



**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 08/08/2022

ITEM NO: 7

DATE: August 2, 2022
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Financial Information and Initiate Review of the Town's Structural Deficit per Town Council Directive.

RECOMMENDATION:

Receive financial information and initiate review of the Town's structural deficit per Town Council directive.

BACKGROUND:

On May 17, 2022, the Town Council considered recommendations from the Finance Commission regarding the development of the Fiscal Year (FY) 2022/23 Proposed Operating and Capital budgets. Among the Finance Commission recommendations was the communication to Council that the Commission believes that a "Structural Financial Deficit" currently exists, for Council to acknowledge the Commission's finding and direct the Commission to work with Town management to confirm the actual amount of the deficits that the Town is facing and come back to the Council with suggestions/ideas on how we can fix the "Structural Financial Deficit" and fund capital projects. At the conclusion of the meeting, the Finance Commission recommendation was approved by Town Council, including the following excerpt from the motion:

"...acknowledge Finance Commission finding and direct the Commission to work with Town management to confirm the actual amount of the deficit and request recommendations on how to cure the deficit."

PREPARED BY: Arn Andrews
Assistant Town Manager

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

DISCUSSION:

To assist Commission members in preparing for this review, staff has assembled a list of previous financial resources provided to the Commission in addition to the updated Five-Year Forecast (Forecast).

On April 26, 2021, the Finance Commission received responses to Commissioner budget questions (Attachment 1) which included illustrative employee costing for salary and benefits.

On May 3, 2021, the Finance Commission received responses to Commissioner Budget questions (Attachments 2 and 3) on a broad range of financial topics and a presentation illustrating 1% changes to primary revenues and expenses (Attachment 4).

On May 10, 2021, the Finance Commission received responses to Commissioner Budget questions (Attachment 5).

On July 12, 2021, the Finance Commission received information regarding Police costs relative to total expenditures and revenues (Attachment 6).

On October 11, 2021, the Finance Commission received information on Town bargaining groups and North 40 budget modeling (Attachments 7 and 8).

On June 21, 2022, the Town Council adopted revisions related to salary and benefit costs associated with labor agreements adopted on June 7, 2022 (Attachment 9). The Forecast on the following page has been updated to reflect the adjustments to salary and benefit costs. The following table illustrates the previous projected deficits relative to the updated Forecast.

Original 5 Year Forecast	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2024/25 Forecast (\$M)	2024/25 Forecast (\$M)	2024/25 Forecast (\$M)
Original Surplus/Deficit	(\$2.2)	(\$2.9)	(\$2.3)	(\$2.5)	(\$2.6)
Updated Surplus/Deficit	(\$3.8)	(\$4.3)	(\$3.7)	(\$4.0)	(4.0)

Staff anticipates updating revenues in the coming months as additional information becomes available.

In addition, Vice Chair Park asked to provide the Commission with a communication in Attachment 10.

