

# Town of Los Gatos Joint Town Council & Finance Commission



# Study Session

- Finance Team
- Roles and Responsibilities
- Finance Commission Ordinance and Work Plan
- CAFR Highlights
- Budget Background
- Town Fiscal Stewardship



# Town Finance Team and Consultant Support



# Town Manager – Laurel Prevetti

- Town Manager since Sept of 2015
- Assistant Town Manager/Community Development Director May 2014 – Sept 2015
- City of San Jose Dept of Planning, Building and Code Enforcement 28 years of service
- University of California, Berkley Master of Science/Bachelor of Science
- San Jose State University Adjunct Professor
- Active member of City Management and Urban Planning Associations

# Assistant Town Manager – Arn Andrews

- Chief Investment Officer City of San Jose Retirement Services for 3 years (\$5.0 billion in pension assets)
- Assistant Finance Director City of San Jose for 3 years, Treasury Division Manager for 2 years (\$5.0 billion debt portfolio, \$1.0 billion operating portfolio)
- Board Member San Jose Federated Employee's Retirement System for 4 years (\$1.9 billion pension assets)
- Professional Equity Options Trader for 15 years (AMEX, NYSE, CBOE, PHLX)
- 2016 Institutional Investor/Investor Intelligence Awards - Chief Investment Officer of the Year
- BA Business Administration – Adelphi University
- Master Public Administration – New Mexico State University

# Finance Director – Stephen D. Conway, CPA

- Certified Public Accountant since 1985 and is currently an active CPA
- Finance Director of the Town of Los Gatos since May of 2001
- Chief Accounting Officer/Controller for the Santa Clara Valley Water District for five years and served as the Accounting Manager for the City of Campbell for nine years
- Three years as auditor at a CPA firm, focusing primarily on local government audits
- Member of the Governmental Finance Officers Association's (GFOA) Special Review Committee and Budget Review Committee
- Member of the California Society of Municipal Finance Officers (CSMFO)
- 2011 selected by the Silicon Valley Business Journal as the Judges Choice for Silicon Valley CFO of the year.

# Finance & Budget Manager – Gitta Ungvari

- Finance & Budget Manager of the Town of Los Gatos since 2016
- Served the Town of Los Gatos Finance Department since 2007 in various capacities
- Member of the Governmental Finance Officers Association's (GFOA)
- Member and Budget Reviewer of the California Society of Municipal Finance Officers (CSMFO)
- Master of Business Administration Degree - University of Massachusetts
- Bachelor and Master Degrees in Mathematics & Physics – Kossuth University

**TOWN FINANCE TEAM**

**Diane Howard – Finance Administrative Analyst**

- Payroll, Personnel Budgeting

**Mark Gaeta – Accountant/Finance Analyst**

- Accounting, Replacement Schedules, Daily Cash Management

**Maurice De Castro – Accountant/Finance Analyst**

- Accounting, Budgeting

**Melissa Ynegas – Finance Administrative Analyst**

- Accounts Payable Budgeting

**Dorrie Romero – Administrative Technician**

- Business Licensing, Cashiering, Accounts Receivable



**Badawi and Associates  
Certified Public Accounts –  
Independent Auditor**

**Bartel Associates, LLC -  
Actuarial services (pension/OPEB)**

**Insight Investment – Operating  
portfolio consulting**

**Avenu Insights &  
Analytics/MuniServices LLC – Sales  
tax consulting services**

**County Assessor – Property Tax  
estimates**

**TOWN FINANCE  
CONSULTANTS**

**Town Council,  
Finance Commission,  
and  
Town Manager  
Roles and Responsibilities**



- Town Council Members act as a ***fiduciary agent*** for the Town.
- Town Council has ***fiduciary duty*** to oversee the budget.
- Town Council has the ***legal authority*** to appropriate financial resources for operations, capital and equipment.
- Town Council sets financial policies for the agency

# Ordinance 2314

## Section 2. Findings and Declarations.

WHEREAS, the People of Los Gatos ***do not wish to interfere with the budgetary authority or processes of the Town Council***, but instead believe a Finance Commission can ***function as an advisory body*** and provide important guidance to the Town Council in carrying out its budgetary duties and establishing the Town's fiscal policies and priorities.

