



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 01/21/2020

ITEM NO: 12

DATE: January 11, 2020
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Discuss the Five-Year Forecast, Provide Direction on the Other Budget Assumptions, and Provide any Specific Direction for the Preparation of the Town's Fiscal Year 2020/21 Operating and Capital Budgets

RECOMMENDATION:

Discuss the five-year forecast, provide direction on the other budget assumptions, and provide any specific direction for the preparation of the Town's Fiscal Year 2020/21 Operating and Capital Budgets.

BACKGROUND/EXECUTIVE SUMMARY:

This report contains detailed information that contributes to the preparation of the annual budget, including the Town's "Base Case" Five Year Forecast, its data sources, and budget assumptions.

This report also provides two additional forecast scenarios utilizing a sensitivity analysis for three of the major revenue assumptions and forecasted pension contributions. These additional forecast scenarios illustrate the effects on future budgets of a more optimistic scenario ("Greater Growth") and a pessimistic one ("Lower Growth").

As the summary table below shows, the Town's financial condition is highly dependent on the economic conditions experienced during the forecast period.

PREPARED BY: Stephen Conway
Finance Director

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

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BACKGROUND/EXECUTIVE SUMMARY (continued):

(values in millions)

Scenario Surplus/Deficit	2020/21 Forecast	2021/22 Forecast	2021/22 Forecast	2023/24 Forecast	2024/25 Forecast
Greater Growth Scenario	\$1.0	\$2.7	\$3.1	\$4.2	\$5.3
Base Case Modest Growth	\$0.5	\$1.7	\$1.6	\$2.3	\$3.1
Less Growth Scenario	(\$0.4)	\$0.4	\$0.0	\$0.0	\$1.1

In addition, the Report also explains additional one-time budget considerations, the General Fund Capital/Special Projects Reserve, and the flow of monies to the Town’s Capital Improvement Program. This agenda item provides the Council an opportunity to discuss the Forecast, give direction on budget assumptions, and provide other direction for the preparation of the Fiscal Year (FY) 2020/21 Operating and Capital Budgets, including the potential reallocation of \$4.0 million from the Capital/Special Projects Reserve to other Council priorities.

ANALYSIS:

Purpose of the Five-Year Financial Forecast

An important aspect of the Town’s budget development process is taking a multi-year approach to understand revenue and expenditure trends over time. Serving as the foundation of the budget planning process (Attachment 1), the Town develops a Five-Year Financial Forecast (“Forecast”) beginning in the late fall of each year. The Forecast enables the Town to evaluate the Town’s fiscal condition and to help guide policy, programmatic planning, and budget decisions. Development of a financial forecast as part of the budget development process has been identified as a best practice by the Government Financial Officers Association (GFOA).

The Forecast takes a forward look at the Town's General Fund revenues and expenditures and is updated regularly. Its purpose is to identify financial trends, potential shortfalls, and other issues so the Town can proactively address them and budget accordingly. It does so by projecting out into the future the fiscal results of continuing the Town's current service levels and policies. This process helps to provide a snapshot of what the future may look like as a result of the decisions made to date.

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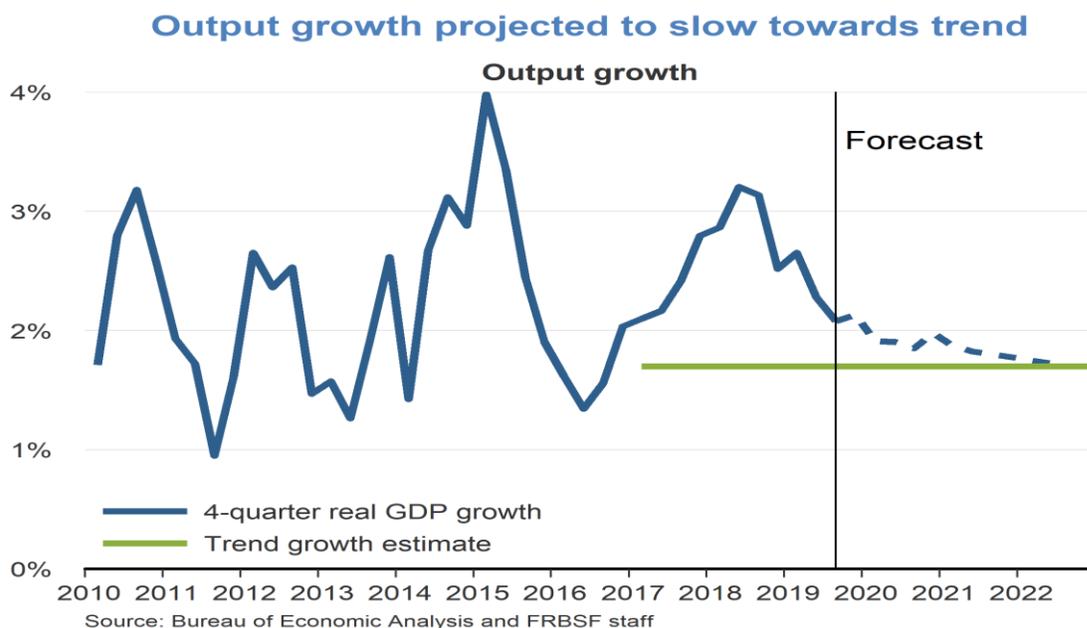
ANALYSIS (continued):

