
Subject: Corrections to comparative schedule and other comments
Attachments: IMG_0146.PNG

-----Original Message-----

From: Phil Koen <pkoen@monteropartners.com>

Sent: Friday, December 6, 2019 5:14 PM

To: Stephen Conway <sconway@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>

Cc: jak vannada <jvannada@gmail.com>; Terry Duryea <tduryea@aol.com>; Ron Dickel <rondickel@gmail.com>; Rick Tinsley <rnt97@yahoo.com>

Subject: Corrections to comparative schedule and other comments

Steve,

I have made the changes I believe are required to properly show the year over year comparison in statement of activities. As you can see I have adjusted the 2018 expenditures for General Government to reflect the adoption of GASB 87. I believe it is appropriate when comparing two years to have both years reflect the impact of GASB 87.

As a result the MDA has to change to reflect the impact of GASB 87 as applied to 2018. Specifically the explanation on page 25 needs to be corrected to reflect that General Government expense, once adjusted for GASB 87, decreased \$2.1m from 2018. This is a more accurate picture of the real change in spending. Furthermore the \$2.1m decrease needs to be properly explained. I already requested this in my prior email.

In addition there is no explanation for the material increase in Miscellaneous Revenues. What caused this? Is it the proceeds from the sale of the vacant lot? Whatever the reason, it should be explained so the reader understands if the increase in revenue was a one time event or of a recurring nature.

Lastly, the explanation as to the increase in investment income is difficult to prove out. It would be helpful to the reader if you disclosed how much investment income came from "mark to market" as required by GASB 31 as well as the actual investment gains from the 115 Trust. The \$1.4m increase is significant and given that interest rates did not move that much during the year and the investment balance declined year over year, it is hard to make the math work to prove out to a \$1.4m year over year increase.

I have a few other questions which I will submit to you in a separate email.

Thank you.

Phil

ATTACHMENT 5



**Town of Los Gatos
Statement of Activities
For the Year Ended June 30, 2019**

	2019	2018
Revenues:		
Program revenues:		
Charges for Services	\$ 11,350,345	\$ 11,982,107
Operating Grants and Contribution:	2,175,277	1,906,224
Capital Grants and Contributions	146,792	348,437
General Revenues:		
Property Taxes	17,321,347	15,958,406
Sales Taxes	8,158,152	7,466,253
Franchise Taxes	2,475,916	2,474,814
Other Taxes	2,726,743	2,667,840
Motor Vehicle in Lieu	14,689	16,483
Investment Earnings	1,809,128	333,120
Miscellaneous	2,407,840	622,105
Total Revenues	48,586,229	43,775,789
Expenses:		
Police Department	18,879,618	15,545,521
Parks and Public Works	10,717,217	10,047,003
General Government	5,848,125	9,155,819
Community Development	5,045,523	4,667,609
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Sanitation	683,397	536,296
Total Expenses	44,236,037	43,059,932
Change in Net Position	4,350,192	735,857
Net Position, beginning	110,468,917	117,027,779
Prior Period Adjustments - GASB 75/87		(7,294,719)
Net Position, as restated - GASB 75/87		109,733,060
Net Position, Ending	\$ 114,819,109	\$ 110,468,917

7,948,968

41,833,081

1,942,708

(8,501,570)

108,526,209

① To adjust G.G. to reflect reclassification of \$1,206,851 in accordance with GASB 87. Beginning Net Position for 2018 now agrees to 2018 CAFR.

Subject: FW: Original Budget

From: Phil Koen <pkoen@monteropartners.com>

Sent: Friday, December 6, 2019 7:21 PM

To: Stephen Conway <sconway@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>

Cc: jak vannada <jvannada@gmail.com>; Terry Duryea <tduryea@aol.com>; Ron Dickel <rondickel@gmail.com>; Rick Tinsley <rnt97@yahoo.com>

Subject: Original Budget

Hi Steve,

Please refer to the budget vs actual comparison found on page 46. The total original budget expenditures shown on that schedule is \$43,827,777. Why is the number shown on the schedule below (page 29) different? Shouldn't they be the same?