**Sec. 2.30.295. - Powers and duties—Generally.**

**(6) Budget.** To prepare the budget annually and submit it to the Town Council and be responsible for its administration after adoption.

**(7) Annual report.** To prepare and submit to the Town Council, as of the end of the fiscal year, a complete report on the finances and administrative activities of the Town for the preceding year.

**(8) Needs and financial condition of Town.** To keep the Town Council advised on the financial condition and future needs of the Town and make such recommendations as may seem desirable.

# Finance Commission Ordinance



***(a) The Finance Commission shall:***

- (1) Serve as an on-going substantive and expert advisory body to the Town and Town Council**
- (2) Review the Town Manager's annual proposed budget...provide written comments and recommendations to the Town Council.**

**(3) Review the Town Manager's draft Comprehensive Annual Financial Report (CAFR) for the preceding fiscal year....**

**(4) Review the Director of Finance's summary of the Town's financial report...and provide written comments and recommendations to the Director of Finance...**



**(5) Review the financial policies and procedures manual...and provide written comments and recommendations to the Director of Finance.**

**(6) ...review the proposed expenditures and advise the Town Council on whether such expenditures meet the Town Council's objectives for that tax:**

**(A) Maintaining and enhancing neighborhood police patrols and local crime prevention programs;**

**(B) Improving traffic flow to reduce congestion;**

**(C) Repairing potholes and maintaining the Town's streets, roads, and sidewalks; and**

**(D) Maintaining the Town's long-term financial stability.**

**(7) Issue an annual public report of the expenditures and appropriations of sales tax revenues approved by the Town Council during each fiscal year.**

**(8) Make recommendations to the Town Council about policies and programs:**

- (A) To maximize the Town's revenues;**
- (B) To maximize fee generation;**
- (C) To minimize the City's cost to provide core services and required activities;**
- (D) To set funding goals for reserves;**
- (E) To assess...debt financing;**
- (F) To fund the Town's long-term compensation and benefit...in the most responsible and cost-effective way; and**
- (G) To monitor investment performance.**

**(9) Provide written comments and recommendations regarding the selection of auditors.**

**(10) Participate in pre-audit meetings.**

**(11) Review and monitor any events or issues which may affect the financial status of the Town.**

# Finance Commission Work Plan



- (2) Review annual Proposed Operating Budget and Capital Improvement Plan (CIP)**
- (3) Review annual CAFR**
- (4) Review annual Financial Transaction Report (FTR) submission to the State**
- (6) Annual review of District Sales Tax expenditures**
- (7) Issue annual public report on District Sales Tax expenditures and revenues**

# TOWN OF LOS GATOS ANNUAL BUDGET/CAFR CYCLE

	Prior FY (2019/2020)	Current FY (2020/2021)	Next FY (2021/2022)
December	<p>June 30, 2020 CAFR finalized and presented for Council approval.</p> <p>CAFR surpluses assigned per the Council Reserve Policy as of June 30, 2020</p>		
January		<p>Council deliberates <b>Strategic Priorities and Budget</b> direction for FY 2021/2022.</p> <p>Review of Five-year Forecast and assumptions.</p> <p>Council determines if previously assigned surpluses should be reallocated for FY 2021/2022</p>	
February		<p>Council considers <b>Mid-Year Budget</b> adjustments through 12/31/2020 for FY 2020/2021 Budget.</p>	
May		<p>Public hearing on FY 2021/2022 <b>Operating &amp; Capital Budgets</b></p>	
June		<p>Council adoption of the FY 2021/2022 <b>Operating &amp; Capital Budgets</b></p>	<p>End of June 30, 2021 CAFR period</p>
July			<p>Start of new FY 2021/2022 <b>Operating Budget</b> year</p>
December			<p>June 30, 2021 CAFR finalized and presented for Council approval.</p> <p>CAFR surpluses assigned per the Council Reserve Policy as of June 30, 2021</p>

TYPICAL ANNUAL  
CAFR/BUDGET CYCLE

# CAFR Highlights





The CAFR contains the **actual results** of the prior year's financial activities.

