



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 07/12/2021

ITEM NO: 7

DATE: July 7, 2021
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Continue Discussion of Key Performance Indicators

RECOMMENDATION:

Continue discussion of key performance indicators.

BACKGROUND:

On June 14, 2021, the Finance Commission had an initial discussion of key performance indicators it would like to see throughout the year. Among other items, Commissioners requested information related to major revenues and personnel metrics (such as number of average employees on the payroll, current filled positions, retirements and voluntary terminations, number of employees out on Workers Compensation, and any other extraordinary items). The Commission also asked if staff could develop additional performance indicators, such as the processing time to issue a permit, etc.

DISCUSSION:

As a starting point, provided below is a summary of the Town's primary revenues and data availability.

Property Tax and Motor Vehicle in Lieu Fee (VLF)

Property tax and VLF are the single largest revenue source for the Town and comprised approximately 42% of total Town General Fund projected revenues for FY 2020/21. Property tax is levied by the Santa Clara County Assessor's Office at 1% of a property's assessed value, of which the Town receives approximately 9.3 cents per dollar paid on property located within the municipal limits of Los Gatos. In compliance with Proposition 13, the assessed value of real property is based on the 1975/76 assessment roll value, adjusted by a 2% inflation factor

PREPARED BY: Arn Andrews
Assistant Town Manager

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

DISCUSSION (continued):

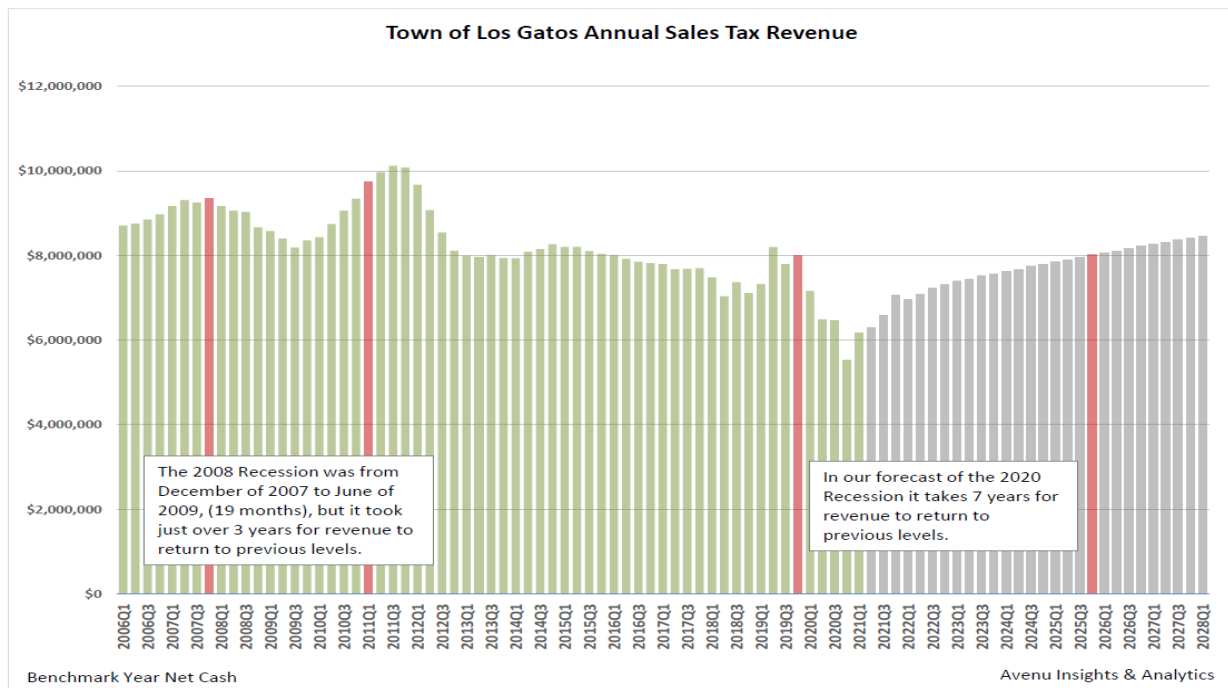
thereafter. However, when property changes hands or new construction occurs, property is then reassessed at its current market value. The County of Santa Clara provides property tax collection updates and projections throughout the year. Property tax distributions are largely received in the third and fourth quarters.