Thank you.



\$34,452 and additions of \$2,333,111 of miscellaneous adjustments approved by Town Council throughout the fiscal year.

PA6 doesn't agree \$42,827,777

Original Budget	+ Approved Carry-Forwards	+ Prior Year Encumbrances	+ Misc. Adjustments & Mid-Year Adjustments	= Final Budget
\$42,827,777	\$0	\$99,927	\$2,390,327	\$45,318,031

The increase in General Fund appropriations occurred primarily from the following selected budget adjustments made during the fiscal year.

- \$1,566,866 increase to salary and benefits for FY 2018/19 reflecting raises (2.5%) for all Town bargaining units as a result of collective bargaining and unrepresented employee labor agreements approved by Town Council during the year and new contracts for the Town Manager and Town Attorney.
- \$600,000 additional appropriations for pass-through revenues to be used for plan review and inspection services associated with the Town's North 40 development.
- \$80,065 of additional funding reflecting various mid-year expenditure budget adjustments including additional funding for Americans with Disabilities Act training (\$16K), additional crossing guard services to reflect collective bargaining process with City of San Jose (\$9.5K), well testing (\$12K), tuition reimbursements for Police personnel (\$11K), receipt of grant funds for bullet proof vests (\$5.9K), among others.
- \$50,000 increase for below market price housing program.
- \$47,000 for additional tree trimming services.
- Approximately \$41,000 increase to reflect receipt of a Public Library Foundation grant.
- \$36,500 for Town branding consultant services.
- \$27,718 to create a Deputy Town Clerk classification including salary and benefits costs.
- \$20,000 to the Chamber of Commerce for it to procure Property and Business Improvement District consulting services.
- \$15,500 to perform a study and provide recommendations for private sector requirements for public arts funding.
- \$15,000 to fund additional services provided by the Town of Los Gatos Chamber of Commerce.

Variance with the Final General Fund Budget

Actual revenues ended the fiscal year at \$2.5 million above final budgeted revenues. Significant factors contributing to the variance are summarized as follows:

- A favorable variance of \$1.4 million in investment earnings for year. The Town received additional investment earnings for the year in its pension/OPEB trust which was not



Subject: Explanation of \$4.3m increase in Net Position is inconsistent
Attachments: IMG_0150.PNG

-----Original Message-----

From: Phil Koen <pkoen@monteropartners.com>

Sent: Saturday, December 07, 2019 4:25 AM

To: Stephen Conway <sconway@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>

Cc: jak vannada <jvannada@gmail.com>; Terry Duryea <tduryea@aol.com>; Ron Dickel <rondickel@gmail.com>; Rick Tinsley <rnt97@yahoo.com>

Subject: Explanation of \$4.3m increase in Net Position is inconsistent

Steve,

Please note the language in the red box is confusing and inconsistent with the explanation provided on page 18. I suggest that you adopt the explanation on page 18.

Additionally the \$5.6m shown below is inconsistent with the \$5.1m shown on page 38. I suggest you adopt the \$5.1m which appears to be correct.

Thank you.

Phil



Conform this explanation to P 18
S/B \$ 5.1
All P 38

Net Position Discussion

As shown below, the Town's combined net position for the year ended June 30, 2019 was \$114.8 million, increasing \$4.3 million over the prior year. The increase is largely attributable to the restatement of the amounts placed in trust for the Town's pension and other post-employment benefits (OPEB) this fiscal year. Assets in the trust increased by \$3.8 million from an \$1.2 million balance as of June 30, 2018 to a current balance of \$5.6 million in restricted assets. Additionally, another \$0.6 million of the total increase in net position was generated by Town operations. In general, net position can serve as an important indicator of whether the Town's overall financial condition is improving or deteriorating over time.