This Five-Year Financial Forecast is not a budget, nor a proposed plan. The Five-Year Financial Forecast sets the stage for the upcoming budget process and is a tool in facilitating both the Town Council and Town Manager in establishing priorities and allocating resources appropriately.

Economic Outlook

The Federal Reserve Bank of San Francisco (FRBSF) in a January 9, 2020 publication indicated that it expects 2019 to conclude with a real Gross Domestic Product (GDP) growth rate of 2.3%. The report noted that 2.3% is somewhat above its estimate of the economy's long-run sustainable growth rate of slightly below 2%. Given the waning effects of federal fiscal policy, the report projects that GDP growth will slow towards trend (2%) by 2022.

The FRBSF forecast is consistent with the final quarterly report for 2019 produced by the UCLA Anderson Forecast. The UCLA Forecast also indicates that GDP is expected to trend toward 2% in the fourth quarter of 2020. The final 2019 forecast is slightly more optimistic than previous forecasts which anticipated lower GDP growth in 2020. In addition to the GDP forecast, the UCLA report cautioned, "...although we have lowered the risk of a recession, the second half of 2020 remains problematic for the economy." The report further states, "For those who say that we can't have a recession in a presidential election year, I would note that recessions occurred in 1960, 1980 and 2008, all presidential election years."



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ANALYSIS (continued):

Town of Los Gatos Forecast Introduction

As with all forecasts, there is a level of uncertainty regarding future revenue and expenditure estimates. For example, General Fund revenues may exceed or fall below expectations based on changes in economic or non-economic conditions. The Town's two largest General Fund revenues, Property Tax and Sales Tax, have experienced these fluctuations in the past. Various cost elements can also vary from year to year. As seen in recent years, retirement costs fluctuate and will likely continue to experience upward pressure based on changes in actuarial, economic, and demographic assumptions approved by CalPERS.

Given the potential slowing in the economy and the residual effects on revenue and expense estimates, staff is providing alternative scenarios to the "Base Case" scenario again in this year's Forecast. The Base Case Forecast is built on the assumption of slow, yet positive, economic growth. Two alternative forecasts have been developed to model the range of budgetary scenarios possible under varying economic conditions. "Greater Growth" and "Lower Growth" scenarios have been created to model economic conditions considered possible. The "Base Case" scenario provided is believed to be the best estimation at this time and will be utilized for development of the budget. In addition, it is assumed that between the "Lower Growth" scenario and the "Greater Growth" scenario, the "Lower Growth" scenario is more plausible.

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ANALYSIS (continued):

Five-Year Financial Forecast

The following table reflects the most recent “Base Case” financial forecast for the General Fund for Fiscal Year (FY) 2020/21 – FY 2024/25.

