

FINANCIAL PRACTICES

REVENUE

- The Town maintains a diversified revenue base that is locally generated to shelter the community from fluctuations in any one revenue source.
- The Town audits and collects all locally generated taxes.
- The Town establishes and maintains all user charges and fees based on the cost of providing services.

BUDGETING and EXPENDITURE

- The Town Council considers and adopts an annual balanced budget effective from July 1st to June 30th of the following calendar year. A balanced budget requires current year operating expenses to be fully funded by current year revenues and identified undesignated/unreserved fund balance.
- Fund Balance Reserves are used only for non-recurring “one-time” and capital projects and not for on-going operations.
- Long-term debt is confined to capital improvements or special projects that cannot be financed from current revenues.
- The Town Manager is authorized to implement the programs as approved in the adopted budget. Within a specific fund the Town Manager may transfer appropriations between categories, Departments, projects, and programs as needed to implement the adopted budget.
- With the approval of the Town Manager, unexpected appropriations may be carried forward to the next fiscal year provided funds have been previously encumbered for a specific purpose.
- The annual budget includes a \$100,000 Designated Contingency for non-recurring, unanticipated expenditures. The Town Manager may approve expenditures from this contingency if needed during the fiscal year.
- A capital outlay (fixed asset) purchase is any single item or piece of equipment which costs more than \$10,000 and has an expected useful life exceeding one year.
- A mid-year budget report is submitted to the Town Council to provide information on the status of the Town’s financial condition.

FUND BALANCE RESERVES

Reserves are established, dedicated, and maintained annually to meet known and estimated unknown future liabilities through actions of the Town Council.

Restricted fund balance is either imposed by law or constrained by grantors, contributors, or other governmental.

Hello Ron and Kyle,

As you know I am very interested in identifying financial policies/procedures that other cities have enacted which if adopted by the Town would strengthen the Town's financial governance. I have attached two documents from the City of San Jose which were included in the San Jose City Manager's Budget Request for FY 2022 -2026, dated February 2021. I believe this information will provide the Finance Committee additional perspective as to how the best cities approach the budgeting process. The documents are:

1. **City of San Jose Budget Principles:** This document details the core budget principles that guided the development of the City's annual and five-year operating and capital plans. It is an excellent document. What is important to note is the mandate that the "General Fund shall be structurally balanced throughout the budget process". The principle goes on to define "a structurally balanced budget means ongoing revenues and ongoing expenditures are in balance each year of the five-year budget projection". This is consistent with GFOA best practices. I have also attached the Town's equivalent to the City of San Jose Budget Principles which is entitled "**Financial Practices**". This document can be found in the appendix to the annual budget and details the financial practices the Town follows in developing the annual budget. The most obvious difference is that the Town does not mandate a "structurally balanced budget" and specifically allows the use of "undesignated/ unreserved fund balance" to balance the annual general fund budget. What is also lacking is any discussion regarding the use of performance measures to evaluate budget requests in terms of service outcomes. I would suggest the Finance Committee review the Town's "financial practices" and make a recommendation to the Town Council to adopt similar budget principles that follow the City of San Jose's budget principles but are tailored to the Town's unique needs. Most importantly, the Town needs to adopt the budget principle of preparing a structurally balanced budget. This would move the Town much closer to using GFOA budget best practices in the budget development process.
2. **San Jose budget balancing guidelines:** The City of San Jose also establish guidelines in the development of the FY 2022 budget to ensure the City strove to balance the need for a structurally balanced budget with the need to maintain essential services. I thought this was an excellent framework document which would greatly assist the Finance Committee as the committee prepares to review the Town's proposed FY 2022 budget and provide recommendations to the Town Council.

I hope that you find this useful and will act on my suggestion.

Thank you.

Phil Koen

2021-2022 Budget Balancing Strategy Guidelines

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available. Consider current needs in the context of long-term service delivery priorities.
2. Pose explicit questions of equity – including who benefits and who is burdened – when considering changes to City services to achieve a balanced budget.
3. While over the long term the City remains committed to balancing ongoing expenditures with ongoing revenues to maintain the City's high standards of fiscal integrity and financial management, given economic and public health uncertainty related to the COVID-19 pandemic, use a combination of ongoing and one-time solutions to resolve the General Fund shortfall in 2021-2022 that balances the need to resolve the ongoing shortfall against the community and organization impact of service level reductions in the short term.
4. Should additional Federal relief or stimulus funding become available to address the pandemic, allocate funding for response, recovery, and local assistance – with an emphasis on assisting our most vulnerable – and to help backfill lost revenue, as allowable under statutory restrictions and in context of other urgent needs.
5. To the extent possible, maintain or increase General Fund reserve levels to help address any unanticipated budgetary shortfall in the following year as a stopgap measure.
6. Evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to mitigate service delivery impacts, meet the objectives of the City Roadmap, generate new revenues, address truly significant community or organizational risks, fund services added on a one-time basis in 2020-2021, and/or respond to City Council direction and organizational risks. Review existing vacancies for opportunities to reorganize work groups to realize cost savings or to achieve current service level demands through alternative means. Factor in performance measure data in proposal development.
7. Focus on business process redesign to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
8. Explore alternative service delivery models (e.g., partnerships with non-profit, public, or private sector for out-or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use City resources more efficiently and effectively.
9. Identify City policy changes that would enable/facilitate service delivery improvements or other budget balancing strategies to ensure equity and inclusion for how services are delivered.
10. Analyze non-personal/equipment/other costs, including contractual services, for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.
11. Explore expanding existing revenue sources and/or adding new revenue sources.
12. Establish a fees, charges and rates structure designed to fully recover operating costs, while considering the impacts on fee and rate payers whereby a cost recovery structure may be lower in certain circumstances, and explore opportunities to establish new fees and charges for services, where appropriate.
13. Focus any available one-time resources on investments that 1) continue high-priority programs funded on a one-time basis in 2020-2021 for which ongoing funding is not available; 2) address the City's unmet or deferred infrastructure needs; 3) leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions; 4) increase budget stabilization reserves to address future budget uncertainty; and/or 6) provide for funding needs for non-bond eligible furniture, fixtures, and equipment associated with the continued implementation of Measure T.
14. Engage employees in department and/or city-wide budget proposal idea development.
15. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.
16. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

CITY OF SAN JOSE BUDGET PRINCIPLES

The Mission of the City of San José is to provide quality services, facilities and opportunities that create, sustain and enhance a safe, livable and vibrant community for its diverse residents, businesses and visitors. The General Fund Budget shall be constructed to support the Mission.

