

**From:** Jak Van Nada

**Sent:** Monday, April 25, 2022 5:05 AM

**To:** Shelley Neis; Town Manager; Joel Paulson

**Subject:** Please Include for the Planning Commission Meeting of 4/25/22

The Los Gatos Community Alliance (LGCA) continues to advocate that a Fiscal Impact Analysis (FIA) of the 2040 General Plan be completed before the Planning Commission or Town Council take any action. **The FIA presented in the Alternative Land Use study did not evaluate the development in the 2040 General Plan.** We have attached a recent presentation that we gave at the Democracy Tent meeting on 4-18-22, which outlines our concerns.

Of special note:

- Using the actual historical growth rates in Salaries, Pension and Benefit costs would add nearly \$34 million to the cumulative deficit of the General Fund Balance over the next 5 years
- The General Fund would be completely wiped out by 2026 and have a deficit balance greater than -\$23 million at the end of 2027
- The potential for driving the deficit even higher with more development than necessary to meet the RHNA requirement is very high. Without an FIA, the Town cannot accurately forecast our Financial Future.
- The Town Has Refused To Do A Thoughtful Fiscal Impact Analysis, Yet They Have Agreed To A “High-Level” Report Based On Faulty Data
- The General Plan is the primary tool for guiding future development in the Town of Los Gatos for the next 20 years
- The General Plan is the framework of making CHOICES about growth, housing, transportation, neighborhood improvement and service delivery.
- A Fiscal Impact Analysis documents the General Fund revenues and costs and capital investment that are attributable to alternative land use scenarios considered by the General Plan Update process.

- Just like an Environmental Impact report documents the environmental impacts, a FIA documents the fiscal impacts.

For more information, please review our presentation attached. If you would like more information, please contact me at the address below, or, have the Town's Finance Commission do an analysis for you. A three minute speech would not adequately explain the problems.

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*Jak Van Nada -*

*Los Gatos Community Alliance*

*Facts Matter; Transparency Matters; Honesty Matters*

*[www.lgca.town](http://www.lgca.town)*





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# Why A Fiscal Impact Analysis?

## Looking Backwards To See Forward



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It's Not So Much What You See  
But What You Don't See

Facts Matter; Transparency Matters; Honesty Matters



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# This Presentation Is To Show You What You Aren't Seeing

Facts Matter; Transparency Matters; Honesty Matters



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## Data Used For This Report

- 2021 ACFR - Annual Comprehensive Financial Report
- Draft 2040 General Plan
- Mid-Year Budget Report - July 1 - December 31, 2021
- Five Year Forecast

<b>Compound Annual Growth Rate (CAGR) Calculations</b>	<b>2016</b>	<b>2018</b>	<b>2021</b>	<b>Actual CAGR 2016-2021</b>	<b>Actual CAGR 2018-2021</b>	<b>Total Growth 2016-2021</b>						
Salaries & Wages	14.5	16.1	20.3	6.9%	8.1%	40%						
Retirement Benefits	3.6	4.3	6.4	12.2%	14.2%	78%						
Other employee benefits	3.2	3.3	5.6	12.0%	19.5%	76%						
Total Salaries, Wages, Benefits	21.3	23.7	32.3	8.7%	11.0%	52%						
Full Time Equivalent (FTE) Headcount	144	148	150	0.8%	0.4%	4%						
Salaries, Wages & Benefits per FTE Head	148	160	203	6.5%	8.2%	37%						
<b>Actuals (A) &amp; Town Staff Forecast (F) - Base Case with 2% COLA</b>	<b>2016A</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>
Salaries & Wages	14.5	14.8	16.1	17.9	19.3	20.3	20.6	20.6	21.2	21.8	22.3	22.8
Retirement Benefits	3.6	3.9	4.3	5.3	6.1	6.4	6.6	6.9	7.3	7.7	7.6	7.9
Other employee benefits	3.2	3.2	3.3	3.6	3.6	3.7	3.8	4.0	4.1	4.2	4.3	4.4
Total Salaries, Wages, Benefits	21.3	21.9	23.7	26.8	29.0	30.4	31.0	31.5	32.6	33.7	34.2	35.1
FTE Headcount	144	146	148	149	150	150	150	150				
Salaries, Wages & Benefits per FTE head (\$k)	148	150	160	180	193	203	207					
General Fund Increase (decrease)			3.3	7.5	-8.6	-7.1	-1.5	-1.6	-2.0	-2.4	-2.1	-2.3
General Fund Balance		27.2	30.4	37.9	29.3	22.2	20.8	19.2	17.2	14.8	12.7	10.4
<b>Revised Forecast (\$ million)</b>								<b>2023F*</b>	<b>2024F*</b>	<b>2025F*</b>	<b>2026F*</b>	<b>2027F*</b>
Salaries & Wages - actuals and forecast using 6.9% 5-year actual historical CAGR for 2023 forward								22.0	23.6	25.2	26.9	28.8
Pension - actuals and forecast using 12.2% 5-year actual historical CAGR for 2023 forward								7.4	8.3	9.3	10.5	11.7
All Other Benefits - actuals and forecast using 6.9% 5-year actual historical CAGR for 2023 forward								4.3	4.8	5.3	6.0	6.7
Total Salaries, Pension & Wages - actuals and forecast using 5-year actual historical CAGR for 2023 forward								33.7	36.6	39.9	43.4	47.2
Difference from Town staff forecast								(2.2)	(4.0)	(6.2)	(9.2)	(12.1)
Cumulative difference from Town staff forecast								(2.2)	(6.2)	(12.4)	(21.6)	(33.7)
<b>Revised General Fund Balance</b>								<b>17.0</b>	<b>10.9</b>	<b>2.4</b>	<b>(8.9)</b>	<b>(23.3)</b>