Town of Los Gatos General Fund 5-Year Forecast
(in \$ million)

Account	Revenue Category	2019/20 Budget	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
4100	Property Tax	\$ 14.2	\$ 14.7	\$ 15.6	\$ 16.2	\$ 16.7	\$ 17.2
4110	VLF Backfill Property Tax	3.8	4.0	4.1	4.2	4.4	4.5
4200	Sales & Use Tax	8.0	8.8	9.0	9.1	9.3	9.8
4250	Franchise Fees	2.5	2.5	2.6	2.7	2.8	2.9
4251	Transient Occupancy Tax	2.8	2.7	2.7	2.7	2.7	2.7
4400	Business License Tax	1.4	1.4	1.4	1.4	1.4	1.4
4400	Licenses & Permits	3.4	3.1	3.2	3.3	3.4	3.5
4500	Intergovernmental	1.0	0.8	0.8	0.8	0.8	0.9
4600	Charge for Services	4.3	4.2	4.3	4.4	4.5	4.6
4700	Fines & Forfeitures	0.5	0.5	0.5	0.5	0.5	0.6
4800	Interest	0.6	0.5	0.5	0.5	0.5	0.5
4850	Other Sources	2.3	1.5	1.5	1.5	1.5	1.5
4900	Fund Transfers In	0.5	0.5	0.5	0.5	0.5	0.5
TOTAL OPERATING REVENUES & TRANSFERS*		\$ 45.3	\$ 45.2	\$ 46.7	\$ 47.8	\$ 49.0	\$ 50.6
	Use of Capital/Special Project Reserve - Capital	6.7	0.6	0.6	0.6	0.6	0.6
	Use of Pension/OPEB Reserve	0	0	0	0	0	0
	Use of Capital/Special Project Reserve - Other	0	0	0	0	0	0
	Use of Compensated Absences	1.1	0	0	0	0	0
TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES		\$ 53.1	\$ 45.8	\$ 47.3	\$ 48.4	\$ 49.6	\$ 51.2

Account	Expenditure Category	2019/20 Budget	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
5110	Salary	20.0	19.4	19.6	19.7	19.8	19.9
5120	CalPERS Benefits	6.9	7.3	7.9	8.3	8.5	8.7
5200	All Other Benefits	4.1	3.8	3.8	3.9	4.0	4.1
6211	OPEB Pay as You Go	1.2	1.3	1.3	1.4	1.4	1.4
6000	Operating Expenditures	6.6	5.6	5.6	5.8	5.9	6.3
7200	Grants & Awards	0.2	0.2	0.2	0.3	0.3	0.3
7400	Utilities	0.5	0.6	0.6	0.6	0.6	0.6
8060	Internal Service Charges	2.3	2.6	3.0	3.1	3.2	3.3
8900	Debt Service	1.9	1.9	1.9	1.9	1.9	1.9
TOTAL OPERATING EXPENDITURES		\$ 43.7	\$ 42.6	\$ 43.9	\$ 45.1	\$ 45.7	\$ 46.5
	GASB 45 Retiree Medical Actuarial	1.1	0.7	0.7	0.7	0.6	0.6
	Additional Discretionary Payment - Pension	0.4	0.4	0.4	0.4	0.4	0.4
TOTAL OPERATING & DISCRETIONARY EXPENDITURES		\$ 45.2	\$ 43.7	\$ 45.0	\$ 46.2	\$ 46.7	\$ 47.5
	Capital Transfers Out to GFAR	6.7	1.6	0.6	0.6	0.6	0.6
	Transfer to Internal Service Funds	1.1	0	0	0	0	0
	Pension/OPEB Transfer to PARS	0	0	0	0	0	0
	Allocate to Compensated Absences	0	0	0	0	0	0
	Surplus	0	0	0	0	0	0
	Allocate to Property Surplus Reserve	0	0	0	0	0	0
TOTAL EXPENDITURES & RESERVE ALLOCATIONS		\$ 53.0	\$ 45.3	\$ 45.6	\$ 46.8	\$ 47.3	\$ 48.1
NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES & RESERVE ALLOCATIONS		\$ 0.1	\$ 0.5	\$ 1.7	\$ 1.6	\$ 2.3	\$ 3.1

* Due to rounding of individual categories FY 2018/19 Total Revenues and Transfers includes \$0.2 million.

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ANALYSIS (continued):

The first column of the above table shows that the Town Council adopted a balanced budget for FY 2019/20 with an estimated \$0.1 million surplus. Changes in revenues and related expenditures since the adoption of the FY 2019/20 budget will be presented in the mid-year budget report in February along with updated estimates of any corresponding surplus or deficit. The mid-year estimates of the adopted budget will continue to be refined until the close of the fiscal year on June 30, 2020 and finalized after the independent audit and completion of the Comprehensive Annual Financial Report in late fall 2020.

