BACKGROUND (continued):

5 Year Forecast	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)
Updated Surplus/Deficit	(\$3.8)	(\$4.3)	(\$3.7)	(\$4.0)	(4.0)
Potential Impact of Business License Modernization	\$1.1	\$1.1	\$1.1	\$1.1	\$1.1
Updated Surplus/Deficit	(\$2.7)	(\$3.2)	(\$2.6)	(\$2.9)	(\$2.9)

On September 12, 2022, the Commission received staff analysis for determining a reasonable vacancy factor based on a five-year review of past vacancy savings (Attachment 1). The table below illustrates the potential impact to the forecast assuming a 4% salary and benefit savings based on the Fiscal Year 2020/21 actuals to budget.

5 Year Forecast	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)
Updated Surplus/Deficit	(\$2.7)	(\$3.2)	(\$2.6)	(\$2.9)	(\$2.9)
Potential Impact of 4% Vacancy Factor	\$1.2	\$1.2	\$1.2	\$1.2	\$1.2
Updated Surplus/Deficit	(\$1.5)	(\$2.0)	(\$1.4)	(\$1.7)	(\$1.7)

DISCUSSION:

This staff report provides detailed expenditure information for discretionary non-essential General Fund supported services. Staff recognizes that these services are important to the Los Gatos community and are in addition to the basic, essential services that the Town provides to the community. In addition, the report provides costing for two generic Town full-time equivalent (FTE) positions that could be extrapolated for multiple positions. A review of both expenditure categories is intended to assist the Finance Commission in identifying its recommendations to the Town Council to mitigate projected deficits. This expenditure side information complements the revenue side information provided at previous Finance Commission meetings.

DISCUSSION (continued):*Discretionary Non-Essential Services*

Service/Program	Costing Estimate
Decorative Tree Lighting The Town pays to maintain the wrap lighting on trees on South Santa Cruz Avenue and East Main. This lighting is in place year-round and requires constant attention. This work is completed by a vendor and in FY 2021/22 the Town paid the vendor approximately \$46,000. In addition, the Town pays an electrical contractor \$16,000 per year to trouble shoot these lights.	\$62,000/yr - Ongoing
Holiday Light Displays In 2020 to stimulate the Town economy, the Town purchased large scale holiday light displays on behalf of the Chamber of Commerce for \$98,152.66 using the Downtown Revitalization Funds. The Town also purchased \$15,909 of holiday light pole displays. In addition to the purchase cost, for the past two years PPW staff stored, maintained, and installed the lights each year. This results in other critical work not being performed (e.g., winter storm drainage maintenance, sign management, sidewalk repair, etc.) during the two-week window in which this set up takes place and contributing to overtime (OT) costs in the Parks and Public Works (PPW) Department. These costs are not contained in the Adopted Budget and should be if the Council would like to continue to have the lights installed on public property until the fixtures are at their end of life.	Approx. \$60,000/yr – Ongoing \$12,000/yr - Storage
Tree Lighting and Holiday Parade These two events represent significant effort and in-kind expense for the Police Department (PD) and PPW. This includes not only day of event set up and take down, but extensive coordination and pre-planning of logistics and security. Both are OT events and at this year's parade it is expected that 15 to 17 PPW staff will be on-site for a full day. Both events involve PD support of scheduled patrol staff, overtime of sworn and professional staff, and overtime support for various volunteer groups. Tree Lighting	At least \$49,600/yr - Ongoing

