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**Sent:** Friday, August 6, 2021 7:13 AM  
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**Subject:** Agenda Item #10

Finance Commission Members,

I would like to recap my earlier note to the Commission regarding the Staff analysis of Public Safety Expenditures. Staff has presented two trend analyses – one showing gross public safety expenditures as a percentage of total gross expenditures and another showing gross public safety expenditures as a percentage of total town revenues. While an interesting way to look at the trends, it doesn't tell the entire story.

The problem with Staff's analyses is it fails to show the trend in net expenditures for Public Safety. Looking at net public safety expenditures is a better way to view the underlying trend because the functional revenues are netted against the gross public safety expenditures. The reason why functional revenues should be netted against gross functional expenditures is because these revenues are generated through charges for services, user fees, grants or contributions that are restricted to the function and are usually non-recurring in nature. An analysis of net expenditures provides valuable insight into the core cost of providing a service which is masked at the gross expenditure level. To the extent a function can increase dedicated funding sources, the function will be less reliant on funding from total tax revenues.

For example, in FY 2020 there was a total of \$15m in total functional revenues, but only \$2.5m is directly attributed to public safety. The majority of this \$2.5m was a payment for public safety services provide under the police services contract with Monte Sereno. **These functional revenues should be netted against the gross public safety expenditures to obtain the net cost to provide public safety services to the Town's residents.** This net expenditure is funded by the Town's tax revenue base. The remaining \$12.5m in functional revenues were funds from VTA grants or construction permits, etc. which were used to fund the other Town functions, totally unrelated to public safety.

The attached public safety trend analysis shows the trend in net public safety expenditures and as a percentage of total tax revenues over the past 10 years. Over the past 10 years net public safety expenditures have increased 62% while total tax revenues have increased only 2%. Since the rate of growth in net public safety expenditures far exceeds the growth in total tax revenue, more and more general tax dollars are being used today to provide public safety services. This is leading to a "crowding out" effect as there is less total tax revenue to fund all the other services the Town must provide.

I think this is a better way to view the trend in public safety expenditures and reveals a much deeper issue than Staff's analysis.

Thank you.

Phil Koen

**TOWN OF LOS GATOS  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 7,405,368	\$ 1,470,324	\$ 12,290	\$ 8,258	\$ (5,914,496)
Public safety	(A) 20,446,188	1,549,207	952,045	9,100	(17,935,836) (C)
Parks and public works	11,803,005	3,674,222	2,824,638	832,755	(4,471,390)
Community development	5,001,958	3,351,753	15,864	-	(1,634,341)
Library services	3,347,523	11,522	49,351	-	(3,286,650)
Sanitation	3,041	231,323	-	-	228,282
<b>Total Governmental Activities</b>	<b>\$ 48,007,083</b>	<b>\$ 10,288,351</b>	<b>\$ 3,854,188</b>	<b>\$ 850,113</b>	<b>(33,014,431)</b>
<b>General revenues:</b>					
Taxes:					
Property taxes			14,992,652		18,330,426
Sales taxes			33,046,353		7,531,425
Franchise taxes		(B) 48,039,005			2,495,792
Other taxes					1,911,774
Motor vehicle in lieu					24,526
Investment earnings					2,428,470
Miscellaneous					323,940
<b>Total general revenues</b>		(B) Σ = 30,269,417			<b>33,046,353</b>
Change in Net Position					31,922
Net Position - Beginning					114,819,109
Net Position - Ending					<u>\$ 114,851,031</u>

Staffs

$$\frac{(A) 20,446,188}{(B) 48,039,005} = 42.5\%$$

Recommended

$$\frac{(C) 17,935,836}{(D) 30,269,417} = 59.3\%$$

	Gross Public Safety Expenditures	Less: Functional Revenues	Net Public Safety Expenditures	Total Tax Revenue	Net Public Safety Exp/ Total Tax Rev
FY 2010	13,266,849	2,192,354	11,074,495	29,796,920	37.2%
FY 2011	13,495,885	2,181,591	11,314,294	31,103,674	36.4%
FY 2012	14,124,798	2,354,377	11,770,421	27,676,719	42.5%
FY 2013	13,731,754	2,541,990	11,189,764	22,877,632	48.9%
FY 2014	14,119,786	3,249,240	10,870,546	23,460,288	46.3%
FY 2015	12,644,221	3,554,004	9,090,217	25,412,604	35.8%
FY 2016	12,825,688	3,376,723	9,448,965	25,521,022	37.0%
FY 2017	14,587,597	2,914,017	11,673,580	28,399,621	41.1%
FY 2018	15,545,521	2,784,089	12,761,432	28,567,313	44.7%
FY 2019	17,725,475	2,572,532	15,152,943	30,682,158	49.4%
FY 2020	20,446,188	2,510,352	17,935,836	30,269,417	59.3%
<b>Average Analysis</b>					
FY 2010 - FY 2015	13,563,882	2,678,926	10,884,956	26,721,306	41.2%
FY 2016 - FY 2020	16,226,094	2,831,543	13,394,551	28,687,906	46.3%