A CAFR is a set of financial statements for a state, municipality or other governmental entity that comply with the accounting requirements established by the Governmental Accounting Standards Board (GASB). It must be audited by an independent auditor using generally accepted government auditing standards.

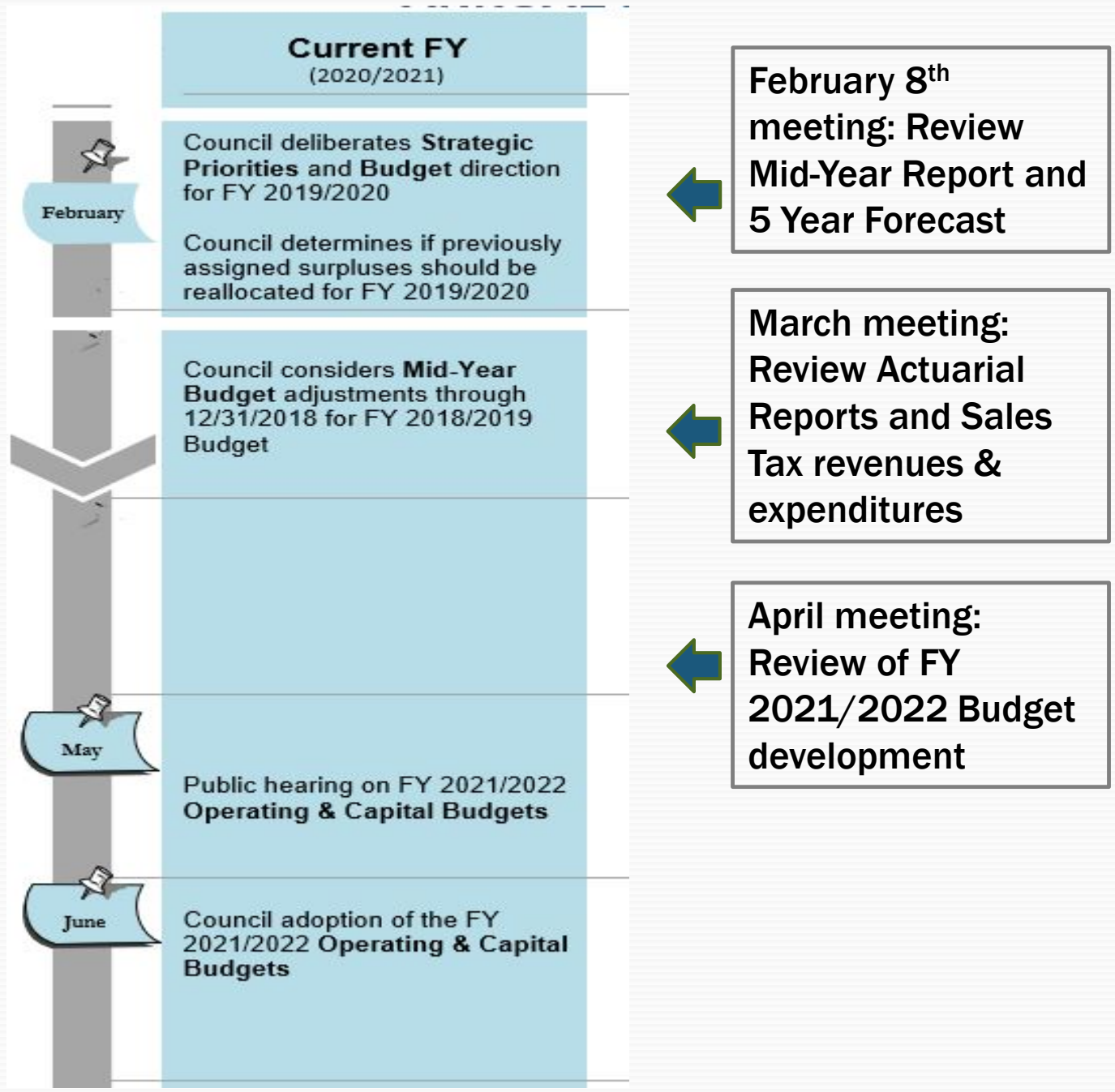
Since 1994 the Town has received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for our Comprehensive Annual Financial Report (CAFR).

