



**TOWN OF LOS GATOS**  
**FINANCE COMMISSION REPORT**

MEETING DATE: 05/03/2021

ITEM NO: 3

DESK ITEM

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DATE: May 3, 2021  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Answers to Some of the Commissioner Questions and Comments Regarding the Proposed Operating and Capital Budgets

**REMARKS**

Provided below are more answers to the questions and comments from Commissioners regarding the Proposed Operating and Capital Budgets. Questions that are not addressed in the previously published Addendum and this staff report will be discussed at the May 3, 2021 Finance Commission meeting.

**Capital Funding and Spending**

Is there a way to use more of our own staff time to do some of the work for the CIP projects (therefore getting them done using our annual staff budget vs the CIP)?

*Town staff are fully committed on other activities and at times defer work that they are unable to get to. Redeploying Town staff would leave gaps elsewhere that, in turn, would need to be contracted therefore not realizing savings. In reviewing options for contracted versus in house services, vegetation management is a good candidate for contracting.*

For critical and time sensitive items, such as dangerous buildup of vegetation in potentially hazardous fire zones that "staff/town" organize a volunteer brigade to help with the efforts? Has this ever been discussed?

*The Town does rely on volunteers where it makes sense. Volunteers are best for non-urgent work that can be scheduled well in advance and allows for flexibility for the amount of work completed due to fluctuations in attendance. The Town also utilizes services from the Sheriff's Office Alternate Work Program, which provides free unskilled labor. Because vegetation management is often on hillsides and involves tree removal, poison oak, etc., it is not the best*

**PREPARED BY:** Arn Andrews  
Assistant Town manager

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

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## Operating Budget

Combined GF & ISF Fund Salaries							
	2014_15	2015_16	2016_17	2017_18	2018_19	2019_20	Grand Total
Salaries-Total	\$ 15,324,291	\$ 15,416,095	\$ 15,758,451	\$ 16,921,167	\$ 17,942,181	\$ 19,254,973	\$ 100,617,158
Salaries-Temp	\$ 867,364	\$ 869,152	\$ 913,362	\$ 811,194	\$ 648,097	\$ 881,908	\$ 4,991,077
Salaries-OT	\$ 436,917	\$ 415,372	\$ 545,427	\$ 583,001	\$ 707,046	\$ 708,955	\$ 3,396,718
Benefits-Total	\$ 6,526,096	\$ 7,224,479	\$ 9,470,413	\$ 8,238,405	\$ 8,861,044	\$ 8,861,044	\$ 49,181,481
Benefits-PERS	\$ 3,362,328	\$ 3,818,073	\$ 6,088,841	\$ 4,739,853	\$ 5,282,681	\$ 5,282,681	\$ 28,574,457
<b>Grand Total</b>	<b>\$26,516,996</b>	<b>\$27,743,171</b>	<b>\$32,776,494</b>	<b>\$31,293,620</b>	<b>\$ 33,441,049</b>	<b>\$34,989,561</b>	<b>\$ 186,760,891</b>
<b>Adjustments for Temporary &amp; OT Salaries</b>							
Salaries	\$ 15,324,291	\$ 15,416,095	\$ 15,758,451	\$ 16,921,167	\$ 17,942,181	\$ 19,254,973	
Less:Temp Salaries	(867,364)	(869,152)	(913,362)	(811,194)	(648,097)	(881,908)	
OT Salaries	(436,917)	(415,372)	(545,427)	(583,001)	(707,046)	(708,955)	
	\$ 14,020,010	\$ 14,131,571	\$ 14,299,662	\$ 15,526,972	\$ 16,587,038	\$ 17,664,110	
<b>Year Over Year % Change</b>							
<b>Based Upon Actuals</b>		0.80%	1.19%	8.58%	6.83%	6.49%	
			<b>Total Change FY 14/15 to FY 19/20</b>			\$ 3,644,100	
			<b>Total % Change</b>			<b>25.99%</b>	
			<b>Annual Change Unadjusted</b>			<b>5.20%</b>	
			<b>Total Change FY 14/15 to FY 19/20</b>			\$ 3,644,100	
			<b>Less One-Time Equity Adjustments</b>				
			<b>FY 18/19 &amp; 19/20</b>			\$ (2,139,183)	
			<b>Total Adjusted Change</b>			\$ 1,504,917	
			<b>Total Five Year % Change Adjusted</b>			<b>10.73%</b>	
			<b>Annual Change Adjusted For One-Time Equity</b>			<b>2.15%</b>	

On page C-8 GF Salaries and Benefits have risen \$2.4M/year on average for the past 3 years but are only projected to increase by \$855K in FY21/22 or 2.8%. Is this a realistic estimate?