**Town of Los Gatos
 Net Position
 Governmental Activities
 For the Year Ended June 30, 2019**

	2019	2018
Current and Other Assets	\$ 79,464,869	\$ 78,734,160
Capital Assets	107,542,588	102,098,729
Total Assets	\$187,007,457	\$180,832,889
Deferred Outflows - Pension/OPE	13,521,349	19,177,172
Current Liabilities	17,375,600	19,125,206
Long-Term Liabilities Outstanding	66,148,603	66,492,020
Total Liabilities	\$ 83,524,203	\$ 85,617,226
Deferred Inflows - Pension/OPEB	2,185,494	3,923,918
Net Position		
Net Investment in Capital Assets	107,542,588	102,098,729
Restricted	11,918,688	8,199,598
Unrestricted	(4,642,167)	170,590
Total Net Position	\$114,819,109	\$110,468,917

Current and other assets increased \$0.7 million for the year. This is primarily due to a \$3.8 million increase in restricted cash for pension and OPEB, and increases in accounts and intergovernmental and interest receivables totaling approximately \$0.9 million. These increases are offset by decreases in cash and investments for the year of approximately \$4.1 million, reflecting use of cash balances of approximately \$9.5 million to invest in Town infrastructure and other special projects. Capital assets increased \$5.4 million net of depreciation expense totaling approximately \$3.9 million for the year, much of which is related to the infrastructure investments made throughout the Town including approximately \$3.0 million for the Almond Grove Street Rehabilitation project, \$1.5 million in energy efficiency upgrades made to the Town's facilities, and approximately \$1.2 in street repair and resurfacing.



Subject: Sticking to the facts

From: Phil Koen <pkoen@monteropartners.com>

Sent: Saturday, December 7, 2019 5:41 AM

To: Stephen Conway <sconway@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>

Cc: jak vannada <jvannada@gmail.com>; Terry Duryea <tduryea@aol.com>; Ron Dickel <rondickel@gmail.com>; Rick Tinsley <rnt97@yahoo.com>

Subject: Sticking to the facts

Steve,

On page 32 of the CAFR the Town states “the Town’s proactive approach to reducing operating expenditures, identifying revenue enhancements, and implementing operating efficiencies has been an effective fiscal approach”.

As you know I have been a very vocal critic about including “marketing claims” in the CAFR, especially when the underlying financial performance doesn’t support the “marketing claim”. These types of claims confuse the reader and do nothing to improve one’s understanding of the fiscal state of the Town.

Below is a portion of schedule 2 (page 123) which shows the trend in expenses and revenues on an accrual basis over the past four years (boxed in red). Also please note that I have adjusted FY 2018 for the Implementation of GASB 84 so all of the numbers are on a comparable basis.

As you can see total governmental expenditures have increased 28% or \$9.8m from FY 2016 base. This has been driven by material increases in salary and wages coupled with explosive growth in pension costs. These facts do not square with the “marketing claim” made in the CAFR about reducing operating expenditures and driving operating efficiencies.

Additionally you can see that Program Revenues which consist of charges for services, operating grants and contributions has been flat over the same time period. I see no evidence of new revenue enhancements from Program Revenues.

While it is true that general revenues have grown over this time frame, this has happened solely because of the strong economy we are experiencing which has increased property tax revenues, sales tax revenues and franchise tax revenues. To be balanced the Town did increase the sales tax rate and did experience an uplift in sales tax revenue as a result of this.

Here is my point.

Since FY 2016 the Town has seen its annual revenue increase \$8.2m largely due to the economy. At the same time the Town has increased its spending by \$9.8m. That means for every new \$1 of revenue the Town received, the Town spent a \$1.20.

This just doesn’t square with the narrative of complying with an “effective fiscal approach”. I would encourage the Staff to scrub the draft CAFR with the goal of removing all “marketing claims”, especially when they are unsubstantiated by the underlying financial data. Let’s adopt Sargent Joe Friday’s advice of stating “Just the facts, ma’am” in the CAFR.