As staff receives relevant property tax information and receipts, it will be shared with the Commission.

Sales Tax

Sales tax is the second largest revenue source for the Town’s General Fund, accounting for 18% of budgeted General Fund projected revenues for FY 2020/21. The Town currently receives 1.125 cent for every 9.125 cents of sales tax paid per dollar on retail sales and taxable services transacted within Los Gatos, including the Town of Los Gatos residents’ approved ballot Measure G enacting a one-eighth cent (0.125%) district sales tax for 20 years.

Sales tax estimates are based on actual sales tax data provided by the Town’s consultant, MuniServices. MuniServices provides staff with quarterly updates and any revisions to prior estimates. While most of the data contained in the quarterly reports provided by MuniServices are not public due to references to individual businesses, staff is able to provide aggregate data to the Commission. Provided below is the latest quarterly data for the 1st Quarter:



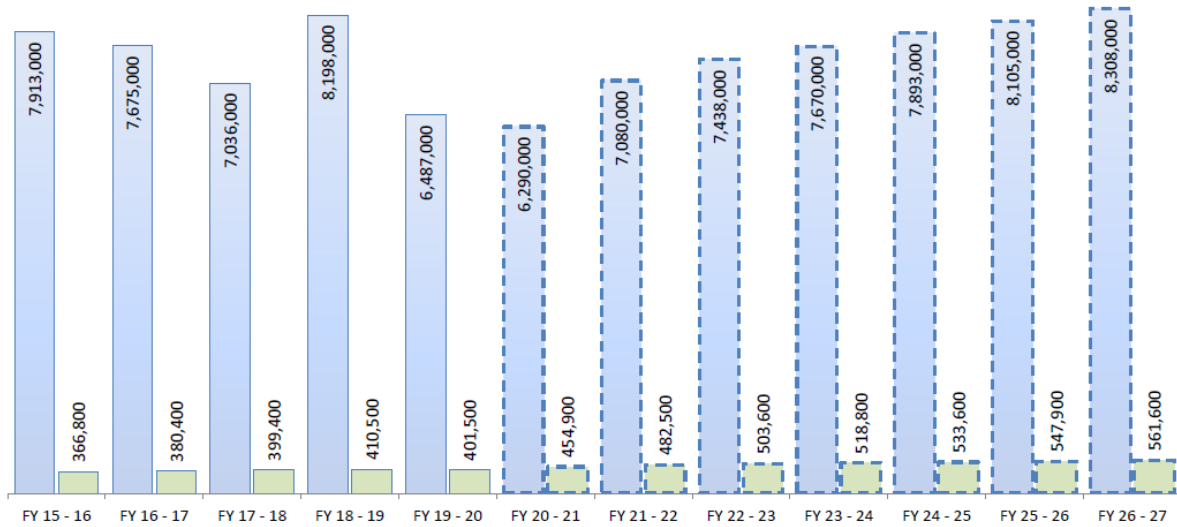
DISCUSSION (continued):

Town of Los Gatos Sales & Use Tax Forecast Summary

Accrual through August Clean-up (Historical through Balance: September)

Bradley Burns	FY 19 - 20	FY 20 - 21	FY 21 - 22	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27
Cash Projection	6,487,000	6,290,000	7,080,000	7,438,000	7,670,000	7,893,000	8,105,000	8,308,000
Percent Change	-20.9%	-3.0%	12.6%	5.1%	3.1%	2.9%	2.7%	2.5%

Prop 172	FY 19 - 20	FY 20 - 21	FY 21 - 22	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27
Cash Projection	401,500	454,900	482,500	503,600	518,800	533,600	547,900	561,600
Percent Change	-2.2%	13.3%	6.1%	4.4%	3.0%	2.9%	2.7%	2.5%



Franchise Fees

Franchise fees are collected by the Town for the privilege of operating a utility service within Los Gatos, and as a fee in lieu of a business license tax. Franchise fees are currently received from Comcast for cable television, PG&E for gas and electric services, West Valley Collection and Recycling for solid waste collection services, and AT&T and Comcast for video services.