1) STRUCTURALLY BALANCED BUDGET

The annual budget for the General Fund shall be structurally balanced throughout the budget process. A structurally balanced budget means ongoing revenues and ongoing expenditures are in balance each year of the five-year budget projection. Ongoing revenues shall equal or exceed ongoing expenditures in both the Proposed and Adopted Budgets. If a structural imbalance occurs, a plan shall be developed and implemented to bring the budget back into structural balance. The plan to restore balance may include general objectives as opposed to using specific budget proposals in the forecast out years.

2) PROPOSED BUDGET REVISIONS

The annual General Fund Proposed Budget balancing plan shall be presented and discussed in context of the five-year forecast. Any revisions to the Proposed Budget shall include an analysis of the impact on the forecast out years. If a revision(s) creates a negative impact on the forecast, a funding plan shall be developed and approved to offset the impact.

3) USE OF ONE-TIME RESOURCES

Once the General Fund budget is brought into structural balance, one-time resources (e.g., revenue spikes, budget savings, sale of property, and similar nonrecurring revenue) shall not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding the Economic Uncertainty Reserve, early retirement of debt, capital expenditures without significant operating and maintenance costs, and other nonrecurring expenditures. One time funding for ongoing operating expenses to maintain valuable existing programs may be approved by a majority vote of the Council.

4) BUDGET REQUESTS DURING THE YEAR

New program, service or staff requests during the year that are unbudgeted shall be considered in light of the City's General Fund Unfunded Initiatives/Programs List and include a spending offset at the time of the request (if costs are known) or before final approval, so that the request has a net-zero effect on the budget.

5) RESERVES

All City Funds shall maintain an adequate reserve level and/or ending fund balance as determined annually as appropriate for each fund. For the General Fund, a contingency reserve amount, which is a minimum of 3% of the operating budget, shall be maintained. Any use of the General Fund Contingency Reserve would require a two-thirds vote of approval by the City Council. On an annual basis, specific reserve funds shall be reviewed to determine if they hold greater amounts of funds than are necessary to respond to reasonable calculations of risk. Excess reserve funds may be used for one-time expenses.

CITY OF SAN JOSE BUDGET PRINCIPLES

6) DEBT ISSUANCE

The City shall not issue long-term (over one year) General Fund debt to support ongoing operating costs (other than debt service) unless such debt issuance achieves net operating cost savings and such savings are verified by appropriate independent analysis. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

7) EMPLOYEE COMPENSATION

Negotiations for employee compensation shall focus on the cost of total compensation (e.g., salary, step increases, benefit cost increases) while considering the City's fiscal condition, revenue growth, and changes in the Consumer Price Index (cost of living expenses experienced by employees.)

8) CAPITAL IMPROVEMENT PROJECTS

Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding \$100,000 in the General Fund without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire cost of the project, including the operations and maintenance costs, will not require a decrease in existing basic neighborhood services.

9) FEES AND CHARGES

Fee increases shall be utilized, where possible, to assure that fee program operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services where appropriate.

10) GRANTS

City staff shall seek out, apply for and effectively administer federal, State and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before any grant is pursued, staff shall provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City. One-time operating grant revenues shall not be used to begin or support the costs of ongoing programs with the exception of pilot projects to determine their suitability for long-term funding.

11) GENERAL PLAN

The General Plan shall be used as a primary long-term fiscal planning tool. The General Plan contains goals for land use, transportation, capital investments, and service delivery based on a specific capacity for new workers and residents. Recommendations to create new development capacity beyond the existing General Plan shall be analyzed to ensure that capital improvements and operating and maintenance costs are within the financial capacity of the City.

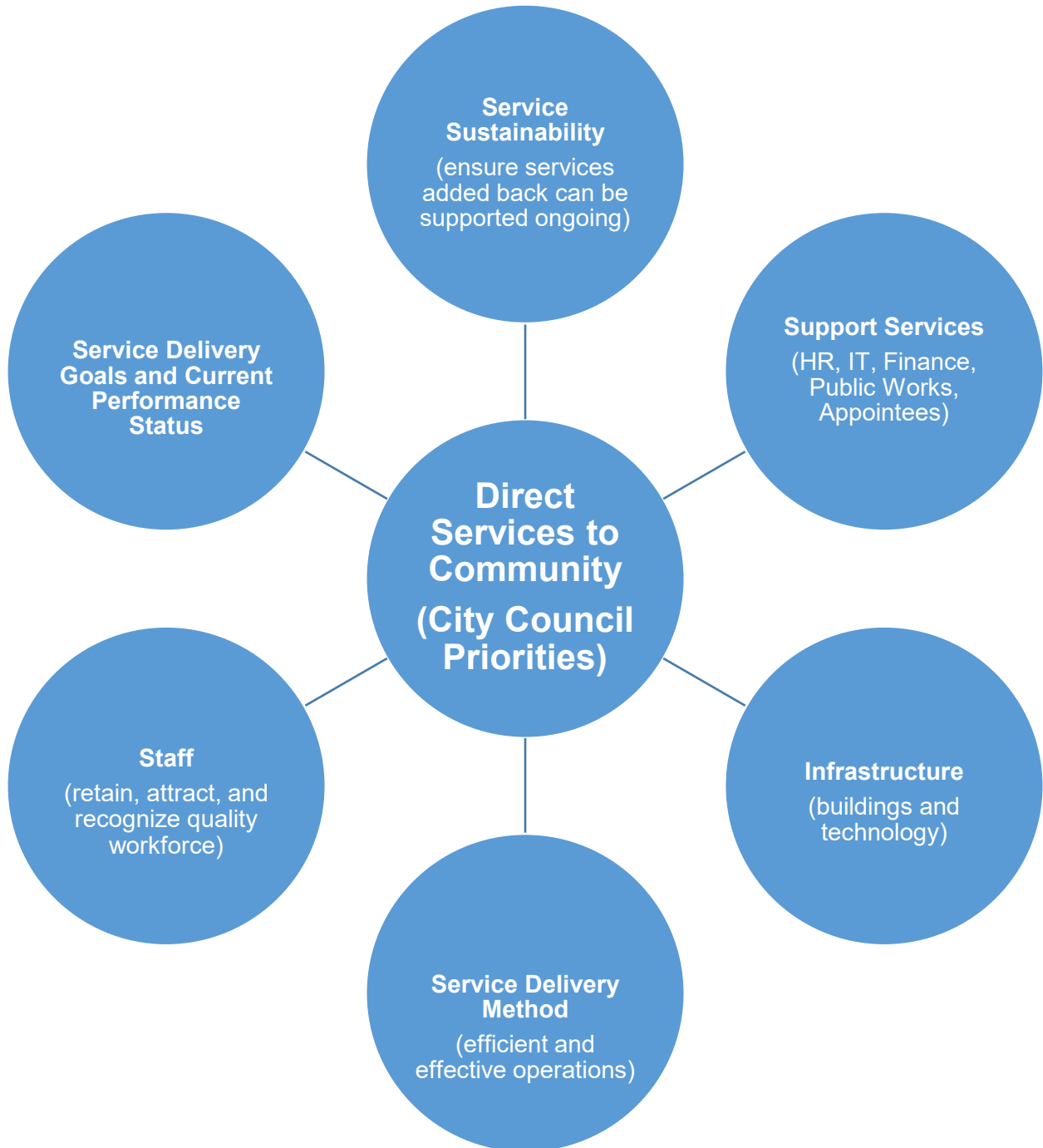
12) PERFORMANCE MEASURES

All requests for City Service Area/departmental funding shall include performance measurement data so that funding requests can be reviewed and approved in light of service level outcomes to the community and organization.

