

From: Phil Koen

Sent: Monday, December 18, 2023 10:59 AM

To: Wendy Wood <WWood@losgatosca.gov>; Mary Badame <MBadame@losgatosca.gov>; Matthew Hudes <MHudes@losgatosca.gov>; Maria Ristow <MRistow@losgatosca.gov>; Rob Rennie <RRennie@losgatosca.gov>; Rob Moore <RMoore@losgatosca.gov>

Cc: Laurel Prevetti <LPrevetti@losgatosca.gov>

Subject: Agenda Item 19 - Public Comment

[EXTERNAL SENDER]

Hello Wendy,

Please receive my public comment.

Phil Koen

December 17, 2023

Re: Agenda Item # 19 – Review of Revenue Modeling Report

Dear Town Council,

I am currently Vice Chair of the Finance Commission. I am writing this note not in the capacity of Vice Chair but as a concerned citizen. The opinions expressed are my own.

I am troubled by the unsubstantiated claim “the Town faces a budget deficit of \$3 to \$4 million per year for the projected future”. How do we know this to be true?

The “proof” offered is a forecast covering the periods from FY 23 through FY 29 that was prepared in April 2023, before the FY 2023 actual results were known. The forecast was adopted as part of the FY 24 operating budget. I have attached that forecast for your review as attachment 1.

The question the Town Council must answer is - What evidence exists that supports the conclusion the multi-year forecast is accurate and fairly models the Town’s future revenues and operating expenses and therefore can be reasonably relied upon by the public as a basis for supporting a sales tax increase or a parcel tax on residents?

Sadly, the answer is **there is no evidence** that remotely supports the forecast is accurate let alone an unbiased work product that was prepared as a financial planning and management tool. Instead, there is overwhelming evidence that suggests the purpose of the multi-year forecast is a political tool to scare people into believing that the Town is destined to face \$3 to \$4 million per year operating deficits and the only answer is raising taxes.

The honest answer is no one knows the future financial condition because there has never been an unbiased and fiscally sound multi-year forecast prepared by the Town. Until an unbiased and comprehensive financial model is prepared which looks at future trends in property tax revenues reflecting forecasted new construction, and a reasonable forecast of change in property ownership over the planning period, and the CCPI inflation factor for secured property or the impact on sales tax revenue resulting from population growth, or available federal and state grants that might be secured, to name just a few revenue drivers, the Town will continue to have a poorly informed multi-year

financial forecast. And of course, an unbiased forecast must consider all prudent cost containment measures which could reasonably be employed to slow the acceleration in the Town's spending while not degrading service delivery. Both revenue and expense actions must equally be considered. The current forecasting methodology is flawed and is incapable of providing a reasonable forecast one year out, let alone 3 to 5 years out. I cannot stress this enough – no one should rely on the current multi-year forecast as anything more than an exercise in using a spreadsheet.

How do I know this? The conclusion is based on examining the accuracy of the Town's FY 22 and FY 23 annual operating budget by comparing the original adopted budgets for each year to actual results. I have attached schedules from the FY 22 ACFR and the FY 23 ACFR (attachments 2 and 3) which compare the original adopted budget to actual. Staff prepared these schedules as part of the ACFR.

The results of the analysis are eye opening. The original FY 22 adopted budget planned for a slight operating surplus of \$698,388 and the FY 23 adopted budget called for a deficit of \$(1,816,881). Please consider each budget is for the coming fiscal year and should have the highest degree of accuracy and confidence. If you combine the two adopted budgets, the Town Council approved a **cumulative operating deficit of \$(1,118,493) over the two-year period.**

Did this happen? No! Instead, the Town realized a massive operating surplus for each year, totaling a cumulative surplus of \$9,009,779. **To put a very sharp point on this, the variance from the original adopted budgets was a positive \$10,128,272 over the past 2 years.**

While obviously pleased there were surpluses for these years, it should not have come as a "surprise." The Town's inability to forecast the operating results for the immediate fiscal year is proof the multi-year forecasting methodology cannot be relied upon.