Thank you,

Phil

Schedule 2

2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
\$ 6,955,804	\$ 6,465,852	\$ 6,993,661	\$ 6,771,628	\$ 9,155,819	\$ 5,848,125
14,119,786	12,644,221	12,825,688	14,587,597	\$ 15,545,521	\$ 18,879,618
8,154,616	8,069,352	8,320,623	9,502,707	\$ 10,047,003	\$ 10,717,217
4,424,040	4,047,738	3,227,224	5,093,459	\$ 4,667,609	\$ 5,045,523
2,234,431	2,553,414	2,522,142	2,868,748	\$ 3,087,684	\$ 3,062,157
363,180	491,359	528,580	466,762	\$ 536,296	\$ 683,397
21,687	-	-	-	-	-
\$ 36,273,544	\$ 34,271,936	\$ 34,417,918	\$ 39,290,901	\$ 43,039,932	\$ 44,236,037

7,948,968

expenses have grown 28.4% in 3 years or \$9,818,119

\$ 2,179,077	\$ 1,888,213	\$ 1,517,012	\$ 1,669,020	\$ 1,701,146	\$ 1,562,683
3,206,579	3,529,166	3,278,585	2,076,688	1,888,359	1,745,889
1,550,867	2,206,765	1,516,108	2,155,841	4,150,068	2,910,936
5,156,061	5,027,497	4,359,146	3,803,626	3,456,390	4,155,231
51,775	53,123	46,192	46,746	14,702	9,476
328,648	328,868	368,813	410,626	771,442	966,130
-	-	15,291	-	-	-
42,661	24,838	98,138	837,329	895,730	826,643
994,096	907,745	749,300	665,779	953,294	1,301,152
14,662	4,062	12,228	-	57,200	47,482
-	176,705	-	-	-	-
2,274,879	2,338,154	1,610,657	770,600	348,437	146,792
19,360	-	9,280	-	-	-
\$ 15,818,665	\$ 16,485,136	\$ 13,571,470	\$ 12,445,535	\$ 14,236,768	\$ 13,672,414

41,833,081

2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
\$ 11,712,312	\$ 12,931,603	\$ 13,763,458	\$ 14,756,214	\$ 15,958,406	\$ 17,321,347
8,029,571	8,202,678	7,501,175	8,925,276	7,466,253	8,158,152
-	2,215,430	2,258,892	2,366,908	2,474,814	2,475,916
3,718,405	2,062,893	1,997,497	2,351,223	2,667,840	2,726,743
13,068	-	12,308	14,056	16,483	14,689
772,200	428,772	698,324	192,260	333,120	1,809,128
350,468	813,324	598,170	528,946	622,105	2,407,840
\$ 24,596,024	\$ 26,654,700	\$ 26,829,824	\$ 29,134,883	\$ 29,539,021	\$ 34,913,815

Page 141

\$ 4,141,145	\$ 8,867,900	\$ 5,983,376	\$ 2,289,517	\$ 735,857	\$ 4,350,192
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123

Total Per \$40,401,294 \$48,586,229

\$8,184,935

Subject: FW: Need for constructive change
Attachments: IMG_0152.PNG

-----Original Message-----

From: Phil Koen <pkoen@monteropartners.com>

Sent: Saturday, December 07, 2019 8:06 AM

To: Stephen Conway <sconway@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>

Cc: jak vannada <jvannada@gmail.com>; Terry Duryea <tduryea@aol.com>; Ron Dickel <rondickel@gmail.com>; Rick Tinsley <rnt97@yahoo.com>; Rob Stump <rstump@ani-psg.com>

Subject: Need for constructive change

Hi Steve,

I apologize for sending you all of these emails, but I think it is important that the residents have full transparency when it comes to financial disclosures.

Here is what I am struggling with. On February 19, 2019 the Staff submitted a mid-year budget report which included the Staff's estimate for the FY 2019 General Fund net operating revenues which was forecast to be a very modest \$429,594.

As you recall there was much discussion with the Council on this point. I believed and publicly stated that the net operating revenues would be much higher because among other items the mid-year report did not reflect the \$1.9m in proceeds from the sale of excess property. I maintained that the Council should be aware of this potential outcome so much required additional spending could be programmed.