13) FIRE STATION CLOSURE, SALE OR RELOCATION

The inclusion of the closure, sale or relocation of a fire station as part of the City Budget is prohibited without prior assessment, community outreach, and City Council approval on the matter.

Service Delivery Framework



EVENTS CALENDAR
MATERIALS LIBRARY

Home / Federal Advocacy / Coronavirus Response Resource Center / **American Rescue Plan Spending: Recommended Guiding Principles**

American Rescue Plan Spending: Recommended Guiding Principles

MEMBERSHIP & EDUCATION

BEST PRACTICES & RESOURCES



Signed into law on March 11, 2021, **The American Rescue Plan Act of 2021** (“ARPA”) provides \$350 billion in additional funding for state and local governments. **Please click here for GFOA’s analysis of ARPA.** The state funding portion is approximately \$195 billion with \$25.5 billion distributed equally among the 50 states and the District of Columbia and the remaining amount distributed according to a formula based on unemployment.

The local funding portion is approximately \$130 billion, equally divided between cities and counties. Localities will receive the funds in two tranches—the first after the U.S. Treasury certifies the proceeds to each jurisdiction and the second one year later.

For cities, \$65 billion is divided between jurisdictions that are Community Development Block Grant (CDBG) entitlement jurisdictions and those that are not. \$45.5 billion of the \$65 billion will be allocated to metropolitan cities utilizing a modified CDBG formula, and the remaining amount for jurisdictions that are non-entitlement CDBG, will be allocated according to population. For the non-entitlement jurisdictions, the amount will not exceed seventy- five percent of their most recent budget as of January 27, 2020. Additionally, non-entitlement jurisdictions proceeds will be allocated through the state for redistribution to local governments.

For counties, the \$65 billion will be allocated based on the county’s population. Counties that are CDBG recipients will receive the larger of the population or CDBG-based formula.

Eligible uses of these funds include:

- Revenue replacement for the provision of government services to the extent of the reduction in revenue due to the COVID-19 public health emergency, relative to revenues collected in the most recent fiscal year prior to the emergency,
- COVID-19 expenditures or negative economic impacts of COVID-19, including assistance to small businesses, households, and hard-hit industries, and economic recovery,
- Premium pay for essential workers,
- Investments in water, sewer, and broadband infrastructure.

Restrictions on the uses of these funds include:

- Funds allocated to states cannot be used to directly or indirectly to offset tax reductions or delay a tax or tax increase;
- Funds cannot be deposited into any pension fund.

Funding must be spent by the end of calendar year 2024.

As with previous COVID-19 relief packages, implementation will be an extensive process as new or updated guidance and FAQs are developed and released by the [U.S. Treasury](#). For example, the legislation requires each jurisdiction's executive to "certify" that the funds will be used for eligible purposes. That process is currently under development by the U.S. Treasury.

GFOA will provide regular updates as information becomes available. If you have specific questions or need clarification, GFOA has launched an [online portal](#) to gather member questions to help shape engagement and solicit answers from the Administration.

For many jurisdictions, the funding provided under ARPA is substantial and could be transformational for states and local governments in their pandemic rescue and recovery efforts. Elected leaders will need to decide how to best use the additional funding consistent with the ARPA requirements, which are very broad. Finance officers play a critical role in advising elected leaders on the prudent spending of moneys received under ARPA. *Finance officers are best positioned to help ensure the long-term value of investments and financial stability of its government using this one-time infusion of resources.* When considering how to best advise elected officials and plan for the prudent use of ARPA funds, we offer the following outline of Guiding Principles for the use of ARPA funds:

GFOA American Rescue Plan Act Guiding Principles

Temporary Nature of ARPA Funds. ARPA funds are non-recurring so their use should be applied primarily to non-recurring expenditures.

- Care should be taken to avoid creating new programs or add-ons to existing programs that require an ongoing financial commitment.
- Replenishing reserves used to offset revenue declines during the pandemic should be given high priority to rebuild financial flexibility/stability and restore fiscal resiliency.
- Use of ARPA funds to cover operating deficits caused by COVID-19 should be considered temporary and additional budget restraint may be necessary to achieve/maintain structural balance in future budgets.
- Investment in critical infrastructure is particularly well suited use of ARPA funds because it is a non-recurring expenditure that can be targeted to strategically important long- term assets that provide benefits over many years. However, care should be taken to assess any on-going operating costs that may be associated with the project.

ARPA Scanning and Partnering Efforts. State and local jurisdictions should be aware of plans for ARPA funding throughout their communities.

- Local jurisdictions should be cognizant of state-level ARPA efforts, especially regarding infrastructure, potential enhancements of state funding resources, and existing or new state law requirements.
- Consider regional initiatives, including partnering with other ARPA recipients. It is possible there are many beneficiaries of ARPA funding within your community, such as schools, transportation agencies and local economic development authorities. Be sure to understand what they are planning and augment their efforts; alternatively, creating cooperative spending plans to enhance the structural financial condition of your community.

Take Time and Careful Consideration. ARPA funds will be issued in two tranches to local governments. Throughout the years of outlays, and until the end of calendar year 2024, consider how the funds may be used to address rescue efforts and lead to recovery.

- Use other dedicated grants and programs first whenever possible and save ARPA funds for priorities not eligible for other federal and state assistance programs.
- Whenever possible, expenditures related to the ARPA funding should be spread over the qualifying period (through December 31, 2024) to enhance budgetary and financial stability.

- Adequate time should be taken to carefully consider all alternatives for the prudent use of ARPA funding prior to committing the resources to ensure the best use of the temporary funding.

The influx of funds will undoubtedly benefit state and local finances, and aid in the recovery from the budgetary, economic, and financial impacts of the pandemic. Rating agencies will evaluate a government's use of the ARPA funds in formulating its credit opinion and, importantly, will consider your government's level of reserves and structural budget balance, or efforts to return to structural balance, as part of their credit analysis. Finance officers will play a critical role in highlighting the need to use ARPA funds prudently with an eye towards long-term financial stability and sustainable operating performance. The funding provided under ARPA provides a unique opportunity for state and local governments to make strategic investments in long-lived assets, rebuild reserves to enhance financial stability, and cover temporary operating shortfalls until economic conditions and operations normalize.

