



**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 05/03/2021

ITEM NO: 3

ADDENDUM

DATE: April 30, 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 some of the answers to the questions and comments from Commissioners regarding the Proposed Operating and Capital Budgets. Questions that are not addressed in this staff report will be discussed at the May 3, 2021 Finance Commission meeting.

Capital Funding and Spending

One of the strategic priorities is to sell or lease certain Town properties. What is being considered or could be considered?

To date, the Town has pursued a property strategy which focuses on finding long-term solutions for the disposition of Town-owned properties either through pursuit of public purpose, monetization, or a hybrid of both. Following are dispositions approved by the Town Council to date:

- *October 2018 entered into an Exclusive Negotiating Agreement with Sarah Chaffin for the siting and development of affordable (teacher) housing at 20 Dittos Lane – Public Purpose*
- *March 2019 entered into an Exclusive Negotiating Agreement with Imwalle Asset Management for 4 Tait Avenue and Forbes Mill - Monetization/Public Purpose*
- *May 2019 sale of 148000 Winchester Blvd to Santa Clara County Fire District ("County Fire") for \$1.9 million – Monetization/Public Purpose*
- *April 2020 sale of 14850 Winchester Blvd to Santa Clara County Fire District ("County Fire") for \$1.2 million – Monetization/Public Purpose*

The remaining Town-owned properties that have not reached disposition status include:

PREPARED BY: Arn Andrews
Assistant Town manager

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

- *4 New York Avenue (Venue) - Council has directed staff to negotiate with the Los Gatos-Saratoga Union High School District (LGSUHS) for the acquisition of 4 New York Avenue.*
- *224 West Main - The asset was originally purchased in 2009 by the former Redevelopment Agency and was transferred to the Town at a valuation of \$1,489,778. The property is obligated to provide 6 Low and/or Moderate Income (low mod) housing units. The Town has a deadline to act this year to either develop an affordable housing plan for the property or pay the \$1,489,778 to the affordable housing fund to unencumber the property.*
- *Pine Avenue - The parcel was conveyed to the Town circa 1972 with the development of a subdivision. Staff is researching if the property is encumbered.*

The Town receives rent for Tait and Forbes Mill properties. How much is this rent? How much does the town receive on rent on other properties?

Since the approval of the Lease Agreements by Council on August 4, 2020, Imwalle has been preparing the properties for showing to potential tenants. On March 16, 2021 Imwalle held the initial broker open house for both properties which was well attended. Per the Lease Agreement, the Town will receive 60% of the rents after reimbursement of tenant improvements from rent revenues.

Staff to comment on public comment to include \$250,000 in road fuel reduction in the current year capital plan.

Roadside Vegetation Management continues to be a high priority for the Town and is the highest priority project on the unfunded project list (see list below).

Is there a prioritized list of unfunded projects for the 2022 budget in case more money is found for capital?

The first five priority unfunded projects are listed below. In some cases, if full funding is not available for a particular project, staff might recommend bypassing that project and funding an alternative project.

Vegetation Management - Roadside	Streets	\$ 500,000
Security Enhancements at Civic Center	Facilities	\$ 250,000
Shannon Road Repair	Streets	\$ 5,000,000
Blossom Hill Road Traffic Calming	Streets	\$ 950,000
Adult Rec Center – Replace Fan Coil Units	Facilities	\$ 100,000

The pilot school busing program was viewed as complete with the total cost of \$443,000. Was this all spent by the town, or were there fees received?

The school bus program collected what, in the end, were minimal fees. Those fees offset the cost of delivering the project. This table provides a summary of revenue and expenditures.