The Forecast indicates modest surpluses throughout the forecast period with a funding surplus of \$0.5 million estimated for FY 20/21. For FY 2021/22 to FY 2024/25, the forecast reflects estimated revenue surpluses ranging from \$1.7 million to \$3.1 million in the fifth year of the forecast.

The Forecast includes all revenues and transfers as well as the use of reserves to fund the Town's municipal services, capital improvements, and additional discretionary payments (ADPs) towards unfunded pension and Other Post-Employment Benefit (OPEB) obligations. These discretionary expenses are voluntary contributions proactively adopted by Council to further reduce/eliminate outstanding unfunded benefit obligations.

The following section provides a more detailed description of the Town's revenue and expenditure forecasting methods and assumptions.

Revenue Assumptions

As discussed in the Economic Outlook section of this report, the national and regional economies are expected to gradually slow over the coming years. The Town is highly dependent on three economically sensitive revenues comprising 64% of Town General Fund revenues. Property Taxes, Sales Taxes, and Transient Occupancy Taxes (TOT) are approximately 39.7%, 17.7%, and 5.4% of Town revenues, respectively. These three revenue streams will be used for the alternative forecast scenarios. Please see Attachment 2 for a description of all revenue categories. In addition, Attachment 3 provides a comprehensive listing of revenue forecast assumptions.

Property tax budget projections are based on valuations projected by the Santa Clara County Assessor's Office, including transfer tax and other items. Town staff meets with the County Assessor's Office quarterly to obtain that quarter's assessed valuation and assessment roll data used to forecast property tax revenues.

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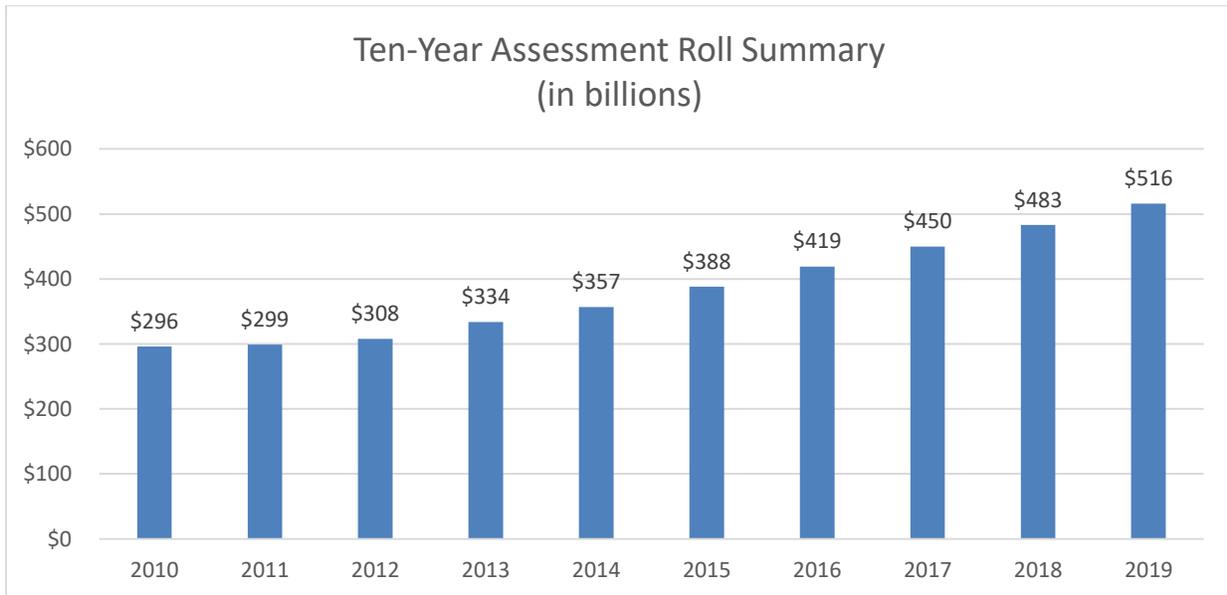
ANALYSIS (continued):

Property Tax

The 2019-2020 Assessor's Annual Report details Santa Clara County's longest post-recession recovery, which is well into the ninth year since the height of the Great Recession in 2009. "Following the Great Recession of 2008-2010, Silicon Valley continues to experience an unprecedented economic boom. The annual assessment roll topped \$516 billion, a 6.79 percent increase over the prior year. During the past ten years, the assessment roll has grown 70 percent, more than any time since the hyperinflation period in the early 1980's," said County Assessor Larry Stone.