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Hello Ron and Kyle,

At this past Tuesday's Town Council meeting, Council discussed and directed staff to use funds received from ARPA for several purposes. I have attached a recently published GFOA document which outlines recommended spending guidelines for disbursing ARPA funds. What should be noted is the following:

As with previous COVID-19 relief packages, implementation will be an extensive process as new or updated guidance and FAQs are developed and released by the U.S. Treasury. **For example, the legislation requires each jurisdiction's executive to "certify" that the funds will be used for eligible purposes.** That process is currently under development by the U.S. Treasury.

As of today, the US Treasury has not issued a FAQ or implementation guidelines. Before the Town takes any action regarding the use of the ARPA funds, I believe the Finance Commission should review the Act and provide their own independent recommendation to Council regarding such uses, especially since the Town must certify compliance with ARPA. This action falls squarely within the charter of the Finance Commission.

It is unfortunate and surprising that the Staff recommendation, which is also attached, was not reviewed by the Finance Committee. Putting a recommendation in front of Council without the involvement of the Finance Committee is inconsistent with Measure A's desire to "increase citizen participation in Town governance and encourage greater resident engagement in Town financial decisions". As you know, the Finance Commission has the legal authority to review and make their own independent recommendation to Council regarding the use of ARPA funds. I am asking that the Finance Commission take up this matter as soon as possible and make their own recommendation to Council regarding eligible uses.

Regarding the Staff's recommendations, one proposed use was to provide additional funds to the Parklet grant program. I have concerns as to whether such expenditure of funds will qualify as an eligible use under ARPA since the parklet program started long before the outbreak of COVID and was not initiated as a response to the negative economic impact of Covid. Until the Treasury Department issues additional guidelines, we don't know if this is an eligible use. The Council should exercise great care in using any ARPA funds, since there are adverse consequences if it is subsequently determined that such use was not permitted under the Act.

Thank you.

Phil Koen



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 04/06/2021

ITEM NO: 13

DATE: March 29, 2021
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Provide Direction for the Following Potential Uses of the American Rescue Plan Act Funds Earmarked for Los Gatos and that any unprogrammed funds should be allocated to the Economic Recovery Fund account:

1. Utilize approximately \$3.2 million to replace lost revenue sufficient to balance the FY 2020/21 and FY 2021/22 budgets.
2. Utilize \$60,000 to provide additional \$15,000 grants to West Valley Community Services, Counseling and Support Services for Youth (CASSY), Next Door Solutions, and Live Oak Senior Nutrition.
3. Utilize \$250,000 to provide additional support to the Parklet grant program.
4. Utilize \$180,000 to provide a 50% waiver of rent and utilities for the Town of Los Gatos lessees New Museum of Los Gatos (NUMU), Friends of the Library, Billy Jones Railroad, Soccer and Little Leagues, and Los Gatos-Saratoga Community Education and Recreation (LGS Rec) for FY 2021/22.
5. Utilize \$50,000 for continued Conditional Use Permit 50% subsidies.
6. Other Council considerations consistent with eligible uses.

RECOMMENDATION:

Provide direction for the following potential uses of the American Rescue Plan Act (ARPA) funds earmarked for Los Gatos and that any unprogrammed funds should be allocated to the Economic Recovery Fund account:

1. Utilize approximately \$3.2 million to replace lost revenue sufficient to balance the FY 2020/21 and FY 2021/22 budgets.

PREPARED BY: Arn Andrews
Assistant Town Manager

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

RECOMMENDATION (continued):

2. Utilize \$60,000 to provide additional \$15,000 grants to West Valley Community Services, Counseling and Support Services for Youth (CASSY), Next Door Solutions, and Live Oak Senior Nutrition.
3. Utilize \$250,000 to provide additional support to the Parklet grant program.
4. Utilize \$180,000 to provide a 50% waiver of rent and utilities for the Town of Los Gatos lessees New Museum of Los Gatos (NUMU), Friends of the Library, Billy Jones Railroad, Soccer and Little Leagues, and Los Gatos-Saratoga Community Education and Recreation (LGS Rec) for FY 2021/22.
5. Utilize \$50,000 for continued Conditional Use Permit 50% subsidies.
6. Other Council considerations consistent with eligible uses.

BACKGROUND:

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law by President Biden. The \$1.9 trillion package (the Act) provides financial aid to families, governments, businesses, schools, non-profits and others impacted by the COVID-19 public health crisis. Of the \$1.9 trillion, \$350 billion is being directed toward state and local governments. All 19,000 municipal governments are entitled to a direct, non-competitive federal formula grant from the U.S. Treasury Department. The portion allocated to cities, towns, and villages totals \$65.1 billion of which \$19.5 billion is obligated toward cities with less than 50,000 residents. On March 10, 2021, the Mayor received notification from Congressional Representative Eshoo's Office that Los Gatos will receive \$5,688,630 based on a modified version of the Community Development Block Grant formula.

Receipt and use of the ARPA funds were established within the Act and potentially subject to future clarification and revision. To date, the Act establishes that the U.S. Treasury is required to pay the first tranche to states, counties, and entitlement communities no later than 60-days after enactment (March 11), and the second payment no earlier than 12 months after the first payment. States will have 30 days to distribute funds to nonentitlement communities (e.g., Los Gatos) based on population, with potential for up to three extension requests by a State. All Fiscal Recovery Funds will remain available until December 31, 2024.

Specifically, Section 603. *CORONAVIRUS LOCAL FISCAL RECOVERY FUND* of the Act identified four eligible uses for funding, as follows:

(A) to respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19) or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;

BACKGROUND (continued):

(B) to respond to workers performing essential work during the COVID–19 public health emergency by providing premium pay to eligible workers of the metropolitan city, nonentitlement unit of local government, or county that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;

(C) for the provision of government services to the extent of the reduction in revenue of such metropolitan city, nonentitlement unit of local government, or county due to the COVID–19 public health emergency relative to revenues collected in the most recent full fiscal year of the metropolitan city, nonentitlement unit of local government, or county prior to the emergency; or

(D) to make necessary investments in water, sewer, or broadband infrastructure.

The Act also identified the following two ineligible uses:

(A) No state, metropolitan city, nonentitlement unit of local government, or county may use funds made available under this section for deposit into any pension fund.

(B) Cannot be used to either directly or indirectly offset a reduction in the net tax revenue resulting from a change in law, regulation, or administrative interpretation during the covered period of March 3, 2021 to the end of the fiscal year in which the local government last uses these funds, that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase.

DISCUSSION:

Staff has identified eligible ARPA uses for Council consideration that are consistent with the intent of the Act, in alignment with previous Council guidance, or both. In addition, the staff recommendation considers the multiple needs of the Los Gatos community in terms of equitable continuation of Town services, business support, and assistance to local nonprofits. The Council need not program all of the dollars on April 6th. Staff recommends that any unprogrammed funds should be allocated to the Economic Recovery Fund account.