I have studied the Town's adopted budget vs actual performance going back more than 10 years and can confirm the Town has a structural forecasting bias which routinely overstates operating expenses, and/or understates revenues resulting in forecasted operating deficits. This is not a one- or two-year trend but a long-term trend that has been pointed out to the Town Council in prior communication. One last point that needs to be made is the representation that the independent auditor "reviews" the Town's budgets is a gross misrepresentation. The auditor does not express an opinion or provide any form of assurance with regard to the general fund budget or other major fund budgets. The budget is not audited. The budgets are the staff's work product and they have acknowledged sole responsibility for this work product.

I point this out as an example of how the Staff's external communication attempts to influence the public's perception the multi-year forecast is dependable and accurate with the intention of convincing the public "the Town faces a budget deficit." This is inappropriate.

Another example would be the statement the Town "reduced full time employees by 15% (since 2001) and did not return to pre-recession staffing levels." While the budgeted (not actual) FTE headcount in the adopted FY 2001 budget was 180, Staff fails to mention that the reduction in headcount stopped in FY 2013 at 136 FTE headcount.

Since FY 2013 the adopted headcount budgets have increased 13% to 153 FTE headcount for the FY 2024 adopted budget. If the Town was able to successfully deliver all services with 136 FTE in FY 2013, why does it now take 153 FTE to deliver the same service level? More importantly, why is Staff going back 23 years, to a date that was prior to the introduction of the iPhone by Apple (June 2007), as the basis for comparing headcount levels? Does this strike anyone as an appropriate way to benchmark long-term productivity levels?

What should the Town Council do? My recommendation is the Town Council should direct Staff to work with the Finance Commission and NBS to jointly develop a realistic multi-year forecast which will look at underlying revenue trends and explore cost containment measures to determine a reasonable financial path forward without any increase in taxes or a parcel tax. There needs to be a legitimate baseline

forecast established before turning to other viable solutions which would include both additional taxes and expense reductions.

It would be a waste of public resources to retain NBS to do a public poll regarding potential ballot measures without first establishing if there is really a need for additional taxation. How does the Town Council really know the Town cannot operate within a reasonable revenue growth assumption? And if there is a need for additional tax revenue, how large is that need?

The NBS report is entirely predicated on the assumption the Town's multi-year forecast is accurate. NBS did not evaluate the accuracy of the multi-year forecast, they just ran with it. In my opinion this entire project is a mad rush by a "revenue ballot measure consultant" to get a measure on the ballot to increase taxes without having done the necessary work to validate if it is really required.

If the Town Council persists in pursuing a poll without having done the most basic analysis to validate the need, I suspect the Town, as proponents of a ballot measure, will face a very difficult anti-tax election environment.