At the time Council was looking for additional funds to allocate to critical programs such as street repair and maintenance, downtown side walk power washing, and hillside tree and brush trimming for fire prevention. Staff was very confident in their projection of \$429,594 and publicly stated that. As a result no additional budget adjustments were made beyond those proposed in the mid-year update because the Council did not believe there were funds available.

Now we find out that sometime after the budget was adopted (which was adopted in June, 2018) Staff began exploring the possibility of implementing GASB 84. The impact of adopting this standard would be to reduce by \$3,578,913 the adopted budget of \$7,043,251 for non departmental General Government expenditures. This was never disclosed to the Council at the February 19, 2019 meeting. There wasn't even a hint that this was being considered. The obvious question is "why"? GASB 84 had been issued in January 2017 and was well known to all.

If the Council had been properly advised that as a result of adopting GASB 84 the FY 2019 General Fund net operating revenues would increase by \$3.6m, and when combined with the \$1.9m in proceeds from the sale of property, there was in fact \$5.5m in additional funds available, I am sure there would have been a very different discussion on February 19.

This lack of transparency is causing great harm because the Council has no ability to make informed decisions regarding spending on critical programs. The real world impact is that we have hillside residents using their own money to perform urgently need fire protection tree and brush trimming because they are under the impression that the Town doesn't have the funds to do this when it is the Town's responsibility. I would refer you to Rob Stump to confirm this very point.



PAGE 2 OF 2

SUBJECT: Draft Comprehensive Annual Financial Report for the Fiscal Year Ended
June 30, 2019

DATE: December 3, 2019

Revised
Bud
 $\$7,043,251 - \$3,578,913 = \underline{\underline{\$3,464,338}}$

REMARKS (continued):

Fund restricted asset account. This reclassification substantially lowered the amounts previously budgeted as expenditures (approximately \$3.6 million of payments made to the PARS Trust in FY 2018/19) leading to a large budget savings reported for the year in the General Government Non-Departmental cost category.

The Draft Comprehensive Annual Financial Report provides an opportunity to identify potential needed changes. Staff appreciates the public comment regarding General Government expenditures changes from the prior year on the Government-Wide Statement of Activities. Staff and the independent auditor's subsequent review revealed an allocation error related to pension costs between the categories that does not change the total expenses. The correction has no impact on the total net position or fund statements. Attachment 3 contains the revised Statement of Activities and a redline of the associated narrative in the Management's Discussion and Analysis that describes the year to year expense comparisons.

Attachment previously received with the Staff Report:

1. Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019.

Attachment received with this Addendum:

2. Public Comments received after publishing the report and before 11:00 a.m., Friday, December 6, 2019
3. Replacement pages for the Draft CAFR



Subject: FW: Retrospective application of GASB 84
Attachments: IMG_0153.PNG

-----Original Message-----

From: Phil Koen <pkoen@monteropartners.com>

Sent: Saturday, December 7, 2019 10:58 AM

To: Stephen Conway <sconway@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>

Cc: jak vannada <jvannada@gmail.com>; Terry Duryea <tduryea@aol.com>; Ron Dickel <rondickel@gmail.com>; Rick Tinsley <rnt97@yahoo.com>

Subject: Retrospective application of GASB 84

Hi Steve,

Greatly appreciate you correcting the error in the FY 2019 Statement of Activities. However, I don't believe the comparative presentation as shown below is correct.

Please confirm with the auditor but I am pretty sure that while GASB 84 is not effective until reporting periods beginning after December 15, 2018, application of the standard should be retrospectively applied to all periods presented. Since the Town has elected early adoption, FY 2018 should reflect the application of the standard especially when presenting comparative financial statements.

I have reflected below the retrospective application. Also the discussion needs to be changed to reflect that there was an increase in General Government expenditure year over year and not a decrease.

Thank you.

Phil

**Town of Los Gatos
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