(A) to respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID–19) or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;

Following is a listing of previous Council actions which align with this eligibility section. Council could consider expanding on previous monetary relief efforts to businesses and nonprofits.

DISCUSSION (continued):

- On April 7, 2020, the Town Council authorized additional funding to several annual grant recipients to enhance resources devoted to individuals and families that may be experiencing financial hardship, lack of food access, mental health challenges, domestic violence, and/or other effects associated with the COVID-19 pandemic and related Public Health Orders requiring sheltering in place. Specifically, additional \$10,000 grants were provided to West Valley Community Services, Counseling and Support Services for Youth (CASSY), Next Door Solutions, and Live Oak Senior Nutrition for a total of \$40,000.
- On April 21, 2020, the Town Council authorized waiver of rent and utilities for the Town of Los Gatos lessees New Museum of Los Gatos (NUMU), Friends of the Library, Billy Jones Railroad, Soccer and Little Leagues, and Los Gatos-Saratoga Community Education and Recreation (LGS Rec) for the duration of the Santa Clara County shelter-in-place order due to significant business disruption.
- May – November, the Town Manager through her emergency proclamation authorization funded \$6,475 toward deep COVID cleaning for the LG Methodist Church Shower Ministry to maintain weekly showers for the Homeless.
- On May 26, 2020, the Town Council held a special meeting to discuss opportunities that could provide support to the business community through Community Vitality and Economic Recovery initiatives. An Economic Recovery Resolution was drafted and adopted (6/2/2020) to provide the implementation of a pop-up parklet program, land use permit and process streamlining opportunities, and reduced fees including the absorption by the Town of 50% of all Conditional Use Permit fees for the period of one year.
- June 2020, the Town Manager through her emergency proclamation authorization funded \$2,800 toward protein purchases for House of Hope food pantry.
- On June 8, 2020, the Town Council authorized the Town Manager to expend up to \$750,000 for the creation and deployment of temporary parklets for businesses to leverage outdoor space due to public health orders.
- On September 15, 2020, the Town Council authorized the expenditure of approximately \$150,000 for the Los Gatos Chamber of Commerce proposal to install holiday light displays to enhance the desirability of the Town as a shopping destination during COVID-19.
- On October 6, 2020, the Town Council approved the continuation of the Economic Recovery parklet program (temporary with kral) through March of 2021, adopted a

DISCUSSION (continued):

grant match program for businesses who make ADA accommodations to these temporary parklets, extended the duration of the pilot parklet program (adopted in February of 2019) to a semi-permanent timeframe with no set end date, and directed staff to return to Council in January 2021 with a semi-permanent parklet incentive program. For the Council's reference, krail rental remains an ongoing cost at the rate of \$10,000 per month.

- On January 19, 2021, the Town Council approved: continued rent forgiveness for Town owned properties; business license forgiveness for specific commercial sectors during Q1; \$10,000 grants toward construction of semi-permanent parklets built in public right-of-way; the purchase a set of "pre-approved" parklet architecture plans and subsidy of the engineering costs for the parklets; the absorption of Town parklet application fees; the expenditure of \$2,500 for mask signage; an additional \$35,000 to complete the Chamber of Commerce's Holiday Light display; and extended the Economic Recovery Resolution through December 2021 including the absorption of 50% of Conditional Use Permit fees. The 50% of the fees absorbed by the Town are being paid for out of the Economic Recovery Fund.

Staff recommends that the Council increase the semi-permanent parklet subsidy to \$20,000 and clarify that each subsidy is per business. The original calculation by staff was a maximum of 30 businesses building parklets at \$10,000 per business, for a total of \$300,000, allocated from the Economic Recovery Fund on January 19, 2021.

After meeting with the businesses and understanding their intentions a bit more, staff estimates that approximately 15 businesses have serious interest in building approximately 12 parklets at this time. The interest may increase as parklets are built and recovery for the businesses gain momentum; however, staff does not believe the request will go beyond 20 total parklets for all of downtown. As noted above, some of these may be multi-business parklets thus the total business interest and grant allocation may reach 25 businesses.

During meetings with the businesses, it is understood that the parklet cost are about \$20,000 for design and engineering, and \$40,000 for buildout, for a basic two-parking stall parklet. With the Council direction in January, Town staff has secured architecture plans for a basic two stall pre-approved parklet and bought down the engineering fees so that the cost per business for design and engineering is now \$3,900, instead of approximately \$20,000. If the interest in the semi-permanent parklet program extends beyond ten parklets, staff will need additional funds to subsidize the engineering fees for the remaining parklets. Assuming 20 parklets maximum, an additional \$250,000 would be necessary to support a \$20,000 grant for 25 businesses, and the additional consultant costs for the pre-approved plans and reduced engineering fees.

DISCUSSION (continued):

In addition to the aforementioned parklet costs, if Council were to consider providing 50% rent relief for all Town tenants for FY 2021/22, and offer one-time \$15,000 additional grants to the Town’s four annual grant recipients these items would total \$180,000 and \$60,000 respectively.

(C) for the provision of government services to the extent of the reduction in revenue of such metropolitan city, nonentitlement unit of local government, or county due to the COVID–19 public health emergency relative to revenues collected in the most recent full fiscal year of the metropolitan city, nonentitlement unit of local government, or county prior to the emergency; or

The impacts to economically sensitive Town revenues associated with public health measures to mitigate the spread of COVID-19 have been well documented.

On January 21, 2020, the Town Council received the following initial Five-Year Forecast which became the basis of Strategic Priority planning and budgetary considerations. The development of that original forecast did not anticipate the unforeseen economic impacts associated with the local, national, and global effects of COVID-19.

Original 5 Year Forecast “Base Case”	2020/21 Forecast (\$M)	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)
Original Surplus/Deficit	\$0.5	\$1.7	\$1.6	\$2.3	\$3.1

On May 19, 2020, staff presented an updated Five-Year Forecast and the Proposed Operating Budget which included significant revisions to growth projections for the Town’s primary revenues of property tax, sales tax, and transient occupancy tax (TOT). The net result of these revenue changes alone accounted for a \$1.8 million swing from the original FY 2020/21 base case revenue projections and an additional \$2.6 million revenue reduction in FY 2021/22 relative to the base case projection.

Net Changes in Revenues to Base Case	2020/21 Forecast (\$M)	2021/22 Forecast (\$M)
Sales Tax	(\$0.98)	(\$1.02)
MuniServices COVID-19 Scenario		
TOT	(\$0.4)	(\$0.1)
Shock Scenario		
Property Tax	(\$0.4)	(\$1.5)
Slow/No Growth Scenario		
Totals	(\$1.78)	(\$2.62)

DISCUSSION (continued):

The combined effects of changing these budget assumptions in conjunction with others is illustrated in the following updated Five-year Forecast.