Stone further commented, "The growth in assessed value is the direct result of several economic factors. For the first time in history, the Bay Area has four million jobs, fed by the technology sector..."

Santa Clara County Property Tax Summary



Source: Santa Clara County Tax Assessor's Office

As the table on the following page illustrates Los Gatos has benefited from the economic expansion as evidenced by year-over-year (YOY) roll growth in property assessment since 2010.

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ANALYSIS (continued):

Los Gatos Assessment Roll Growth

(values in billions)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Roll	8.37	8.68	9.46	9.99	10.63	11.54	12.29	13.15	13.84
Percent Growth	1.3	3.67	9.06	5.62	6.4	8.56	6.54	6.95	5.23

Source: Santa Clara County Assessors Annual Reports

For purposes of the Forecast, the “Base Case” utilizes a growth factor of 3% and the “Greater Growth” and “Lower Growth” scenarios utilize a 2% differential from the Base Case. In addition, the Forecast estimates additional property taxes of \$350,000 in FY 2021/22 and \$700,000 per year thereafter from Phase One development of the North 40 area starting in year 2022/23 of the Forecast. The “Less Growth Scenario” also assumes no distribution of supplemental Education Revenue Augmentation Fund (ERAF) monies after FY 2020/21 because of potential pending State legislation and the lack of certainty if there will be excess property tax revenue to distribute to cities/towns based on the State distribution methodology.

(values in millions)

Property Tax (Property Tax & VLF)	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
Greater Growth Scenario	\$19.0	\$20.5	\$21.6	\$22.7	\$23.8
Base Case Modest Growth	\$18.7	\$19.7	\$20.4	\$21.1	\$21.7
Less Growth Scenario	\$17.9	\$18.7	\$19	\$19.1	\$19.8

Sales Tax

Sales tax estimates are based on actual sales tax data and annual sales tax estimates for five years provided by the Town’s consultant, MuniServices. For purposes of the Town’s Forecast, MuniServices provides a “Most-Likely” scenario which serves as the “Base Case.” In addition, their “Optimistic” scenario serves as the “Greater Growth” case and “Conservative” scenario is

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ANALYSIS (continued):

the “Lower Growth” case. In addition, they provide a “Recession Scenario” which is based on the weighted reduction in sales tax revenues in Los Gatos during the last four recessions since 1990. In the event future economic and sales tax receipt data warrants the use of the “Recession Scenario,” staff will incorporate at that time.

With the passage of Measure G, the Forecast also incorporates MuniServices estimates on the additional district tax. In addition, the MuniServices estimates include additional proceeds from internet sales due to the 2018 Wayfair Court decision.

(values in millions)

Sales Tax	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
Greater Growth Scenario	\$8.5	\$8.5	\$8.7	\$8.8	\$8.9
Base Case Modest Growth	\$8.3	\$8.4	\$8.5	\$8.6	\$8.7
Less Growth Scenario	\$8.2	\$8.3	\$8.4	\$8.5	\$8.5

Transient Occupancy Tax (TOT)

CBRE Hotels Americas Research in its December 2019 Hotel Horizon report anticipates a continued industry slowdown through 2021. According to the research, year-over-year demand is expected to decelerate, and for occupancy levels to decrease in 2020 and 2021. For 2020, CBRE is forecasting an overall 0.7 percent decrease in occupancy for the nation’s 60 major markets. The San Jose-Santa Cruz, market is forecast to lead the nation in supply growth with an increase of 9.2 percent. The average number of rooms per project in the development pipeline in San Jose-Santa Cruz is 122 rooms.

For purposes of the Forecast, the “Base Case” utilizes a growth factor of 0% from FY 2018/19 actual collections with a 1% differential for the “Greater Growth’ and “Lower Growth” scenarios.

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ANALYSIS (continued):

(values in millions)

Transient Occupancy Tax (TOT)	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
Greater Growth Scenario	\$2.8	\$2.8	\$2.8	\$2.8	\$2.9
Base Case Modest Growth	\$2.7	\$2.7	\$2.7	\$2.7	\$2.8
Less Growth Scenario	\$2.6	\$2.6	\$2.6	\$2.6	\$2.6

Expense Assumptions

Forecasts of future operating expenditures take into account two key factors: cost escalation and new operating expenditures. Cost escalation refers to largely unavoidable increases in the cost of doing business. It includes inflation, multi-year contract costs, health care costs, and unfunded State mandates. Cost escalation also includes other unavoidable cost increases unique to a government organization, such as a rise in wages consistent with collective bargaining agreements. New operating expenditures refer to costs created by new or enhanced service programs approved during the annual budget process.