- Total net position stable from prior year at \$114.8M.
- \$2.4M Growth in Net Govt. Expenses from prior year.
- Total GF fund balance decreased \$9M
  - \$4.8 ADP to CalPERS, \$7.0M to CIP, \$1.0M to Workers Comp ISF
- \$3.2M GF Surplus Operating Rev>Exp (excluding ADP, CIP & WC ISF transfers)
- Pandemic impacts first seen in economically sensitive revenues (sales tax \$630K & TOT \$170K)
- Strong GF Reserves for Economic Uncertainty/Catastrophe (\$10.8M) or 25% of FY 21

# Budget Background



# CURRENT BUDGET CYCLE



The Operating Budget is a **plan** for a future fiscal period, typically one year, primarily identifying how tax revenue will be allocated to provide municipal services.

The Town of Los Gatos adopts an annual Operating and Capital Budget and an annual budget update of the five-year Capital Improvement Plan for the Town of Los Gatos.

The budgets contain summary level information for revenue and expenditure appropriations for the fiscal year beginning July 1st and ending June 30th. The budget documents are prepared in accordance with generally accepted accounting principles (GAAP).

**After a public hearing and receiving comments, the Town Council adopts the Budget which reflects the goals, policies, and civic priorities for the Los Gatos community.**

**The Budget documents anticipated revenues, and a plan for spending and investing those revenues towards Town services, incorporating both fiscal and programmatic policy decisions.**

The Los Gatos Budget also contains **performance measurements** that compare the expected service delivery to prior years.

The annual budget process enables the Town Council to consider changing conditions and input from the community.

Since 2003 the Town has received the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award for our annual budget.

FY 2020 - 2021

BUDGET DEVELOPMENT

- **January 2020 Council receives initial modest growth base case 5-Year Forecast**
- **May 2020 Council receives updated COVID 5-Year Forecast with significant revisions to Sales Tax, TOT, and Property Tax**
- **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.**
  - **\$2.6 million revenue reduction in FY 2021/22 relative to base case projection.**



**FY 2020 - 2021**

**BUDGET DEVELOPMENT**

- **COVID revisions result in \$9.2 million in total surpluses through FY 2024/25 becoming \$1.4 million in deficits through FY 2024/25**
- **The final FY 2020/21 General Fund Budget programed total revenues and reserve transfers of \$53.2 million and expenditures and allocations of \$53.2 million.**
- **The Budget anticipated a slight surplus of \$11,905 and maintained existing service levels.**

**FY 2020 - 2021  
BUDGET BALANCING**

- **Budgeted salaries for FY 2020/21 at actual salary plus a one step increase, which is a departure from previous practice. \$550,000 in savings.**
- **Recalculated Internal Service Fund charges for the Equipment Replacement and Information Technology Funds. \$268,000 in savings.**
- **Transferred approximately \$800,000 from the Capital/Special Project Reserve per the Town's GF Reserves Policy.**

FY 2021 - 2022

BUDGET DEVELOPMENT

- **2019 CAFR closed without surpluses**
- **December 2020 Council receives a revenue and expense update.**
  - **Property Tax trending \$300k below \$18.4M budget.**
  - **Sales Tax trending \$700k below \$8.0M budget.**
  - **1Q TOT trending 57% below prior 1Q period.**
  - **Department 1Q expenses trending at 25% of budget.**

- **February 8 Finance Commission Meeting**
  - Present preliminary Mid-Year Budget assumptions.
  - Present updated revenue and expense projections since December.
  - Present preliminary 5-Year Forecast assumptions.
- **February 16 Town Council Meeting**
  - Present Mid-Year Budget and recommendations.
  - Present 5-Year Forecast

# Financial Stewardship to Date



**The Town authorized payment of the entire \$4.5 million side fund liability associated with the Safety Plan. (June 2014)**

**Throughout the years the Town Council has set aside funds for Additional Discretionary Payments (ADPs) toward unfunded pension obligations.**

- **October 2019 the Town made a direct payment to CalPERS in the amount of \$4.7 million toward the 2016 gain/loss amortization base. .**
- **July 2020 the Town made a direct payment to CalPERS in the amount of \$3.6 million toward the 2015 gain/loss amortization base.**
- **Combined these payments achieve approximately \$11.7 million in contribution savings.**