School Bus Pilot Project 411-812-0128	Actuals
Funding Sources	
Grant Fund (TFCA)	\$ 87,000
GFAR	\$ 290,140
Fare Revenue (GFAR)	\$ 64,916
Total Project Budget	\$ 442,056
Expenditures	
School Bus Consultant	\$ 41,588
STA Contract Payment: Jan. 2019 - Jun. 2019	\$ 104,801
STA Contract Payment: Aug. 2019- Jun. 2020	\$ 195,983
Misc. Expenditures (CC charges, software, printing)	\$ 2,568
Staff Costs	\$ 98,061
Total Project Costs	\$ 443,002

On page A7, in 2018/19, \$1.9 M was allocated to a Property Surplus Account. What is the current balance in this Account?

The current estimated balance of the Property Surplus Reserve is \$1.2 million deriving from the most recent property sale to Santa Clara County Fire District (SCCFD). The aforementioned \$1.9 million proceeds from the initial property sale to SCCFD was reallocated to Pension/OPEB Reserve and was included in additional discretionary payment to CalPERS.

ARPA

Staff comments on funding the \$50,000 destination marketing proposal by Chamber in order to help the hotels and retail in town.

Please refer to Agenda item on the following link :[5-4-2021 Agenda Item 14](#) .

Operating Budget

Charge for police to Monte Sereno on pages D129 and D150. The annual amount is less than \$1 M, which is about half of what would be received on a per capita basis and a policing budget of

approximately \$17 M. Note that the charge does not include any fee for historical capital or any allocation of general administrative expenses. Please discuss.

Please find our contractual agreement with Monte Sereno for Police Services at the following link: [Monte Sereno Police Services Agreement](#). (June 16, 2015 Council Meeting Item 12) The Annual Base Rate and fiscal information related to this agreement is located on pages 5-7.

On page A21, what is the amount of the anticipated property tax revenue from phase 2 of the North 40 sales?

Phase 1 of the North 40 sales estimated revenue is \$345,303 in FY 2021/22 and an additional \$345,303 in the following year totaling to \$690,606. The second phase of North 40 is not included in the forecast since no permits have been submitted by the developers at this time.

On page A7, fines have gone down from \$900,000 in 2015/16 to \$300,000 in 2019/20. What was the policy change that led to this decline?

Associated to the Library Department (from \$39,232 in FY 2015/16 to \$6,391 in FY 2019/20), the Council removed daily overdue fines from the Comprehensive Fine and Fee Schedule. Over the past several years, revenues from overdue fines have dropped considerably. This drop was the natural result of instituting customer-service practices related to more convenient renewing of materials, as well as not imposing fines as a penalty for seniors or children. The former was the implementation of automatic renewals that saved library patrons the need or hassle to call library staff, log into their account or make a trip to the library to renew items. The latter is the combination of established practices in the current fee schedule where seniors do not accrue overdue fines, and minors up to age 18 do not accrue overdue fines until the item is overdue by six weeks.

Associated to the Police Department (from \$809,014 in FY 2015/16 to \$253,076 in FY 2019/20), there were no policy changes in the fines which equated to this revenue decrease. The decrease in fines is a result of decreased parking citation revenue, due to a temporary reduction in parking enforcement staffing, availability of parking enforcement equipment, and the economic downturn associated with COVID-19.

On Page A-23 CALPERS projects 7% growth in Med Benefit expense. How does this compare to past 5 years actual growth of med benefit expense?

The information below is based on the Region 1 premium rates for all plans going back to 2016 to calculate 5 years of data. The most recent year is 7%.