Updated COVID-19 Effects Scenario	2020/21 Forecast (\$M)	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)
Surplus/Deficit	\$0.0	\$0.0	(\$0.6)	(\$0.1)	(\$0.7)

The total Five-Year Forecast revisions resulted in an initial estimate of \$9.2 million in total surpluses through FY 2024/25 ultimately becoming \$1.4 million in deficits through FY 2024/25, for a total Forecast period reduction of \$10.6 million

On February 16, 2021, staff provided the following Mid-Year Budget and Five-Year Financial Forecast which illustrate the continued degradation in the Town’s primary revenue sources due to impacts from COVID-19.

	Revenues	Expenses	Variance FY 2020/21 Budget vs. FY 2020/21 Estimate
Total General Fund	(\$2,603,789)	\$1,565,612	(\$1,232,566)

Scenario Surplus/Deficit	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)
Base Case Modest Growth	(\$2.0)	(\$0.4)	\$0.0	\$0.2	\$0.3

The Mid-Year Budget currently estimates a \$1,232,566 deficit of revenues over expenditures at year end and the current Five-Year Forecast is projecting a \$2.0 million dollar deficit in FY 2021/22.

Staff recommends that \$1.2 million be put toward closing the FY 2020/21 budget gap of \$1.2 million and \$2.0 million towards closing the anticipated FY 2021/22 budget gap, for a total of \$3.2 million. These estimates were based upon mid-year budget projections and as such are highly subject to change based upon final close of FY 20/21 actuals and the final approval of the FY 2021/22 proposed operating and capital budget.

DISCUSSION (continued):

(D) to make necessary investments in water, sewer, or broadband infrastructure.

The Town recently completed an analysis of stormwater system deficiencies which identifies between \$10M and \$18M in specific project needs across multiple projects ranging in individual estimated costs of between \$100,000 and \$5,000,000. Should the Council wish to allocate funds for capital work in this area, staff would include a recommendation for a project sized to the available funds in the annual Capital Improvement Program Budget. Small projects would correct issues of repetitive localized ponding, for example at the corner of Shannon Road and Short Road, by modifying the storm inlet and road contour. Larger projects would address areas where a storm drain is not present or insufficient for the flow, for example along Los Gatos Almaden Road where stormwater releases overland onto adjacent properties.

CONCLUSION:

The American Rescue Plan Act has been established to help local governments sustain during the unprecedented impacts of COVID-19 and continue to provide opportunities to support businesses and nonprofits. Staff recommends that Council provide direction on the following eligible ARPA funding allocations and that any unprogrammed funds should be allocated to the Economic Recovery Fund account:

1. Utilize approximately \$3.2 million to replace lost revenue sufficient to balance the FY 2020/21 and FY 2021/22 budgets.
2. Utilize \$60,000 to provide additional \$15,000 grants to West Valley Community Services, Counseling and Support Services for Youth (CASSY), Next Door Solutions, and Live Oak Senior Nutrition.
3. Utilize \$250,000 to provide additional support to the Parklet grant program.
4. Utilize \$180,000 to provide a 50% waiver of rent and utilities for the Town of Los Gatos lessees New Museum of Los Gatos (NUMU), Friends of the Library, Billy Jones Railroad, Soccer and Little Leagues, and Los Gatos-Saratoga Community Education and Recreation (LGS Rec) for FY 2021/22.
5. Utilize \$50,000 for continued CUP 50% subsidies.
6. Other Council considerations consistent with eligible uses.

COORDINATION:

This report was prepared in coordination with Economic Vitality, Finance, and Parks and Public Works.

PUBLIC COMMENT:

Attachment 1 contains public comments.

PAGE 9 OF 9

SUBJECT: American Rescue Plan Act Funding Direction

DATE: March 29, 2021

FISCAL IMPACT:

None. Funding will be provided through \$5.7 million in onetime ARPA funds.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachment:

1. Public Comments

From: Jim Foley

Sent: Friday, March 19, 2021 2:55 PM

To: Monica Renn

Cc: Sue Farwell; Joe Pirzynski; Andrea Romano; Brian Bernasconi; Kevin Youkilis; Catherine Somers; Randi Chen

Subject: Parklets/Recovery \$

Hi Monica,

I am writing to you in support of the semi-permanent parklet program you are working on related to encouraging vitality in the downtown core, as well as the unintended consequence of it as a recovery tool as a result of the pandemic. I have copied members of the new Legislative & Economic Vitality Subcommittee of the Chamber of Commerce Board of Directors, who share this support. Some of them attended your helpful online meeting discussing the program particulars going forward. We have discussed with the businesses, including restaurants and merchants, and have the feedback outlined below. Please let us know your thoughts, we are planning to appeal directly to senior staff and Town Council to achieve these goals.

- Program grants need to increase significantly, to the tune of \$30k+ per business. The Town has the remaining ~\$1.5MM that was reallocated from the streetscape fund for COVID recovery efforts. The Town also received \$388k in Federal assistance funding. Our understanding is that the Town is about to receive a significant federal stimulus payment, in the several millions of dollars, from the ne \$1.9T federal aid package. Even if 20 parklets were built, which would be the upper limit, this would only be ~\$600,000.00. That is a small fraction of the recovery funds, with not a lot of other opportunities to use those funds for other warranted recovery items. The parklets are a huge priority to stimulate economic recovery.
- Sunset the temporary parklets EOY 2021. Reevaluate that timeline in September.
- Allow for slim profile corrugated metal (or similar) roofs. They do not impact storefront visibility. The merchants have spoken up that more than anything else, the attractiveness and vibrancy of the parklets have bolstered their business more than any other measure, including pre-pandemic.
- \$2500 ADA reimbursements need to be paid out for all temporary parklets that complied. Others that have not need to be re-approached about that and get them up to ADA with the same offer.
- Whatever is extended through this program also needs to be offered to the original 5 parklet sponsors. A tremendous amount of work on this effort was on their backs, and out of fairness they need the same opportunities as the new applicants going forward.
- We agree once the weather improves, maybe May 1, the tents need to come down for many of reasons including but not limited to storefront visibility and blight.
- As a secondary effort, after the revised program is rolled out, we would encourage a loan program of some kind for those that simply can't afford the entire parklet even with the grant.