**The Town Council established a General Fund reserve policy for additional discretionary payments (ADPs) of \$400,000 per year.**

- **The updated policy will achieve a 20-year amortization equivalence rather than the current CalPERS 30-year policy.**
- **The total savings associated with the 20-year equivalence methodology is approximately \$13.8 million versus the amortization schedules for both plans.**

**Additional discretionary Pension funding allocated and programmed to date - \$20,800,000**

**Estimated savings associated with additional discretionary payments - \$25,500,000**

The Town Council proactively initiated prefunding OPEB obligations beginning in 2009 rather than remaining on a pay as you go system.

- \$400,000 initial contribution 2009
- \$14,160,000 additional contributions through 12/31/2020
- \$9,092,068 in investment earnings through 12/31/2020
- \$23,560,833 in Total Asset as of 12/31/2020
- 9.27% money-weighted annualized net rate of return



**The Town Council established a General Fund reserve for CalPERS/Other Post-Employment Benefits (OPEB) (May 2016).**

**Additional \$300,000 funding annually when GF surpluses exist**

**OPEB FUNDING**

**The Town closed the CalPERS retiree Tier 1 benefit for non-safety employees and created a new Tier 2 for non-safety new employees in 2012**

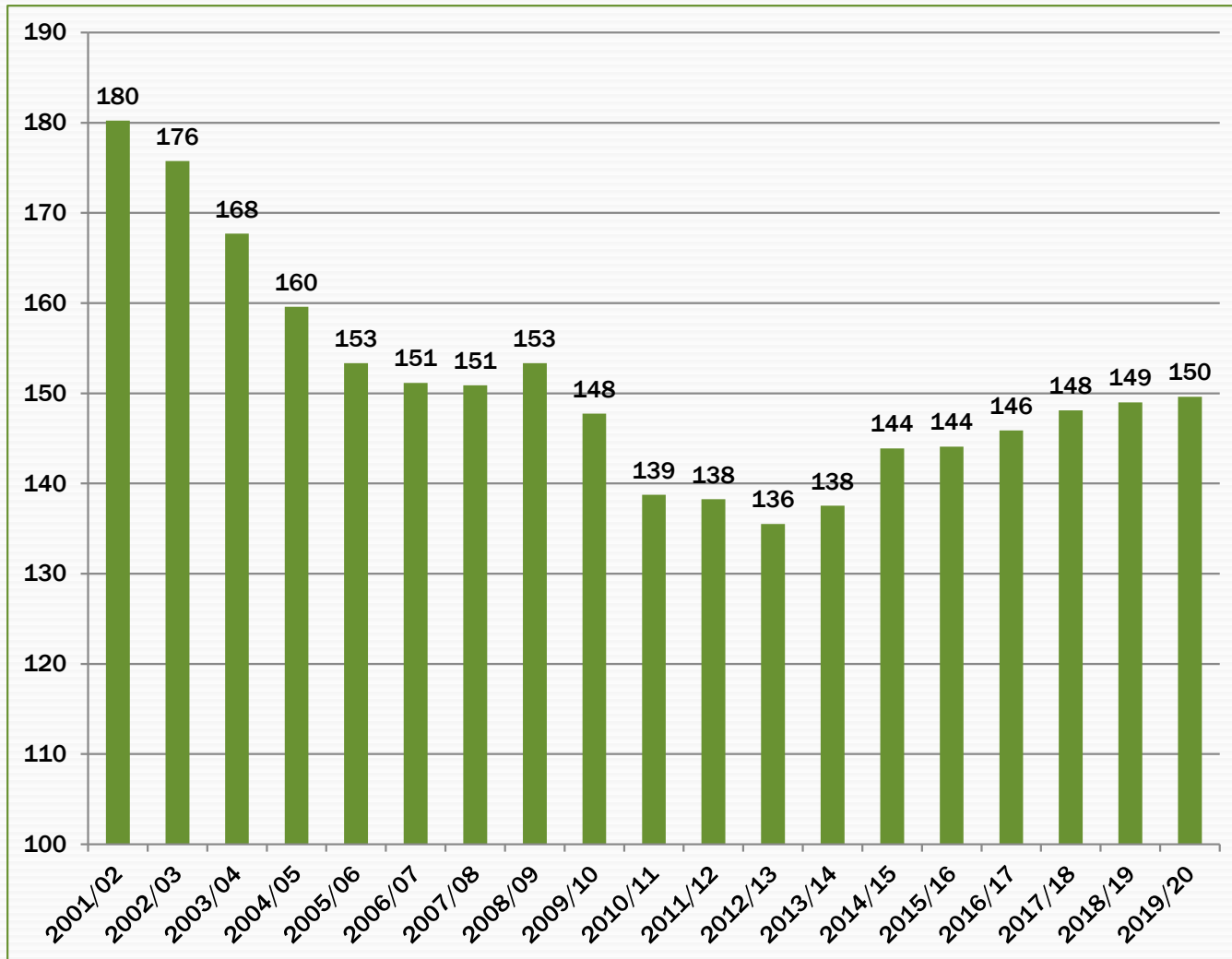
**The Town implemented the Public Employees' Pension Reform Act (PEPRA) for all new non-classic employees starting in 2013.**