As a service organization, the delivery of Town services is highly dependent on labor which comprised approximately 56% of budgeted General Fund expenditures in 2019/20. The Town historically budgets vacant and non-sworn positions at top step of the range for the position. Sworn and management position are budgeted at one step higher of current step in anticipation of any merit increases expected to be awarded in the upcoming fiscal year.

Provided below are the expense assumptions for salary and benefits and alternate case scenarios for pension contributions. The majority of other expenses are assumed to increase at 3% per annum. Detailed expenditure assumptions and factors can be found in Attachment 4.

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ANALYSIS (continued):

Salary and Benefits

Salary

For the Forecast, positions are budgeted at the actual rate of pay of employees including benefits as of December 2019. Then, by position, salary costs are updated in accordance with the applicable Memorandum of Understanding (MOU) between the Town and its bargaining units. The Town has three bargaining units: the Town Employees’ Association (TEA), the American Federation of State, County and Municipal Employees (AFSCME), and the Police Officers’ Association (POA). The Memoranda of Understanding that outline the individual agreements between the Town and each unit related to compensation, health benefits, leave time, and grievance procedures will expire with TEA and AFSCME on June 30, 2021. POA’s MOU will expire on September 30, 2021. However, all three agreements contain language that re-opens each agreement in 2020 to negotiate the specific topic of salary for the final year of the agreements. The Management and Confidential groups are unrepresented.

In addition to the economic terms of the MOUs, the Forecast assumes step increases for employees in applicable positions, and merit increases for Management and Confidential employees. No general wage adjustments are included in the Forecast starting in 2021/22 when bargaining group MOUs expire. In addition, no additional general wage adjustments have been included for 2020/2021 pending the outcome of the re-opener negotiations with the bargaining units. The Forecast will be updated accordingly based on labor negotiations with the Town’s unions at that time.

(values in millions)

Salaries (Current MOUs)	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
Base Case	\$19.4	\$19.6	\$19.7	\$19.8	\$19.9

Pension Benefits

Unfunded long-term liabilities for Town employee pension plans and Other Post-Retirement Benefits (OPEB) continue to be a prominent issue with respect to the Town’s long range financial planning and financial health. The Town’s pension plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns,

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changes in actuarial assumptions, and unfavorable demographic shifts which have outweighed any positive plan experiences.

For purposes of the Forecast, CalPERS provides projected employer Unfunded Actuarial Liability (UAL) contributions under alternate investment returns. As the table below illustrates returns higher than the expected return of 7% result in lower UAL contributions and returns lower than 7% result in higher UAL contributions.

UAL Town Contributions	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
(Misc & Safety)					
Greater Investment Return Scenario (12%)	N/A	\$4,669,000	\$4,827,000	\$4,632,000	\$4,245,000
Base Investment Return Case (7%)	\$4,272,000	\$4,827,000	\$5,301,000	\$5,595,000	\$5,895,000
Less Investment Return Scenario (1%)	N/A	\$5,034,000	\$5,918,000	\$6,828,000	\$7,946,000

CalPERS Actuarial Valuations as of June 30, 2018

For the year ending June 30, 2018, the Public Employees Retirement Fund (PERF) returned 8.6%. The table below illustrates the historic investment returns for five years, ten years, twenty years, and thirty years.

CalPERS Geometric Mean Rates of Return	5 Years	10 Years	20 Years	30 Years
Geometric Return	7.9%	5.7%	6.0%	8.3%

Five-Year Financial Forecast Alternative Scenarios

The tables below present the “Base Case” forecast contrasted against the two alternative scenarios of “Greater Growth” and “Lower Growth.” As illustrated in the tables, even modest changes to the “Base Case” forecast can result in either additional surpluses or deficits during the forecast period. As indicated earlier in the report, staff believes the “Lower Growth” scenario is the plausible alternative scenario at this time.