Additionally, we wanted to check in with you on some other critical recovery efforts and see where they stand:

1. Fees – can you please bring us up to speed on where we stand with Town collected fees? Permits, parking tickets, biz licenses, etc. Our position is the majority of this should be frozen/waived for the foreseeable future.
2. Dixon study – where does this stand? This is a critical part to the future of downtown as we begin to see a resurgence of the economy. It is our position that there should be a report given on this effort at every single council meeting to ensure progress is being made as quickly as humanly possible. If this effort needs funding, there is plenty of that and it should be allocated to it immediately to move it forward quickly. Certainly seems appropriate for use of recovery funds.
3. ABC – do you have any update on the temporary modifications they made and where they stand? On a go forward basis we need to try to make some of them permanent. There hasn't been any increase in crime or anything so seems like if it is simply continued and monitored it could be a real boost to the downtown vibrancy.
4. Events – of course we need to get to a point where we can have meaningful public gatherings, but when we do, we feel an injection of recovery funds into an event calendar could be the “seed” money that really establishes annual events that ultimately could support themselves through their own funding, and we would hope the Town agrees this is a good use of recovery funds when possible.

Looking forward to finalizing all of this and getting Los Gatos positioned to be the leader in the economic tidal wave of 2021! Thanks for all of your help!!!



Los Gatos Town Council

The Honorable Mayor Marico Sayoc, Vice Mayor Rennie, and Council Members Badame, Hudes, and Ristow

110 E. Main St.

Los Gatos, CA 95030

April 6, 2021

Dear Mayor Sayoc, Vice Mayor Rennie, and Council Members Badame, Hudes, and Ristow,

On behalf of New Museum Los Gatos | NUMU board and staff, I want to express our gratitude for forgiving our rent this past year. Rent forgiveness has enabled NUMU to achieve several key mission-aligned goals that directly support the Town's priorities for local history, community vitality, and inclusivity. We have been working tirelessly on critical areas such as the Los Gatos History Project, making our permanent art and history collection accessible through an online database; delivering a successful virtual *ArtNow* high school exhibition and program, featuring teen artists from Los Gatos and across the county; and collaborating with local community partners and beyond, like the Los Gatos Library & LGS Recreation, to implement programs and exhibitions that provide a platform for underrepresented artists and communities. **Once again, the Town's rent forgiveness has been a true lifeline for all of these efforts—thank you.**

I am writing today because as we are all learning, NUMU, like other arts and culture organizations, will not fully recover by July 2021; in fact, full recovery will take years. Museums are under more restrictive opening guidelines than other businesses, and continue to face disproportionate limitations on activities. As we plan for next fiscal year, even our best-case budget scenario projects a drop in earned income by one-third. More realistically, we expect to lose about two thirds of the earned income we would receive in a normal year via classes, workshops, rentals, and other in-person offerings that don't translate to a virtual model. **This shortfall has a direct impact on our ability to pay rent, which could decimate our opportunities to serve Los Gatos with history, culture, and art in 2021-22.**

We need time to recoup losses and work towards fiscal sustainability so we may continue serving the Town of Los Gatos. We have been closed to the public for a full year with almost no earned income. However, NUMU serves a vital role in our community's recovery. As stated by [California Arts Advocates](#), "as the vaccine becomes more available and the spread of COVID 19 weakens, we know the arts and culture industries will play a vital role in seeing all communities across California equitably rebuild and recover and our downtowns come back to life." Continued rent forgiveness from the Town of Los Gatos will make a significant impact in sustaining us. **We are asking for continued rent forgiveness through fiscal year 2022, so we may build a sustainable future for NUMU. Moreover, we humbly request that you consider directing federal stimulus funding from the American Rescue Plan to NUMU so that we can continue offering vital services to our Town.**

NUMU's relationship with the Town of Los Gatos is vital to us and our ongoing ability to serve our community. Thank you from all of us for your continued support.

In partnership,

Amy Davis | Executive Director



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 04/06/2021

ITEM NO: 13

ADDENDUM

DATE: April 2, 2021
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Provide Direction for the Following Potential Uses of the American Rescue Plan Act Funds Earmarked for Los Gatos and that any unprogrammed funds should be allocated to the Economic Recovery Fund account:

1. Utilize approximately \$3.2 million to replace lost revenue sufficient to balance the FY 2020/21 and FY 2021/22 budgets.
2. Utilize \$60,000 to provide additional \$15,000 grants to West Valley Community Services, Counseling and Support Services for Youth (CASSY), Next Door Solutions, and Live Oak Senior Nutrition.
3. Utilize \$250,000 to provide additional support to the Parklet grant program.
4. Utilize \$180,000 to provide a 50% waiver of rent and utilities for the Town of Los Gatos lessees New Museum of Los Gatos (NUMU), Friends of the Library, Billy Jones Railroad, Soccer and Little Leagues, and Los Gatos-Saratoga Community Education and Recreation (LGS Rec) for FY 2021/22.
5. Utilize \$50,000 for continued Conditional Use Permit 50% subsidies.
6. Other Council considerations consistent with eligible uses.

REMARKS:

Attachment 2 contains public comments received before 11:01 a.m. Friday, April 2, 2021.

Attachment received with the Staff Report:

1. Public Comments received before 11:01 a.m. Thursday, April 1, 2021.

Attachment received with this Addendum:

2. Public Comments received before 11:01 a.m. Friday, April 2, 2021.

PREPARED BY: Arn Andrews
Assistant Town Manager

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

From: Jim Foley
To: Council; Clerk
Cc: Catherine Somers; Randi Chen; Monica Renn; Sue Farwell; Joe Pirzynski; Andrea Romano; Brian Bernasconi; Kevin Youkilis
Subject: American Rescue Act Funds - Suggested Uses
Date: Thursday, April 1, 2021 11:27:35 AM

Dear Honorable Mayor and Distinguished Members of Town Council,

The Chamber Board has reviewed possible uses for the American Recovery Plan Act funds that Los Gatos will receive in the next 60 days. While we understand there are many ideas that will be brought forth by the Town staff and other stakeholders and members of the public, we encourage the Council to think seriously about using some of the money for real economic recovery and vitality projects for our downtown, as vetted by the business community represented by our membership.

We propose the following efforts:

1. **Parklets - \$1MM** - complete funding for all costs to construct semi-permanent parklets, including reimbursing the original five previously constructed semi-permanent parklets in full. Also, reimbursing a certain amount for the temporary parklets.
2. **Events - \$250k** – budget to catch up on events the Town has missed. The events would scale up along with the restrictions. Starting with smaller “non gathering” events including Thursday street closure, then move to smaller block parties, then finally to something significant in the Fall. Efforts will be in place to ensure that events are welcoming and inclusive of all.
3. **Parking - TBD** – Funding should be readily available to quickly implement all aspects of the Dixon study. Funds can be used right now for wayfinding signage and apps; even if only temporarily. Funds can also be considered for an Employee Parking Permit program and potentially an employee mini-shuttle (golf cart or small electric vehicle). The mini-shuttle could potentially be expanded to assist visitors as well. This will help unlock the underutilized parking inventory in the outer lying lots as pointed out in the Dixon study. This is critical in conjunction with the reduction of inventory on N Santa Cruz Ave and Main St that will result from the new parklets. Lastly, a Town Trolley pilot program to move people around Town to encourage and connect different dining and shopping districts more easily, in a fun and memorable way!