**The Town introduced dependent cost sharing and a reimbursement cap to Medicare eligible employees starting in 2016.**

**The Town started participating in the CalPERS discounted prepayment option (July 1, 2015 for Safety Plan and from July 1, 2017 for both Safety and Miscellaneous Plans).**

**The Town's bargaining groups, and all unrepresented employees partnered to eliminate the Town's existing retiree healthcare benefit prospectively starting in 2018**

While the cost per employee has increased, lower total staffing levels have been maintained.



EXPENDITURES

**November 2016 Measure T increases the Transient Occupancy Tax (TOT) from 10 percent to 12 percent.**

- **2% increase raises approximately \$400,000 annually in additional revenue.**

**February 2018 staff presented sensitivity analysis of the Town's Budget projections entitled "Preparing For The Next Recession". The presentation was the basis for advocating an increase to sales tax.**

- **1/8 cent sales tax for 20 years approved by voters November 2018 providing approximately \$800,000 annually.**

**February 2019 Council approved an ordinance allowing regulated short-term rentals subject to TOT.**

- **Approximately \$100,000 in additional TOT collections annually.**

**In June 2019 Council voted to annex 24 unincorporated county pockets.**

- **Results in approximately \$1,000,000 in property taxes remaining in the Town instead of being diverted to the County.**

# Reference Slides



# **Reference Slide for Item #2**

## **Budget sub bullets**

**(A) The Finance Commission's comments and recommendations shall include a recommendation about whether the Town Council should approve or disapprove the proposed budget...**

**(B) The Town Manager must provide a proposed budget to the Finance Commission at least twenty (20) business days before the first meeting at which the proposed budget is considered by the Town Council.**

## **Reference Slide for Item #3 CAFR sub bullets**

**(A) The Town Manager shall respond in writing to the Finance Commission providing his or her rationale for accepting or rejecting Finance Commission's comments...**

**(B) The Town Manager may not present the CAFR to the Town Council...unless or until...responds in writing to all of the Finance Commission's comments and recommendations.**

## Reference Slide for Item #4 the FTR

*California Government Code* section 53891 requires financial transactions of each local agency to be submitted to the State Controller's Office (SCO) within seven months after the close of the fiscal year. This state mandated report is referred to as the Cities "Financial Transactions Report" (FTR).

The FTR must contain underlying data from audited financial statements prepared in accordance with generally accepted accounting principles. The purpose of the FTR is to provide financial and statistical data about California cities on as uniform a basis as possible. Following the completion and publication of the CAFR, the underlying financial transactions included therein are translated into the format specified by the SCO and transmitted by the statutory annual deadline.



## **Reference slide for item #5 Policies**

**Sec. 2.50.010. - Office of the Director of Finance established.**

**(c) The Director of Finance shall cause a summary of the Town's financial report required by Government Code section 53891, in a form prescribed by the State Controller, to be published in accordance with Government Code sections 40804 and 40805.**

**(f) The Director of Finance shall develop a financial policies and procedures manual.**