Account	Revenue Category	2021/22 Adjusted Budget	2021/22 Estimates	2022/23 Proposed Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
4100	Property Tax	\$ 15.4	\$ 15.7	\$ 16.6	\$ 15.7	\$ 16.1	\$ 16.6	\$ 17.1	\$ 17.6
4110	VLF Backfill Property Tax	4.2	4.2	4.4	4.5	4.6	4.8	4.9	5.1
4200	Sales & Use Tax	7.0	7.5	7.9	8.2	8.5	8.8	9.1	9.3
4200	Measure G District Sales Tax	1.2	1.2	1.3	1.4	1.4	1.5	1.5	1.5
4250	Franchise Fees	2.5	2.4	2.5	2.6	2.6	2.7	2.8	2.9
4251	Transient Occupancy Tax	1.4	1.4	1.6	1.7	1.8	1.9	1.9	2.0
4400	Business License Tax	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4
4400	Licenses & Permits	3.1	3.1	2.8	2.8	2.9	3.0	3.1	3.2
4500	Intergovernmental	4.0	1.1	1.1	1.0	1.0	1.0	1.2	1.1
4600	Town Services	4.2	4.3	3.5	4.0	4.1	4.1	4.2	4.3
4700	Fines & Forfeitures	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
4800	Interest	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
4850	Other Sources	2.6	2.4	3.8	2.2	2.2	2.2	2.3	2.2
4900	Fund Transfers In	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
TOTAL OPERATING REVENUES & TRANSFERS*		\$ 48.1	\$ 45.8	\$ 48.0	\$ 46.5	\$ 47.6	\$ 49.0	\$ 50.5	\$ 51.6
Use of Capital/Special Project Reserve - Capital		0.6	0.6	2.4	0.8	0.8	0.8	0.8	0.8
Use of Pension/OPEB Reserve		-	0.3	-	-	-	-	-	-
Use of Property Surplus Reserve		1.2	1.2	-	-	-	-	-	-
Use of Measure G Reserve		1.1	1.1	0.7	-	-	-	-	-
ARPA Replacement Revenue		-	-	1.6	-	-	-	-	-
TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES		\$ 51.0	\$ 49.0	\$ 52.7	\$ 47.3	\$ 48.4	\$ 49.8	\$ 51.3	\$ 52.4
Account	Expenditure Category	2021/22 Adjusted Budget	2021/22 Estimates	2022/23 Proposed Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
5110	Salary	20.9	19.2	23.2	23.0	23.5	23.9	24.5	25.0
5120	CalPERS Benefits	7.3	6.2	7.7	7.9	8.3	8.1	8.4	8.5
5200	All Other Benefits	4.2	3.4	4.6	4.4	4.5	4.6	4.7	4.8
6211	OPEB Pay as You Go	1.5	1.5	1.5	1.5	1.6	1.7	1.8	1.9
6000	Operating Expenditures	6.4	7.0	6.9	6.8	7.1	7.1	7.4	7.5
7200	Grants & Awards	1.0	0.8	0.2	0.2	0.2	0.2	0.2	0.3
7400	Utilities	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
8060	Internal Service Charges	2.7	2.6	2.7	2.9	3.1	3.4	3.7	3.8
8900	Debt Service	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
TOTAL OPERATING EXPENDITURES		\$ 46.6	\$ 43.3	\$ 49.3	\$ 49.2	\$ 50.8	\$ 51.6	\$ 53.3	\$ 54.4
GASB 45 Retiree Medical Actuarial		0.1	0.1	-	-	-	-	-	-
Additional Discretionary Payment - Pension		0.4	0.7	0.4	0.4	0.4	0.4	0.4	0.4
TOTAL OPERATING & DISCRETIONARY EXPENDITURES		\$ 47.1	\$ 44.1	\$ 49.7	\$ 49.6	\$ 51.2	\$ 52.0	\$ 53.7	\$ 54.8
Capital Transfers Out to GFAR		2.8	2.8	2.3	0.8	0.8	0.8	0.8	0.8
Capital Transfer Out - 1/2 of Measure G Proceeds		0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8
AMOUNTS AVAILABLE FOR RESERVE ALLOCATIONS									
Allocate to Budget Stabilization/Catastrophic		-	0.5	-	-	-	-	-	-
Allocate to Compensated Absences		-	-	-	-	-	-	-	-
Allocate to Market Fluctuation		-	-	-	-	-	-	-	-
Allocate to CalPERS/Pension		-	0.3	-	-	-	-	-	-
TOTAL EXPENDITURES & RESERVE ALLOCATIONS		\$ 50.5	\$ 48.3	\$ 52.7	\$ 51.1	\$ 52.7	\$ 53.5	\$ 55.3	\$ 56.4
NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES & RESERVE ALLOCATIONS FOR FINAL ALLOCATION AFTER YEAR END CLOSE		\$ 0.5	\$ 0.6	\$ -	\$ (3.8)	\$ (4.3)	\$ (3.7)	\$ (4.0)	\$ (4.0)
* Due to rounding of individual categories FY 2021/22 Total Expenditures and Reserve Allocations includes \$0.1 million. General Fund (111) Forecast does not include Pension Trusts activities.									

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SUBJECT: Initiate Review of Town's Structural Deficit

DATE: August 2, 2022

Attachments:

1. Finance Commission April 26, 2021
2. Finance Commission May 3, 2021
3. Finance Commission May 3, 2021
4. Finance Commission 1% Scenarios
5. Finance Commission May 10, 2021
6. PD Expenditures
7. Town Bargaining Groups
8. North 40 Analysis
9. Labor Agreement Summary 2022
10. Vice Chair Communication