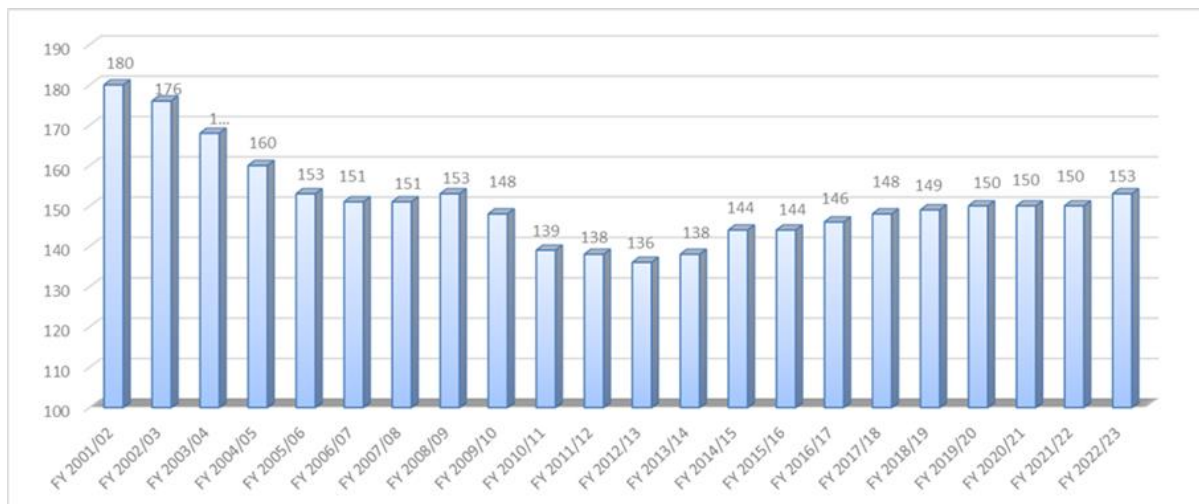
includes about 4 to 6 additional PD staff to provide safety and security and Holiday Parade necessitates about 15-20 additional staff. These resources include Parking Control, additional Dispatch staff, Records Personnel, Community Service Officers, Sworn staff, and additional professional PD staff. Special Events staff also provide in-kind services. The estimated in-kind amount of approximately \$49,600 contained in the Adopted Budget is likely an underestimate of the true full in-kind costs of both events.	
Holiday Valet Parking Each year, the Town provides valet parking services during the winter holidays. FY 2022/23 Adopted Budget allocated \$38,500 for this service.	\$38,500/yr - Ongoing
Town Wide Employee Training/Travel Town-wide Department FY 2022/23 Adopted Budget includes: Training/Conferences/Meetings/Events/travel - \$198,000 Other (Wellness, Recognition, Organizational Development, etc.) - \$65,000 *Important to note that some trainings may be mandatory for certain classifications	Approx. \$263,000/yr - Ongoing
Sidewalk Steam Cleaning In FY 2018/19 the contract was doubled to increase the frequency of sidewalk cleaning. FY 2018/19 budget was \$38,766. FY 2022/23 Adopted Budget is \$79,566. This item could be modified to return to 2018 levels, assuming the current contract runs through 2024.	Approx. \$40,000/yr – Ongoing
Town Facility Custodial Services The Town currently has a \$210,336 annual contract for custodial services thru 6/30/2024. The contract includes a six night frequency for Town buildings and a 7 night frequency for Town Parks. Reduce frequency for all facilities except the Library	Approx. \$70,000/yr – Ongoing

assuming the current contractor agrees, recognizing the contract for the higher amount runs through June 2024.	
Landscape Maintenance The Town contracts for multiple landscape services including landscape maintenance and management of all Town-owned street medians and parks. This includes mowing; pruning of shrubs and trees and groundcover; maintenance and management of irrigation systems; weed control; litter and leaf removal; etc. at public spaces. Some services are also provided within the Landscape and Lighting Districts. The five-year contract for these services started July 2022 and extends to July 1, 2027. The base contract amount is \$175,772 for Year 1, increasing each year with CPI. Service frequency can be reduced assuming the current contractor agrees, recognizing the contract for the higher amount runs to July 2027.	Approx. \$53,000/yr - ongoing
Music in the Park FY 2022/23 Adopted Budget includes \$20,000 for sponsorship of the series. In addition, the Council has granted in-kind services (waived fees, PD presence, etc.) of approximately \$16,000 per season. The Town could end its subsidy.	\$36,000/yr - Ongoing
Special Events The Town hosts a series of special events including Spring into Green, Screen on the Green, and 4th of July Celebration. FY 2022/23 Adopted Budget is \$39,000, including advertising and promotional materials. Special events also represent the majority of staff related overtime costs in PPW, estimated at an additional \$25,000 per year for Town and other organizations' events.	Approx. \$64,000/yr – Ongoing
Library Book Collections Each year, the Library budgets for the addition of print, electronic, and digital media for collections. FY 2022/23 Adopted Budget includes:	Approx. \$100,000/yr – Ongoing

General Collections - \$171,200 Youth Collections - \$66,100 Reduce annual collection purchases.	
Annual Community Grant Program Each year the Town provides community grant funding to organizations that assist in projects that benefit residents. FY 2022/23 Adopted Budget includes \$151,000. Recurring Grants (Live Oak, WVCS, CASSY, Next Door) \$70,000 One-time Grants \$75,000 Innovation Grants \$6,000	Approx. \$151,000/yr – Ongoing
Chamber of Commerce Visitor Center The Chamber of Commerce receives \$55,000 annually for supporting a visitor information center.	Approx. \$55,000/yr – Ongoing
Town Facility Subsidized Leases Billy Jones Wildcat Railroad. Original contract through 2021 and currently under a 5-year option. The Town charges \$1 dollar/yr 208 Main Street LGS Recreation. Contract through 2029. Current subsidized rent \$218,325 versus market rate of \$485,172. 123 Main Street LGS Recreation. Lease month to month. Current subsidized rent \$40,431 versus market rate of \$265,669. 106 East Main Street NUMU. Contract thru 2024. Current subsidized rent \$25,000 versus market rate of \$429,782.	TBD
Approximate Totals for Programs Listed (doesn't include approximations for subsidized leases)	\$1,054,100

DISCUSSION (continued):*Full-Time Equivalent (FTE) Positions*

As the chart below illustrates, the Town has helped manage salary escalation (and benefits) through the maintenance of lower staffing levels. Even with the Town reducing its full-time equivalent (FTE) employees by 15.0% to 153 FTE employees since 2001, costs per employee have continued to escalate as evidenced by pension benefit costs having increased 37.7% in the last five years.