Thank you,

Phil Koen

Account	Revenue Category	FY 2022/23 Adjusted Budget	FY 2022/23 Estimates	FY 2023/24 Adopted Budget	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast	FY 2028/29 Forecast
4100	Property Tax	\$ 17.0	\$ 17.2	\$ 17.9	\$ 17.8	\$ 18.5	\$ 18.9	\$ 19.5	\$ 20.1
4110	VLF Backfill Property Tax	4.6	4.6	4.7	4.8	5.0	5.1	5.3	5.4
4200	Sales & Use Tax	7.5	7.7	7.9	8.1	8.5	8.7	9.0	9.3
4200	Measure G District Sales Tax	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.4
4250	Franchise Fees	2.7	2.7	2.1	1.9	1.9	1.9	2.0	2.0
4251	Transient Occupancy Tax	2.0	2.3	2.4	2.5	2.6	2.6	2.6	2.7
4400	Business License Tax	2.4	2.3	2.4	2.5	2.5	2.6	2.6	2.7
4400	Licenses & Permits	2.9	2.9	2.9	2.9	3.0	3.1	3.2	3.3
4500	Intergovernmental	1.3	1.3	0.9	0.9	0.9	1.0	1.0	1.0
4600	Town Services	4.8	5.1	4.4	4.2	4.2	4.3	4.4	4.6
4700	Fines & Forfeitures	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
4800	Interest	0.4	0.7	1.0	0.9	0.9	0.9	0.9	0.9
4850	Other Sources	3.5	7.1	3.6	2.8	2.8	3.0	2.9	2.9
4900	Fund Transfers In	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
TOTAL OPERATING REVENUES & TRANSFERS*		\$ 51.1	\$ 55.9	\$ 52.2	\$ 51.3	\$ 52.8	\$ 54.2	\$ 55.5	\$ 57.0
	Capital	2.4	2.4	1.6	0.8	0.8	0.8	0.8	0.8
	Use of Pension/OPEB Reserve	0.3	0.3	-	-	-	-	-	-
	Use of OPEB Trust	-	-	-	-	-	-	-	-
	ARPA Replacement Revenue	1.6	-	-	-	-	-	-	-
	Vitalities	-	6.1	0.7	-	-	-	-	-
TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES		\$ 55.4	\$ 64.7	\$ 54.5	\$ 52.1	\$ 53.6	\$ 55.0	\$ 56.3	\$ 57.8
Account	Expenditure Category	FY 2022/23 Adjusted Budget	FY 2022/23 Estimates	FY 2023/24 Adopted Budget	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast	FY 2028/29 Forecast
5110	Salary	23.0	22.5	23.2	23.8	24.4	25.0	25.5	26.0
5120	CalPERS Benefits	7.7	6.8	8.2	8.6	8.9	9.6	10.2	11.1
5200	All Other Benefits	4.6	3.9	4.7	4.8	4.9	5.0	5.1	5.2
	4.6% Salary and Benefits Savings	-	-	(1.7)	(1.7)	(1.8)	(1.8)	(1.9)	(1.9)
6211	OPEB Pay as You Go	1.6	1.6	1.6	1.8	1.9	2.0	2.0	2.0
6000	Operating Expenditures	8.0	11.7	9.0	8.8	8.9	9.2	9.3	9.7
7200	Grants & Awards	0.5	1.2	0.8	0.6	0.6	0.3	0.3	0.3
7400	Utilities	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
8060	Internal Service Charges	2.7	2.6	3.4	3.6	3.7	3.9	4.1	4.2
8900	Debt Service	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1
TOTAL OPERATING EXPENDITURES		\$ 50.8	\$ 53.0	\$ 51.9	\$ 52.9	\$ 54.2	\$ 55.9	\$ 57.4	\$ 59.4
	GASB 45 Retiree Medical Actuarial	-	-	-	-	-	-	-	-
	Additional Discretionary Payment - Pension	0.7	0.7	0.4	0.4	0.4	0.4	0.4	0.4
TOTAL OPERATING & DISCRETIONARY EXPENDITURES		\$ 51.5	\$ 53.7	\$ 52.3	\$ 53.3	\$ 54.6	\$ 56.3	\$ 57.8	\$ 59.8
	Capital Transfers Out to GFAR	2.4	2.4	1.6	1.1	1.1	1.1	1.1	1.1
	1/2 of Measure G Proceeds to Capital	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7
	Fund	0.4	0.7	-	-	-	-	-	-
AMOUNTS AVAILABLE FOR RESERVE ALLOCATIONS									
	Recovery	-	5.7	-	-	-	-	-	-
TOTAL EXPENDITURES & RESERVE ALLOCATIONS		\$ 54.9	\$ 63.1	\$ 54.5	\$ 55.1	\$ 56.4	\$ 58.1	\$ 59.6	\$ 61.6
NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES & RESERVE ALLOCATIONS FOR FINAL ALLOCATION AFTER YEAR END CLOSE		\$ 0.5	\$ 1.6	\$ -	\$ (3.0)	\$ (2.8)	\$ (3.1)	\$ (3.3)	\$ (3.8)
* Due to rounding of individual categories FY 2022/23 Estimated Total Expenditures and Reserve Allocations includes \$0.1 million. General Fund (111) Forecast does not include Pension Trust activities.									

