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Sent: Saturday, April 17, 2021 6:57 PM
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Subject: Agenda Item #6 - Please pull from the consent calendar and fully discuss

Dear Members of the Finance Commission,

On April 6 Staff submitted a memo to the Town Council (copy attached) which discussed ARPA. The memo had not previously been reviewed by the Finance Commission. Agenda item 6 calls for this memo to be received by the Finance Commission, with no discussion planned. Based on my comments below, I recommend the Chair pull agenda item #6 from the consent calendar and the Commission engage in a complete discussion regarding permitted uses of ARPA Funds.

In that memo, Staff recommended Council utilize approximately \$3.2m of the ARPA grant to “replace lost revenue sufficient to balance the FY 2021 and FY 2022 budgets”. The report went on to discuss permitted uses of the ARPA funds and noted that provision “C” allowed “for the provision of government services to the extent of the reduction in revenue of such metropolitan city....**due to the COVID 19** public health emergency **relative to revenues collected in the most recent full fiscal year** of the metropolitan city....**prior to the emergency**”.

The memo then compared the most recent Five-Year Forecast for FY 2021 and FY 2022 (copy attached) **to the original FY 2021 and FY 2022 base case revenue projections** and determined there was a \$1.8m reduction in FY 2021 and an additional \$2.6m reduction in FY 2022 **relative to the base case projection** (refer to page 6 of the Staff memo). Based on these calculations that Staff made the recommendation to Council to utilize \$3.2m of the ARPA grant to replace the “lost revenue” and “balance the FY 2021 and FY 2022 budgets”.

I have also attached a presentation from the National League of Cities which provides additional background material regarding the eligible uses of the ARPA funds. This discussion can be found on page 6 of the presentation. The NLC presentation points out “the base year against which you will measure lost revenue happens is not the most recent full fiscal year **but the most recent full fiscal year prior to the emergency**”. To determine the amount of allowable funds to be used, the Town must measure the reduction in revenue due to COVID 19 using FY 2019 actuals, which is the most recent full fiscal year prior to the emergency. Measuring the reduction in revenue from a “base case revenue projection” does not appear to conform with provision “C”.

Using FY 2019 actuals as the base year to compute the reduction in economically sensitive revenues (the Town identified these to be sales tax, TOT and Property Tax), there is a projected \$1.8m reduction in FY 2021 and an additional projected \$.6m reduction in FY 2022. These reductions are based on projections in the most recent Five-Year Forecast and could change once actual results are determined. Furthermore, the reduction in FY 2021 property taxes was partially caused by a \$712,000 reduction in the RDA residual property tax payment. In FY 2019 the Town received approximately \$712,000 in RDA residual property tax payment. In FY 2021 the County withheld payment pursuant to a Court decision which required the County to recapture excess RDA residual property tax previously distributed to the

Town. This raises the obvious question as to the true property tax revenue reduction in FY 2021 which is “due to the COVID 19 public health emergency”. If the \$712,000 is not included, then the reduction in economically sensitive revenues in FY 2021 is \$1.1m based on current projections and not \$1.8m.

Finally, the Finance Commission should discuss with the Staff the amount of ARPA funding included in FY 2022 budget and specifically it such amount exceeds \$.6m. Previously Staff had indicated that \$2.6m would be used to balance the FY 2022 budget, based on their methodology to compute the revenue reduction which appears not to conform to provision “C”.

Thank you for your attention to this important issue.

Phil Koen