CalPERS Medical Plan Rate History											
	2016		2017		2018		2019		2020		2021
	Premium*	% Change	Premium	% Change	Premium	% Change	Premium	% Change	Premium	% Change	Premium
Kaiser	\$ 746.47	-2%	\$ 733.39	6%	\$ 779.86	-2%	\$ 768.25	0%	\$ 768.49	6%	\$ 813.64
Anthem HMO Select	\$ 721.79	8%	\$ 783.46	9%	\$ 856.41	-3%	\$ 831.44	4%	\$ 868.98	6%	\$ 925.60
Anthem HMO Traditional	\$ 855.42	14%	\$ 990.05	-7%	\$ 925.47	17%	\$ 1,111.13	6%	\$ 1,184.84	9%	\$ 1,307.86
Blue Shield	\$ 1,016.18	1%	\$ 1,024.85	-15%	\$ 889.02	8%	\$ 970.90	14%	\$ 1,127.77	4%	\$ 1,170.08
PersChoice	\$ 798.36	4%	\$ 830.30	-4%	\$ 800.27	8%	\$ 866.27	-1%	\$ 861.18	8%	\$ 935.84
PersSelect	\$ 730.07	1%	\$ 736.27	-3%	\$ 717.50	-32%	\$ 543.19	-4%	\$ 520.29	8%	\$ 566.67
PersCare	\$ 889.27	5%	\$ 932.39	-6%	\$ 882.45	22%	\$ 1,131.68	0%	\$ 1,133.14	12%	\$ 1,294.69
PORAC	\$ 699.00	0%	\$ 699.00	5%	\$ 734.00	4%	\$ 768.25	1%	\$ 774.00	3%	\$ 799.00
Average Percent Change		4%		-2%		3%		3%		7%	

On page A-28 Equipment replacement Fund - Are all expenditures from this ISF Capital Expenditures as described or are there also operating expenditures? Are we strict about limiting these funds to "non-recurring and capital projects" per the best practices listed on A-31?

The Expenditure Replacement Fund only pays for capital equipment. There are transfers to General Fund, those transfers pay for equipment purchases paid from the General Fund program.

On page C-8 What is the projected (or FYTD) unrealized investment loss (i.e. mark to market) for FY20/21? Shouldn't the "Market Fluctuation" reserve be decremented by the amount of this unrealized loss? It is projected as unchanged on A-14. I continue to have lots of questions about the exact operation of such a reserve. If there is no documented and objective policy for increasing and decreasing such a reserve based on unrealized losses and gains then is it not really a reserve, just a cookie jar. I didn't notice any description of this reserve in the binder - did I miss it?

With an expected low interest rate environment anticipated through the end of the fiscal year, the Market Fluctuation Reserve will be updated at the close of the fiscal year and will be reflected in the June 30, 2021 CAFR. The calculation will be based on the June 30, 2021 portfolio data marking cost of investments versus market value as required by GASB 31 as compared to the gains recognized the prior fiscal year. Staff will add the description for the reserve in the final budget documents. Please refer to General Fund Reserve Policy (page A-39) that list the GASB 31 Adjustments as an example of an assigned reserve. This reserve example is referring to the Reserve Market Fluctuations. The designation of this reserve equals the portion of General fund balance representing interest revenue not anticipated to be received in the fiscal year unless the portfolio were to be sold at year-end and the sales proceeds were either re-invested or received in cash. It is the opposite of a "cookie jar". This entry sets aside the "phantom interest" that increases fund balance that is not available unless the portfolio were to be sold.

On page C-10 Why do the Internal Service Funds not earn interest unlike all the others?

The Town allocates interest to funds where interest allocation is legally required, an example being certain grant funds (VTA) or Gas Tax funds.

Balance Sheet Information

I did not see historical cash, investments and pension liabilities in any tables. Could you provide these amounts for the past 5 years including forecast for June 2021? Would like staff comments on general trends of these items.

Provided below is a table of Comprehensive Annual Financial Report (CAFR) actuals of cash and Investments and Net Pension Liabilities from FY 2014/15 through FY 2019/20.

Category	2014_15	2015_16	2016_17	2017_18	2018_19	2019_20
Cash, Restricted Cash, & Investments	\$ 67,919,066	\$ 72,738,950	\$ 73,682,924	\$ 73,975,308	\$ 74,997,176	\$ 72,394,160
Net Pension Liability	\$ 39,199,892	\$ 33,382,870	\$ 47,271,733	\$ 53,204,508	\$ 53,627,829	\$ 57,230,935

Staff expects to receive its next CalPERS actuarial valuation in August 2021 to be used in calculating the change in net pension liability that will be reported for FY ending June 30, 2021.