TOWN OF LOS GATOS, CALIFORNIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 20,907,894	\$ 22,484,118	\$ 22,743,087	\$ 258,969
Sales Taxes	9,174,944	8,959,134	8,806,477	(152,657)
Transient Occupancy Taxes	1,642,460	2,348,547	2,228,190	(120,357)
Other Taxes	7,000	7,000	6,454	(546)
Licenses & Permits	4,122,529	5,140,684	5,630,362	489,678
Intergovernmental	1,051,814	1,273,910	1,553,396	279,486
Charges for Services	4,257,261	5,540,465	4,646,705	(893,760)
Fines and Forfeitures	201,750	226,750	416,950	190,200
Franchise Fees	2,493,870	2,716,470	3,074,624	358,154
Interest	432,947	670,021	605,789	(64,232)
Use of Property	41,211	41,211	38,126	(3,085)
Other	1,203,657	863,964	859,571	(4,393)
Total Revenues	45,537,337	50,272,274	50,609,731	337,457
EXPENDITURES				
Current:				
General Government:				
Town Council	217,238	217,240	186,337	30,903
Town Attorney	707,555	811,427	699,143	112,284
Administrative Services	5,298,494	5,759,393	5,302,281	457,112
Non-Departmental	3,194,526	3,334,931	2,641,018	693,913
Total General Government	9,417,813	10,122,991	8,828,779	1,294,212
Public Safety	19,225,985	19,331,330	18,446,048	885,282
Parks & Public Works	9,798,967	10,368,194	8,998,088	1,370,106
Community Development	5,772,004	6,543,199	5,065,412	1,477,787
Library Services	3,139,449	3,247,730	3,096,486	151,244
Capital Outlay	-	435,416	300,000	135,416
Debt Service:				
Principal	-	156,034	156,034	-
Total Expenditures	47,354,218	50,204,894	44,890,847	5,314,047
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(1,816,881)	67,380	5,718,884	5,651,504
OTHER FINANCING SOURCES (USES)				
Gain from sale of assets	600	600	2,162	1,562
Transfers In	2,183,817	3,381,544	4,153,408	771,864
Transfers Out	(3,006,978)	(5,842,011)	(7,242,939)	(1,400,928)
Total Other Financing Sources (Uses)	(822,561)	(2,459,867)	(3,087,369)	(627,502)
NET CHANGES IN FUND BALANCE	\$ (2,639,442)	\$ (2,392,487)	2,631,515	\$ 5,024,002
BEGINNING FUND BALANCE			26,896,789	
ENDING FUND BALANCE			\$ 29,528,304	

The notes to the financial statements are an integral part of this statement.

TOWN OF LOS GATOS, CALIFORNIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 20,036,156	\$ 20,138,320	\$ 21,129,082	\$ 990,762
Sales Taxes	8,177,859	8,671,606	8,483,673	(187,933)
Other Taxes	927,040	1,482,000	1,909,816	427,816
Licenses & Permits	3,869,779	4,477,907	5,096,318	618,411
Intergovernmental	3,881,836	1,148,993	1,263,352	114,359
Charges for Services	3,882,490	4,385,547	5,460,613	1,075,066
Fines and Forfeitures	203,450	213,450	319,170	105,720
Franchise Fees	2,597,630	2,514,020	2,822,515	308,495
Developer Fees	-	-	1,200,000	1,200,000
Interest	440,833	440,833	(1,404,527)	(1,845,360)
Use of Property	32,400	32,400	32,400	-
Other	290,898	290,898	311,040	20,142
Total Revenues	44,340,371	43,795,974	46,623,452	2,827,478
EXPENDITURES				
Current:				
General Government:				
Town Council	201,499	202,890	189,569	13,321
Town Attorney	660,229	669,733	629,936	39,797
Administrative Services	5,087,207	5,965,803	5,441,604	524,199
Non-Departmental	3,546,680	3,581,965	2,792,859	789,106
Total General Government	9,495,615	10,420,391	9,053,968	1,366,423
Public Safety	17,239,480	17,390,966	16,451,190	939,776
Parks & Public Works	8,494,629	9,080,666	8,605,457	475,209
Community Development	5,395,864	5,461,713	6,313,511	(851,798)
Library Services	3,016,395	3,062,707	2,752,397	310,310
Debt Service:				
Principal	-	-	156,034	(156,034)
Total Expenditures	43,641,983	45,416,443	43,332,557	2,083,886
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	698,388	(1,620,469)	3,290,895	4,911,364
OTHER FINANCING SOURCES (USES)				
Gain from sale of assets	600	600	2,151	1,551
Transfers In	633,352	4,047,313	4,047,313	-
Transfers Out	(2,801,047)	(3,833,094)	(4,358,188)	(525,094)
Total Other Financing Sources (Uses)	(2,167,095)	214,819	(308,724)	(523,543)
NET CHANGES IN FUND BALANCE	\$ (1,468,707)	\$ (1,405,650)	2,982,171	\$ 4,387,821
BEGINNING FUND BALANCE			23,914,618	
ENDING FUND BALANCE			\$ 26,896,789	

The notes to the financial statements are an integral part of this statement.