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(values in millions)

Original 5 Year Forecast “Base Case”	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
Total Revenues, Transfers & Use of Reserves	\$45.8	\$47.3	\$48.4	\$49.6	\$51.2
Total Expenses & Allocations	\$45.3	\$45.6	\$46.8	\$47.3	\$48.1
Original Surplus/Deficit	\$0.5	\$1.7	\$1.6	\$2.3	\$3.1

(values in millions)

Alternative Scenario “Greater Growth”	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
Total Revenues & Transfers	\$46.3	\$48.3	\$49.9	\$51.5	\$53.4
Total Expenses & Allocations	\$45.3	\$45.4	\$46.3	\$46.3	\$46.4
New Surplus/Deficit	\$1.0	\$2.9	\$3.6	\$5.2	\$7.0

(values in millions)

Alternative Scenario “Lower Growth”	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
Total Revenues & Transfers	\$44.8	\$46.0	\$46.8	\$47.3	\$49.2
Total Expenses & Allocations	\$45.2	\$45.8	\$47.4	\$48.5	\$50.2
New Surplus/Deficit	(\$0.4)	\$0.2	(\$0.6)	(\$1.2)	(\$1.0)

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ANALYSIS (continued):

One-Time Budget Considerations

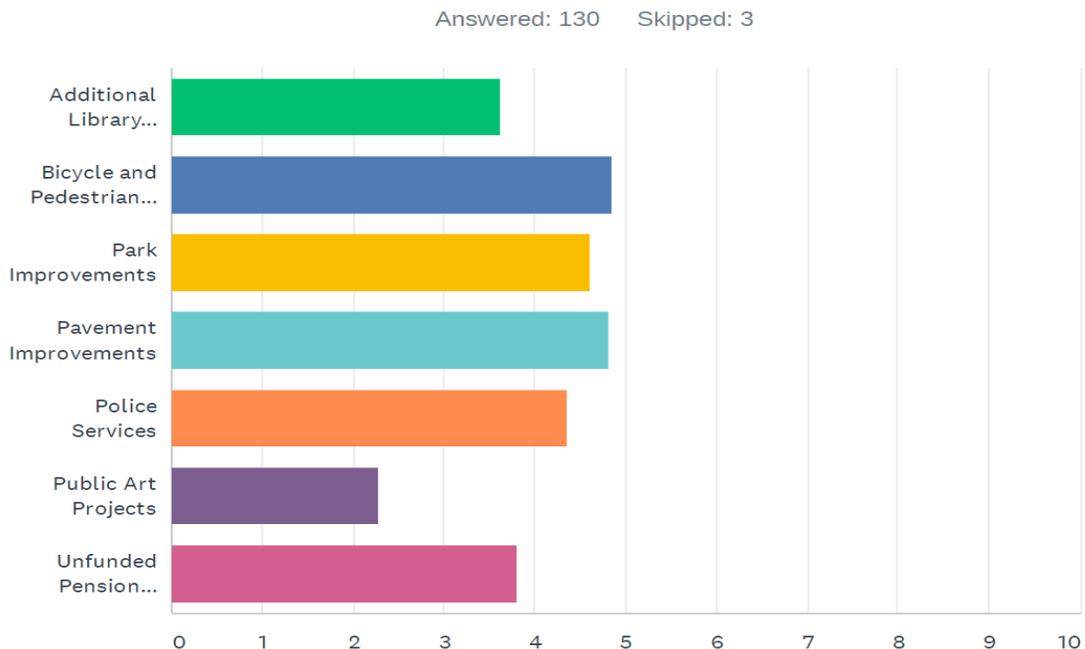
2020-2022 Strategic Priorities and Community Budget Survey

On January 14, 2019, the Town Council confirmed its ongoing priorities and expressed a desire to continue emphasizing the following if budgetarily feasible:

- Additional Discretionary Payments (ADPs) toward pension obligations
- Wildfire mitigation measures
- Implementation of the parking study
- Renewed sustainability efforts

In addition, the Town published its first online community survey regarding how residents would appropriate an additional \$1.0 million dollars toward the following services/issues. Following is the question posed to the public and results as of January 16, 2020:

1. Imagine that the Town of Los Gatos has a surplus of \$1 million in this year's budget. Where would you allocate the funds? Please rank the choices below in order of highest to lowest priority.



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In addition, residents were able to provide comments related to the choices they made. A sample of resident's comments can be found in Attachment 5.