Total Budget Savings							
	2014_15	2015_16	2016_17	2017_18	2018_19	2019_20	Grand Total
Salaries-Total	\$ 794,650	\$ 1,203,373	\$ 893,916	\$ 890,245	\$ 1,306,280	\$ 773,910	\$ 5,862,374
Salaries-Temp	\$ (117,826)	\$ (33,748)	\$ (279,739)	\$ (105,754)	\$ (158,332)	\$ (324,902)	\$ (1,020,301)
Salaries-OT	\$ (54,433)	\$ (19,897)	\$ (164,120)	\$ (219,450)	\$ (319,842)	\$ (231,065)	\$ (1,008,807)
<b>Grand Total</b>	<b>\$ 622,391</b>	<b>\$ 1,149,728</b>	<b>\$ 450,057</b>	<b>\$ 565,041</b>	<b>\$ 828,106</b>	<b>\$ 217,943</b>	<b>\$ 3,833,266</b>
Average Six Year Budget Salary							
Savings*	\$ 638,878						
*Assumes regular salaries							
offset by Temp and OT							
salaries exceeding budget							

*Salary savings less annual temporary and OT salaries exceeding budget since FY 14/15 have totaled \$3,833,236 over a six-year period. The six-year average is \$638,873 per year over that period.*

I'd like to ask staff to bring to the commission some ideas where we could make some changes to what/how we are doing things today to save money, earn more money and/or even just do more with the same amount of money.

*While developing the current Budget, Departments were directed to identify expenditure reductions that would not degrade service levels and other expense containment strategies. To that end, all Departments programmed savings from traditional travel and training budgets, expecting that most professional development opportunities will continue to be offered remotely. Other examples include the use of one-time unbenefited part time employees where applicable, delayed purchase of additional recycling bins, and limited in-person Library programming to reflect the slow easing of the pandemic's effects.*

*Provided below are recent examples of staff led revenue efforts:*

*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.*

*The Town Attorney recently initiated a discussion about the potential permitting of commercial cannabis businesses within the Town of Los Gatos. Average Gross Receipts per Dispensary commonly range from \$4.5 million in smaller communities, and up to \$8.0 million in large, urban areas. Therefore, a local tax rate of between 4% and 6% would potentially generate between approximately \$800,000 to \$1.5 Million in revenue for the Town. In addition, the Town still has additional County Pockets which are under consideration for annexation.*

Have any reductions been discussed? Without reducing service or taking away from the Strategic Priorities of the Council, is there any “fat” that can be trimmed from the expense side of the ledger?

*Relative to the services the Town delivers, we already run pretty lean so no reductions in full-time employees is proposed in the budget. However, Departments were directed to identify expenditure reductions that would not degrade service levels and other expense containment strategies. To that end, all Departments programmed savings from traditional travel and training budgets, expecting that most professional development opportunities will continue to be offered remotely. Other examples include the use of one-time unbenefited part time employees where applicable, delayed purchase of additional recycling bins, and limited in-person Library programming to reflect the slow easing of the pandemic’s effects.*

“Cancellation of the annual OPEB actuarial contribution funding” as an option for additional funds, but I cannot find that amount in the budget. Has it been already been eliminated or is it included in the salaries line item?

*In the five-year forecast on page A-6 of the Operating Budget it is the line entitled “GASB 45 Retiree Medical Actuarial.”*

I see on Page C-34 that there is a line item for Pension and another for OPEB Reserve, both of which are zeros. Also, on C-36, the OPEB reserve goes to zero in 2021. Please advise where I can find that amount of that funding in the current budget.

