



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 03/14/2022

ITEM NO: 7

DATE: March 8, 2022
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Information and Discuss Prior Internal Service Fund
Deliberations/Actions

RECOMMENDATION:

Receive information and discuss prior Internal Service Fund (ISF) deliberations/actions.

BACKGROUND:

In August of 2018, as part of the Finance Committee's (sunsetted) continuing efforts to locate funding sources to make additional discretionary payments (ADPs) toward the Town's unfunded pension obligation, the Committee requested detailed information regarding the Town's operating cash balances. The full staff report can be found under item #3 of the following agenda:

<https://www.losgatosca.gov/AgendaCenter/ViewFile/Agenda/08062018-1329>

On September 18, 2018, the report was presented to the Town Council providing a similar opportunity to discuss Town funds in more detail. At that meeting, the Town Council requested further information regarding Government Finance Officers Association (GFOA) standards for establishing budget stabilization and catastrophic reserves. To address Council's request, the Town hired an independent consultant, William C. Statler, to evaluate the Town's Budget Stabilization and Catastrophic Reserve levels using the GFOA methodology. In addition, at its October 2018 meeting, the Council Finance Committee requested further information regarding the Internal Service Fund (ISF) reserves. The full staff report can be found under item #4 of the following agenda:

<https://www.losgatosca.gov/AgendaCenter/ViewFile/Agenda/12102018-1397>

PREPARED BY: Arn Andrews
Assistant Town manager

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

BACKGROUND (continued):

As part of its September 18, 2018 review of total cash balances, Town Council expressed an interest in looking more closely at the level of funding in the Town's various Internal Service Funds to determine whether the targeted funding level goals for each Fund need to be adjusted.

On December 18, 2018, the Town Council continued its discussion of municipal finance requirements and passed a motion directing staff to determine whether an Internal Service Fund Policy would be suitable for the Town, to draft a proposed Policy if warranted, and to bring the draft Policy to the Finance Committee for its recommendation to the Town Council.

On March 11, 2019, the Finance Committee reviewed ISF information provided by staff and proposed Internal Service Fund Policy language. At the conclusion of the meeting, the Committee recommended the elimination of the Stores and Vehicle Maintenance Internal Service Funds and for staff to explore combining the Information Technology, Equipment Replacement, and Facilities Maintenance Internal Service Funds. The full staff report can be found under item #3 of the following agenda:

<https://www.losgatosca.gov/AgendaCenter/ViewFile/Agenda/03112019-1535>

On May 21, 2019, as part of Council's consideration of the Fiscal Year 2019/20 Operating Budget, it approved the closing of the Vehicle Maintenance and Stores Internal Service Funds and reallocated approximately \$1.0 million in fund balance.

DISCUSSION:

As presented in the FY 2021/22 Mid-Year Budget Review, the Town maintains an Equipment Replacement Fund, Workers' Compensation Fund, Joint Powers Authority Pooled Liability Network (PLAN) Self-Insurance Fund, Information Technology Fund, and the Facilities Maintenance Fund. Internal Service Funds finance and account for special activities and services performed by a designated Town Department for other Town Departments on a cost reimbursement basis. The table on the following page from the Mid-Year Report illustrates 2nd Quarter ending fund balances for the Internal Service Funds.

SUBJECT: Prior Internal Service Fund Deliberations/Actions

DATE: March 8, 2022

DISCUSSION (continued):

Internal Service Funds Budget to Actuals Comparisons					
	Equipment Replacemt	Workers Compensation	Self Insurance	Information Technology	Facility Maint.
Beginning Fund Balance	\$ 1,889,536	\$ 1,673,019	\$ 1,021,082	\$ 2,870,823	\$ 156,341
Budgeted Revenues	570,957	1,007,620	423,332	914,018	1,181,297
Total Actual Revenues - 2nd Qtr	317,925	602,947	200,987	509,809	475,412
Budgeted Expenditures	808,083	1,782,569	850,716	1,064,959	1,203,193
Total Actual Expenditures - 2nd Qtr	46,960	1,039,436	703,807	644,963	362,656
2nd Quarter Ending Fund Balance	\$ 2,160,501	\$ 1,236,530	\$ 518,262	\$ 2,735,669	\$ 269,097

CONCLUSION:

Staff looks forward to the Commission's discussion and will be available for questions.