Franchise fees represent 6% of projected General Fund revenues in FY 2020/21. Historically, franchise payments are not remitted equally throughout the fiscal year; therefore, quarterly receipts are not necessarily predictive of future receipts.

As staff receives relevant information regarding receipts, it will be shared with the Commission.

Business License Tax

The Town requires all businesses located within Los Gatos and/or those that operate within Los Gatos to obtain a business license. The amount of business license tax paid by each business is

DISCUSSION (continued):

based on its business activity. Fees for activities such as wholesale sales and manufacturing are charged on a sliding scale based on gross receipts, as is retail, with retail being capped at \$975. These gross receipt activities account for approximately 25% of annual business licenses, while the remaining 75% are flat fee businesses. Annual renewal payments are due on January 2 of each year. Payments for new flat-fee-based businesses are pro-rated by quarter.

The FY 2021/22 adopted budget estimated \$1.3 million in collections in FY 2020/21 for business license tax. Actual business license tax collected to date is \$1.4 million in FY 2020/21.

According to the Town Code, gross receipt type businesses pay a business license tax based on an estimated number. During the summer months, staff collects actual gross receipts numbers for gross receipt type businesses which will either create the need for an additional invoice or a credit on the business account. As staff receives additional information regarding receipts, it will be shared with the Commission.

Transient Occupancy Tax

TOT is an important revenue source for the Town and comprised approximately 3.4% of total Town budgeted revenues of \$2.3 million for FY 2020/21. The Town levies a 12% transient occupancy tax (TOT) on all hotel and motel rooms within the municipal limits of Los Gatos. The 12% rate has been in effect since January 1, 2017 after the voters approved a ballot measure to increase the TOT from 10% to 12% at the November 8, 2016 election. TOT receipts are self-reported by the hotels in Town and remitted either monthly or quarterly.

In addition, the Town now allows short-term rentals which are subject to TOT. The Town entered into a voluntary collection agreement with Airbnb who directly bills for TOT at booking and then remits receipts to the Town.

The FY 2021/22 adopted budget estimated \$0.7 million of TOT collections in FY 2020/21. actual data reported as of June 30, 2021 estimates \$0.9 million in TOT collections in FY 2020/21. As staff receives additional information regarding receipts, it will be shared with the Commission.

CONCLUSION:

The Commission should continue its discussion, identify any additional indicators, and prioritize those of greatest interest.



**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 07/12/2021

ITEM NO: 7

DESK ITEM

DATE: July 12, 2021
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Continue Discussion of Key Performance Indicators

REMARKS:

Attachment 1 contains public comment received after the July 8, 2021 distribution of the staff report.

Attachment received with this Desk Item:

1. Public Comment

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager

From: Phil Koen [REDACTED]
Sent: Saturday, July 10, 2021 10:53 AM
To: Ron Dickel [REDACTED]; Kyle Park [REDACTED];
stacey.del [REDACTED]; loreen [REDACTED]; ricktinsley [REDACTED]; Rob Rennie
<RRennie@losgatosca.gov>; Matthew Hudes <MHudes@losgatosca.gov>
Cc: Laurel Prevetti <LPrevetti@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>;
jvannada [REDACTED]; Lee Fagot [REDACTED]
Subject: Key Performance Indicators - Agenda Item #7

Finance Commission Members,

Timely review of key performance metrics will allow the Town to adjust more quickly to both positive and negative financial events. We saw the importance of this as the economic impact of Covid 19 worked its way through the Town's finances.

The Staff report identified the importance of tracking Property Tax receipts and VLF fees. A report that the Town might want to share with the Finance Commission is the Property Tax Revenue Summary which is produced by the County of Santa Clara and distributed to the various cities in the county. I have attached a copy of the November 2020 report for the Commissions review.

This report contains valuable information which would further inform the Commission and the Council on forecasted property tax revenues as well as RDA residual apportionment and excess ERAF revenue. RDA and ERAF are major components of the projection for property tax and have not been historically publicly discussed or disclosed.

I would suggest that the City Meeting report produced by the County's Finance Agency be reviewed by the Finance Commission on a timely basis.