Thank you so much for your time and consideration of these requests. We look forward to seeing you on Tuesday night. In the meantime if you have any questions, please reach out to any one of us copied.

Jim Foley
Director/Chair
Los Gatos Chamber of Commerce Board/Subcommittee on Legislative Affairs & Economic Vitality

Trend Analysis of Normalized Operating Revenues and Expenditures	FY 2019 CAFR	FY 2020 CAFR	FY 2021 Mid-Year Proj	FY 2022 Five Year Proj
Revenue - all sources	43,623	42,715	42,885	42,100
Less:				
>Fund Transfers In			616	500
>Debt Service			1,908	1,908
>Mark to Market Interest	644	1,092	(110)	
>Sale of Property			1,200	
>Corona Virus Relief			388	
>>Normalized Operating Revenue	42,979	41,623	38,883	39,692
Memo - included in revenue above				
Property Tax	13,636	14,545	13,949	14,100
VLf Backfill	3,685	3,875	4,053	4,200
Sales Tax	8,158	7,531	7,662	8,300
TOT	2,692	1,869	707	1,000
>total memo items	28,171	27,820	26,371	27,600
Expenditures - all sources	37,994	44,270	46,443	44,100
Less:				
>Debt Service				1,908
>ADP to Calpers		4,754	3,580	
>>Normalized Operating Expenditures	37,994	39,516	42,863	42,192
>>Normalized surplus/(deficit)	4,985	2,107	(3,980)	(2,500)
Memo - included in expenditures above				
Public Safety	14,945	15,793	16,841	NA
Admin Services	3,931	4,380	4,709	NA
>total memo items	18,876	20,173	21,550	
How to close the deficit				
>sale of property (not in revenue)			1,200	
>Adjust Property Tax receipts			829	1,960
>Adjust Sales Tax - County Pool and Measure G			500	367
>Use of Corona Virus Relief funds			388	
>cost savings			1,100	200
>>total gaps closers			4,017	2,527
>Projected surplus/(deficit)			37	27

Hello Ron and Kyle,

Attached please find an analysis I have prepared which hopefully will provide additional context for reviewing the FY 2022 budget. Historically the Town has not shown actual historical revenues and expenditures in comparison to the proposed annual budget. We have discussed this many times and you are aware of this deficiency.

The budgeting process is further complicated by Staff using different revenue and expense presentation formats in the CAFR, the annual operating budget, the mid-year budget update and the five-year projection. Lastly there are significant differences in what items are included as revenue and expenditures when comparing the CAFR, annual budget document, mid-year budget update and the five-year projection. The combination of all of this makes it impossible to easily compare the actual results as reported in the CAFR to the annual budget, the mid-year budget update and the five-year projection without a fair amount of data manipulation.

The analysis I have attached is my attempt to compare two years of historical audited results to the most recent FY 2021 projection contained in the mid-year budget update and the latest five-year projection for FY 2022. I have normalized both revenue and expenditures by removing one-time events and removing all fund transfers in and out from revenues and expenditures, which is consistent with how revenues and expenditures are reported in the CAFR.

Discussion

Based on Staff projections, the Town is facing a \$3.6m normalized operating deficit for FY 2021 and an additional \$2.5m normalized operating deficit for FY 2022. However, a review of normalized revenues and normalized operating expenditures in conjunction with comparisons to other Santa Clara County cities suggests that the Staff has been overly conservative in their revenue estimates (understated) and operating expenditures (overstated) for FY 2021 and FY 2022. Additionally, including the \$1.2m proceeds from the sale of property in FY 2021 and the \$388,000 in Corona Virus Relief funds can substantially offset the projected deficit for FY 2021.

The adjustments to the FY 2021 and FY 2022 forecasts flow from including 1) higher property tax receipts, 2) higher sales tax receipts and 3) cost savings through tighter operating controls.

Property Tax receipts

Based on information from the County, the Town's FY 2021 secured property tax receipts should increase approximately 5.73% above the FY 2020 collection levels. This increase reflects an increase in assessed value due to the CCPI increase and increased valuation due to changes in ownership and new construction (North 40). Making this adjustment would increase FY 2021 tax revenues by \$829k. In FY 2022, property tax receipts are projected to increase 4.5% reflecting a 2% CCPI and 2.5% increased valuation. This increase is off FY 2021 tax rolls, thus the adjustment for FY 2022 property taxes would be \$1.9m.

Sales Tax

Based on results reported from other Santa Clara County cities and information provided by CDTFA, it appears that sales tax receipts will be better than previously anticipated. This improvement is being driven by construction sales tax receipts, Measure G and a 42% growth in the County Pool which is attributable to the surge in online purchases during the pandemic and facilitated by the Wayfair decision

in 2018. Based on this, it is reasonable to assume an increase of \$500k in sales tax over the current estimate which would put the Town back at the level achieved in FY 2019 of \$8.1m. Sales tax revenues are projected to increase approximately 7% in FY 2022. This would suggest sales tax receipts of \$8.6m.

Reduced Operating Expenditures

The FY 2021 mid-year budget report, normalized for one-time ADP payment to Calpers, projected operating expenditures to increase in FY 2021 over FY 2020 actuals by \$3.3m or 8.5%. This is an outsized increase, especially against the backdrop of the pandemic. While there was an unscheduled salary increase given to all Town employees in FY2021, this increase and the associated increase in benefit and pension costs account for approximately \$1.1m. This leaves approximately \$2.2m of increased spending throughout the Town budget unaccounted for. Like all cities, the Town should take every step to control cost. To that end, the Staff should be able to identify \$1.1m of cost savings to deliver in FY 2021. \$1.1m in cost savings is equal to a very modest 2.5% reduction from the normalized project operating expenditures of \$42.8m for FY 2021. Looking to FY 2022, a very modest reduction of \$200k in operating expenditures would close the gap on the projected FY 2022 revenue deficit.

Conclusion

Based on the attached analysis, if the Town makes the proposed revenue and expenditure adjustments, FY 2021 and FY 2022 will have structurally balanced budgets. More importantly, the entire ARPA funds grant can be allocated to long term infrastructure projects the Town has identified which have no known source of funding. To be explicit, there is no need for the ARPA grant to be spent on operating expenditures in FY 2022.

It is imperative that the FC perform a detail review of all major revenue and expenditure assumptions embedded in the FY 2022 budget to test for reasonableness and accuracy. If the FY 2022 operating budget is not built on reasonable and accurate assumptions, it will not guide the Town in making good spending and investment decisions which are aligned with the Council Goals.

Please let me know if you have any questions on the attached schedule.

Phil Koen