TOWN OF LOS GATOS
COUNCIL AGENDA REPORT

MEETING DATE: 05/17/2022

ITEM NO:

DATE: May 10, 2022

TO: Mayor and Town Council

FROM: Laurel Prevetti, Town Manager on behalf of the Finance Commission

SUBJECT: Receive Fiscal Year (FY) 2022/23 Proposed Operating and Capital Budget Recommendations from the Town Finance Commission per Measure A

RECOMMENDATION:

Receive Fiscal Year (FY) 2022/23 Proposed Operating and Capital Budget recommendations from the Town Finance Commission per Measure A.

BACKGROUND:

On April 18, 2022, the Town Manager's Proposed FY 2022/23 Operating and Capital Budgets were posted on the Town's website for the public's review and comment. The Proposed Budgets were published 21 business days before May 17, 2022 (Council's public hearing on the Budgets), in accordance with Measure A.

With the passage of Measure A, the Finance Commission has been tasked with several mandated duties as described in the provisions of the adopted Ordinance. Section 2.50.225. – Duties states that:

(a) The Finance Commission shall:
   (2) Review the Town Manager's annual proposed budget prepared in accordance with section 2.30.295(6) of the Town Code. and provide written comments and recommendations to the Town Council.

      (A) The Finance Commission's comments and recommendations shall include a recommendation about whether the Town Council should approve or disapprove the proposed budget. The Finance Commission may make a recommendation of

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Assistant Town Manager

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

ATTACHMENT 3

approval of the budget conditional upon the Town Council's acceptance of one or more of the Finance Commission's recommendations.

(B) The Town Manager must provide a proposed budget to the Finance Commission at least twenty (20) business days before the first meeting at which the proposed budget is considered by the Town Council.

The Finance Commission established the following schedule to discuss and provide comments on the Proposed Budgets and Measure G allocation (meeting Agenda and Minutes link provided):

- April 25, 2022 – Special Finance Commission meeting
- May 2, 2022 – Special Finance Commission meeting
- May 9, 2022 – Regular Finance Commission meeting

https://losgatos-ca.municodemeetings.com/

In addition, the meeting schedule provided ample opportunities for the public to engage in the process either through written comment or verbal comment through Zoom.

The discussion section of this report details the deliberations of the Finance Commission and its recommendations to the Town Council.

DISCUSSION:

Finance Commission Current Budget Cycle Deliberations

Over the course of the Commission's budget proceedings, the Commission received presentations on the Proposed Operating and Capital Budgets, evolution of forecasted budget deficits, allocated/unallocated American Rescue Plan Act (ARPA) funding, historic base salary, and benefit expenditures, historic Capital Improvement Program (CIP) expenditures, employee vacancies, and a summary of the Community Survey results. In addition, staff provided responses to Commission and public inquiries throughout the process.

The Commission's deliberations coalesced around the following goals and observations:

- The Commission's interest for continued enhancement of transparency in budget development, budget assumptions, and budget presentation.
- The Proposed Budget continues to restrict capital expenditures relative to historic allocations.
- The Proposed Capital Improvement Program (CIP) continues to be challenged by a lack of dedicated funding.

- The higher percentage increases in the primary expenditures of Salary and Benefits relative to revenues is constraining other investments.
- The Forecast projects deficits throughout the forecast period.
- The Commission's continued review of the Town's Internal Service Funds.

Based on the aforementioned areas of emphasis, the Commission ultimately made four recommendations to the Town Council. In addition, the Commission made a recommendation to approve both the Proposed Operating and Capital Budgets based on acceptance of the following four recommendations:

Capital Improvement Program Recommendations

As previously mentioned, Commissioners expressed that the Town needed to plan and budget proactively for its capital needs and find reliable funding source(s). The Commission agreed that the previous approach that created year-end surpluses was inadequate. As such, the Commission recommended that additional funding be programmed to ensure continued investment in critical Town infrastructure.

> **Motion** by **Commissioner Rick Tinsley** to recommend to Council the allocation of $3.77 million to the General Fund Appropriated Reserve (GFAR) for FY 2022/23.
> **Seconded** by **Chair Ron Dickel.**
> **Motion passed unanimously**

> **Motion** by **Chair Ron Dickel** to recommend to Council the allocation of approximately $3.7 million of unallocated ARPA funds to the GFAR for FY 2022/23. **Seconded** by Vice **Chair Kyle Park.**
> **Motion passed unanimously**

Operating Budget Recommendations

As previously mentioned, Commissioners expressed interest in the Town's current use of Internal Service Funds and concerns about projected deficits.

> **Motion** by **Chair Ron Dickel** to recommend to Council the dissolution of the Workers Compensation and Self Insurance Internal Service Funds starting in FY 2022/23 with remaining balances being transferred to the General Fund. **Seconded** by **Commissioner Loreen Huddleston.**
> **Motion passed unanimously**

> **Motion** by **Commissioner Kyle Park** to inform Council the Commission believes that a "Structural Financial Deficit" currently exists and for Council to acknowledge the Commission's finding and direct the Commission to work with Town management to

confirm the actual amount of the deficits that the Town is facing and come back to the Council with suggestions/ideas on how we can fix this “Structural Financial Deficit” and fund capital projects. **Seconded** by **Chair Ron Dickel.**
Motion passed unanimously

CONCLUSION:

Per Measure A, this report provides written comments and recommendations to the Town Council regarding the Commission’s review of the Proposed FY 2022/23 Operating and Capital Budgets.

COORDINATION:

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

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.