



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 05/18/2021

ITEM NO: 7

DESK ITEM

DATE: May 18, 2021

TO: Mayor and Town Council

FROM: Laurel Prevetti, Town Manager

SUBJECT: Operating and Capital Budgets

A. Consider the recommendations of the Finance Commission and staff, and provide direction on the Town of Los Gatos Proposed Operating and Capital Budget for Fiscal Year (FY) 2021/22 and on the Proposed Capital Improvement Program for FY 2021/22 – FY 2025/26; including but not limited to:

1. Determine the use of the accumulated \$1.2 Million Measure G funds through June 30, 2020
2. Determine the use of the Measure G proceeds in FY 2020/21
3. Determine the use of Measure G proceeds in FY 2021/22
4. Determine the use of the of Measure G proceeds for the remaining years of the forecast period
5. Provide direction balancing the FY 2020/21 Budget
6. Provide direction on any changes to proposed expense/revenue assumptions for the FY 2021/22 Budget and the remaining forecast period
7. Provide direction balancing the FY 2021/22 Proposed Budget
8. Determine the use of \$1.2 Million in Surplus Property Reserve (Winchester property sale proceeds)
9. Provide direction on the Proposed Operating Budget
10. Provide direction on the Proposed Capital Budget
11. Consider the FY 2021/22 List of Potential Donations consistent with the Town's Donation Policy
12. Clarify the Council's Strategic Priority for revenue enhancements

REMARKS:

A Council Member had an inquiry and staff's response is below. In addition, this Desk Item contains public comment received from 11:01 a.m. Monday, May 17, 2021 to 11:00 a.m. Tuesday, May 18, 2021.

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

Did staff prepare a calculation for the use of American Rescue Plan Act funds according to the recent Interim Final Rule published by Secretary of the Treasury (Treasury)?

Yes. On May 10, 2021, the Secretary of the Treasury (Treasury) published an Interim Final Rule to implement the Coronavirus State Fiscal Recovery Fund and the Coronavirus Local Fiscal Recovery Fund established under the American Rescue Plan Act related to Revenue Loss.

The Act allows recipients facing budget shortfalls to use payments from the Fiscal Recovery Funds to avoid cuts to government services and, thus, enable State, local, and Tribal governments to continue to provide valuable services and ensure that fiscal austerity measures do not hamper the broader economic recovery. The Interim Final Rule implements these provisions by establishing a definition of “general revenue” for purposes of calculating a loss in revenue and by providing a methodology for calculating revenue lost due to the COVID-19 public health emergency.

The Interim Rule clarified that recipients should calculate revenue on an entity-wide basis. Prior to this clarification, staff publicly demonstrated individual revenue impacts as encouraged by national and regional municipal associations. Treasury adopted this uniform aggregate approach to minimize the administrative burden for recipients, provide for greater consistency across recipients, and present a more accurate representation of the net impact of the COVID-19 public health emergency on a recipient’s revenue, rather than relying on financial reporting prepared by each recipient, which vary in methodology used and which generally aggregates revenue by purpose rather than by source.

In the Interim Final Rule, any diminution in actual revenue calculated using the formula above would be presumed to have been “due to” the COVID-19 public health emergency. This presumption is made for administrative ease and in recognition of the broad-based economic damage that the pandemic has wrought.

Recipients are permitted to calculate the extent of reduction in revenue as of four points in time: December 31, 2020; December 31, 2021; December 31, 2022; and December 31, 2023. This approach recognizes that some recipients may experience lagged effects of the pandemic on revenues.

Upon receiving Fiscal Recovery Fund payments, recipients may immediately calculate revenue loss for the period ending December 31, 2020.

To calculate the extent of the reduction in revenue at each of these dates, recipients are directed to follow a four-step process:

- Step 1: Identify revenues collected in the most recent full fiscal year prior to the public health emergency (i.e., last full fiscal year before January 27, 2020), called the base year revenue.

- Step 2: Estimate counterfactual revenue, which is equal to base year revenue * [(1 + growth adjustment) ⁿ / 12], where n is the number of months elapsed since the end of the base year to the calculation date, and growth adjustment is the greater of 4.1 percent and the recipient’s average annual revenue growth in the three full fiscal years prior to the COVID-19 public health emergency.

- Step 3: Identify actual revenue, which equals revenues collected over the past twelve months as of the calculation date.

- Step 4: The extent of the reduction in revenue is equal to counterfactual revenue less actual revenue. If actual revenue exceeds counterfactual revenue, the extent of the reduction in revenue is set to zero for that calculation date.

The following table represents staff’s preliminary calculation based on current guidance provided in the Interim Final Rule, current Town estimates, and future forecasted Town revenues. The estimated amounts are unaudited, and staff will continue to adjust the analysis in the event Treasury produces more detailed guidelines or additional data becomes available.

FY 2018/19 Through 6/30/19 Actual Base (millions)	Growth Factor Annual		Calendar Year Through 12/31/2020 (millions)	Calendar Year Through 12/31/2021 (millions)	Calendar Year Through 12/31/2022 (millions)	Calendar Year Through 12/31/2023 (millions)
\$41.40	4.1%	Calculated Counterfactual Revenue	\$43.97	\$45.77	\$47.65	\$49.60
		Estimated Revenue (Budget and Forecast 4-19-2021)	\$39.93	\$39.77	\$40.30	\$41.21
		Estimated Revenue Shortfall	-\$4.04	-\$6.00	-\$7.35	-\$8.40

Attachments received with the Staff Report:

1. FY 2021/22 Proposed Operating and Capital Budget, provided to the Council in April and available: <https://www.losgatosca.gov/2668/FY-21-22-Proposed-Operating-Budget>
2. FY 2021/22 – FY 2025/26 Proposed Capital Improvement Program Budget, provided to the Council in April and available: <https://www.losgatosca.gov/2669/FY-21-22-Proposed-Capital-Budget>
3. Finance Commission Recommendations
4. Revenue and Expense Forecast Assumptions
5. List of proposed changes related to typos and adding clarifications
6. Council Principles for Considering Requests
7. Town of Los Gatos Donation Policy
8. Town of Los Gatos Donation Opportunities: FY 2021/22

PAGE 4 OF 4

SUBJECT: Operating and Capital Budgets

DATE: May 18, 2021

Attachment received with Addendum:

9. Public Comment received from the release of the staff report on May 13, 2021 and before 11:00 a.m. on May 14, 2021

Attachment received with Addendum B

10. Public Comment received from 11:01 a.m. May 14, 2021 to 11:00 a.m. May 17, 2021

Attachment received with this Desk Item

11. Public Comment received from 11:01 a.m. May 17, 2021 to 11:00 a.m. May 18, 2021