*This reserve is for additional funds identified by current and prior Councils for additional discretionary payments (ADPs) directly to CalPERS. There are currently no additional funds reserved for ADPs.*

On schedule C-23 the FY 21 adjusted budget included \$1,262,158 as operating revenue with the explanation that this amount was “previously expensed transfers were returned to be included in the General Fund”. The estimate for FY 21 reflects no funds resulting in a corresponding revenue shortfall of \$1.2m. Why did this not occur and where did the \$1.2m go if it wasn’t returned to the General Fund? Please provide an explanation regarding the \$390,000 in pension trust revenue included in the FY 2022 budget. Why is this revenue?

*The FY 2021/22 Proposed budget page C-23 FY 2020/21 Adjusted and Estimated Budgets reflect the original 2020/21 adopted budget recognizing \$1,262,158 of the utilization of balances available in the General Fund Pension/OPEB reserve being transferred to the CEPPT trust during FY 2020/21. The Estimated column reflects that in July 2020 staff made an additional discretionary payment directly from the Town’s General Fund Non-Departmental program. With the direct payment to CalPERS, there was no \$1,262,158 transfer of reserve funds placed into the Town’s CEPPT Trust as the monies were paid directly to CalPERS by the Town instead of using the CEPPT as a temporary holding account and conduit. For CAFR purposes, the CEPPT Trust revenues and expenditures are merged (eliminated) into the Town’s General Fund for reporting purposes.*

*Regarding the \$390,000 of revenues presented in the FY 2021/22 Proposed Budget, this “revenue” amount represents the budgeted augmentation of funds into the Town’s CEPPT trust fund and a corresponding Non-Departmental “expenditure” budget amount of \$390,000 to record the transfer to the CEPPT. The CEPPT Trust Fund 731 is “rolled-up” into the Town’s General Fund and both the revenue and expenditure are eliminated for CAFR purposes as they do not represent actual revenues or expense. They are only recorded that way for budget tracking purposes and have zero effect on the financials. The \$390,000 is budgeted annually per the Town’s General Fund Reserve Policy to be used for eventual ADP’s reducing the Town’s amortization period from approximately 29 to 20 years.*

### **Balance Sheet Information**

On page C3, the total of all town funds shows a decline of 4.8% during the 2021 fiscal year. While the general fund is balanced with one time items, the other funds show significant decreases. On a big picture basis, this would show that the town spent down almost 5% during the year. This decline is consistent with prior years as shown on C37.

*General Fund balance changes reflect capital spending and the additional discretionary payments to CalPERS. Please see A-13. Other funds reflect capital spending.*

Please comment on the 36% decline in the liability internal service fund and the 73% decline in the workers compensation funds on page C3. Why are not these two funds included in the

General Fund for transparency purposes? Also, how are these items considered in the 2022 budget?

*The Town established Internal Service Funds to allocate costs for general liability and workers compensation costs to its primary customer, the Town's General Fund departments. Hence the cost of these services is borne by the risk activity associated with departmental activities. For instance, worker's compensation service charges applied to Police and Parks and Public Works are higher due to the nature of job classifications within these departments and resultant case load and severity of claims. Focusing on workers compensation and general liability services, costs for these services can substantially vary from year to year due to the nature of claims activity. In years of low claims, fund balances tend to rise. In years of adverse claims activity, the fund balances decrease. The goal of an Internal Service fund is to balance service charges made to the General Fund operating departments with the cost of providing these services. The intention is for these internal service funds to "break-even" over time per current accounting standards.*

*The Town is self-insured for workers' compensation claims and pays the actual claim cost up to the first \$250,000 instead of a flat monthly premium based on claims experience. This is a typical practice of government agencies. After \$250,000, the Town has excess insurance that pays the future and remaining claim costs. The premium cost of excess insurance is based on historical claims experience and this cost is continuing to rise. Claim costs include claims filed by current employees as well as on-going medical expenses for claims of employees that are no longer working for the Town. The Town is continuing to incur expenses for large claims that require extensive medical treatment for employees that are no longer working for the Town.*