General Fund Reserves Status

At the close of the prior fiscal year, the General Fund balances were finalized and allocated according to the General Fund Reserve Policy. The following schedule presents the General Fund Reserve balances as of June 30, 2019 that were reported in the Town's audited Comprehensive Annual Financial Report.

General Fund Balance as of 6/30/2019	
Restricted for:	
Pension	\$5,015,316
Committed to:	
Budget Stabilization	\$5,419,222
Catastrophic	\$5,419,222
Pension/OPEB	\$4,232,500
Assigned to:	
Open Space	\$562,000
Sustainability	\$140,553
Capital & Special Projects	\$13,262,303
Carryover Encumbrances	\$413,729
Vehicle Maintenance and Store Reserve	\$1,040,375
To Workers' Comp	\$1,232,654
Compensated Absences	\$1,232,653
Total Fund Balance	\$37,970,527

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ANALYSIS (continued):

The FY 2019/20 adopted budget has committed the Vehicle Maintenance and Store Reserve for the Downtown Revitalization/Streetscape capital project, the Workers’ Comp Reserve to Workers’ Compensation Fund, and \$152,000 of the Open Space reserve for an Open Space capital trail project. Assigned balances as reported above are subject to adjustment by Council discretion.

2019 Capital/Special Projects Reserve and Available Funds for Potential Reallocation

The June 30, 2019 CAFR General Fund Balance indicates approximately \$13.3 million in the Capital/Special Project Reserve. As illustrated in the table below, the \$13.3 million includes \$9.3 million of funds that were either previously allocated by Council action during the adoption of the FY 2019/20 budget, additional Council actions during the current budget year, and/or non-cash items. In addition, the five-year Capital Improvement Plan anticipates an annual transfer of \$550,000 from the General Fund Capital/Special Project Reserve to the General Fund Appropriated Reserve (GFAR) Fund to support the five-year plan. The remaining \$4.0 million can be reallocated from the Capital/Special Project Reserve to other Council priorities.

It should be noted, that if the funds are reallocated to priorities other than capital projects, there is currently no identified revenue source to replace these monies for future capital projects. The Town Council should provide specific direction on its recommendations for the use of the \$4.0 million.

General Fund Capital/Special Project Reserve and Funds for Potential Reallocation						
General Fund Capital/Special Project Reserve as of 6/30/2019						\$13,262,303
FY 19/20 Budget & Council Actions	FY 20/21 5 Yr CIP	FY 21/22 5 Yr CIP	FY 22/23 5 Yr CIP	FY 23/24 5 Yr CIP	FY 25/26 5 Yr CIP	Total CIP & FY 19/20
\$5,858,207	\$550,000	\$550,000	\$550,000	\$550,000	\$550,000	\$9,252,118
Available for Potential Reallocation						\$4,010,185

SUBJECT: Discuss the Five-Year Forecast, Provide Direction on Other Budget Assumptions, and Provide Direction on the Preparation of the Town's FY 2020/21 Operating and Capital Budgets

DATE: January 11, 2020

ANALYSIS (continued):

In addition to the information provided in the table, staff has provided process and flow-of-funds diagrams for fiscal year surpluses and the Capital Improvement Program in Attachment 6.

CONCLUSION AND NEXT STEPS:

The Town Council should review and discuss the elements and assumptions of the Five-Year Forecast and other budget considerations. While the "Base Case" Forecast estimates moderate surpluses at this time, it is based on assumptions that are subject to change as shown with the alternative growth scenarios. As the Forecast is not a budget, there are no specific budget balancing recommendations being proposed at this time. The Town Manager will bring forward for Council consideration in May a balanced proposed FY 2020/21 budget.

Staff looks forward to answering the Town Council's questions and receiving any direction for the preparation of the proposed FY2020/21 Operating and Capital Budgets that results from the discussion. The Draft FY 2020/21 Operating and Capital Budgets will be available in May with the budget hearing tentatively scheduled for May 19, 2020.

COORDINATION:

This Report was prepared by the Town Manager's Office in coordination with the Finance Department.

Attachments:

1. Budget Process Timeline
2. Major Revenue Categories
3. Revenue Baseline and Projection Factors
4. Expenditure Baseline and Projection Factors
5. Community Survey Comments
6. Fiscal Year Surplus Flow of Funds and Capital Improvement Program
7. Public Comment Received before 11 a.m. on January 17, 2020