The Town could explore ways to revert back to the recent 150 FTE structure. For illustrative purposes the tables below show the potential cost savings associated with such a restructure. The tables are representative of a generic mid-level non-management position and a mid-level management position with costing for salary and all other benefits.

Employee	Manager – Mid-Level	
Hourly Rate		\$74.00
Annual Salary	Adj Hrly Rate x 2080	\$149,531.00
Cell Phone Allowance	\$120	\$1,440.00
PERS Retirement	29.920%	\$44,739.68
Medicare	1.45%	\$2,168.20
Cash in Lieu (\$400) (\$420 AFSCME)	\$0.00	\$0.00
Medical	\$2,175.00	\$26,100.00
Dental	\$125.00	\$1,500.00
Vision	\$11.00	\$132.00
Life Insurance	\$10.00	\$120.00

STD - monthly rate	\$49.00	\$588.00
LTD - monthly rate	\$32.00	\$384.00
Workers Comp	2.430%	\$3,633.60
The Plan	0.315%	\$471.02
IT Staff/Service	0.150%	\$224.30
Total		\$231,031.80

Employee	Generic - Non Sworn	
Step	5	
Hourly Rate		\$50.00
Annual Salary	Adj Hrly Rate x 2080	\$104,000.00
PERS Retirement	29.920%	\$31,116.80
Medicare	1.45%	\$1,508.00
Cash in Lieu (\$400) (\$420 AFSCME)	\$0.00	\$0.00
Medical	\$2,175.00	\$26,100.00
Dental	\$125.00	\$1,500.00
Vision	\$11.00	\$132.00
Life Insurance	\$10.00	\$120.00
STD - monthly rate	\$49.00	\$588.00
LTD - monthly rate	\$32.00	\$384.00
Workers Comp	2.430%	\$2,527.20
The Plan	0.315%	\$327.60
IT Staff/Service	0.150%	\$156.00
Total		\$168,459.60

Using \$168,460 to \$231,031 as the average savings associated with these generic FTEs, reverting to 150 employees would save approximately \$505,380 to \$693,093. It's important to note that actual savings would be based on the actual classification cost structure.

If the Finance Commission is interested in recommending reducing FTEs with a specific target dollar amount, the Town Council may need to provide additional direction as to the specific services the Town would not be offering.

CONCLUSION AND NEXT STEPS:

The following table illustrates the potential reduction in forecasted deficits if discretionary non-essential services and programs are reduced 50%. In addition, the table illustrates the potential savings associated with a reorganization using the average between the two generic classifications.

CONCLUSION AND NEXT STEPS (continued):

5 Year Forecast	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)
Updated Surplus/Deficit (incl. vacancy savings, BL)	(\$1.5)	(\$2.0)	(\$1.4)	(\$1.7)	(\$1.7)
Potential Impact of 50% reduction discretionary	\$0.53	\$0.53	\$0.53	\$0.53	\$0.53
Potential impact of 150 FTE org restructure	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59
Updated Surplus/Deficit	(\$0.38)	(\$0.88)	(\$0.28)	(\$0.58)	(\$0.58)

As the Commission considers expenditure reduction options, the Commission may also want to consider developing/communicating austerity parameters or criteria for Council consideration. For example, the Commission may express a desire to avoid reductions that could adversely impact crime prevention or investments in economic vitality.

On February 21, 2023, the Town Council will be providing direction for the preparation of the FY 2023/24 budget. This date is critical given that a Proposed Budget must be presented in April. The Finance Commission should complete its recommendations to the Town Council regarding cost savings and revenue enhancements no later than its February 2023 meeting to allow the Town Council to consider them as part of the Council's budget direction.

To assist the Finance Commission with this work, the Commission will be reviewing the Fiscal Year (FY) 2021/22 Annual Comprehensive Financial Report in December. The Town will then know if the prior fiscal year closed with a deficit or slight surplus.

COORDINATION:

This staff report was coordinated with the Town Manager, Town Attorney, Finance Director, Police Chief, Parks and Public Works Director, Economic Vitality Manager, and Library Director.

Attachment:

1. Historic Vacancy Savings Analysis