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## The Town Is Forecasting Deficits

- In The Next 5 Years The Town Staff Is Forecasting That The General Fund Balance Will Decrease by 50% - From \$20.8M At The End Of 2022 To \$10.4M At The End Of 2027
- The Town Staff Forecast Assumed An Annual Growth Rate Of Just 2% For Salaries, Pension and Benefits.



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- However, over the last 5 years salaries, wages and benefit costs have actually grown at 8.7% annually
- That is more than 4 times the growth rate the Town Staff is forecasting.
- Over the last 3 years the actual growth rate has accelerated to 11%
- We Are Entering An Inflationary Period
- What Happens If We Change The Forecast Assumption From 2% To 8.7%?



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## Modified Forecast Using Historical Growth Rates

- Using the actual historical growth rates in Salaries, Pension and Benefit costs would add nearly \$34 million to the cumulative deficit over the next 5 years
- The General Fund would be completely wiped out by 2026 and have a deficit balance greater than -\$23 million at the end of 2027



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## Town Spending on Headcount Has Increased Dramatically in the Last 5 Years

- Salaries Have Grown 6.9% per Year (up 40% in 5 years)
- Pension Expense has grown 12.1% per year (up 78% in 5 years)
- Benefits have grown 12.0 % per year (up 76% in 5 years)
- Total of the 3 costs have grown 11% per year (up 52% in 5 years)
- While headcount has grown by only 0.4% per year (up 4% in 5 years)



## The Numbers

<b>Revised Forecast (\$ million)</b>					<b>2023F*</b>	<b>2024F*</b>	<b>2025F*</b>	<b>2026F*</b>	<b>2027F*</b>
Salaries & Wages - actuals and forecast using 6.9% 5-year actual historical CAGR for 2023 forward					22.0	23.6	25.2	26.9	28.8
Pension - actuals and forecast using 12.2% 5-year actual historical CAGR for 2023 forward					7.4	8.3	9.3	10.5	11.7
All Other Benefits - actuals and forecast using 6.9% 5-year actual historical CAGR for 2023 forward					4.3	4.8	5.3	6.0	6.7
Total Salaries, Pension & Wages - actuals and forecast using 5-year actual historical CAGR for 2023 forward					33.7	36.6	39.9	43.4	47.2
Difference from Town staff forecast					-2.2	-4.0	-6.2	-9.2	-12.1
Cumulative difference from Town staff forecast					-2.2	-6.2	-12.4	-21.6	-33.7
Revised General Fund Balance					17.0	10.9	2.4	-8.9	-23.3





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## Some Concerns

- The ACFR of 2021 Said There Was A Salary Increase of 1% Plus A Bonus of 2%.
- Salaries, Wages and Benefits Actually Increased By 8.7% Over 5 Years, But Accelerated To 11% In The Last 3 Years.
- Unfortunately, You Won't See That Noted Anywhere In The ACFR.
- The Town Has Refused To Do A Thoughtful Fiscal Impact Analysis. Yet They Have Agreed To A "High-Level" Report Based On Faulty Data. Mr. Koen will tell you more shortly.
- The Council Pushed The Mute Button When Brought To A Council Meeting



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## Concerns, Cont'd

- The 2016 Council Rejected A \$4.8M Annual Sales Tax That 64% Of Those Polled By The Town Was Approved – That Would Total \$29M For Los Gatos Today.
- In 2016, we found the OPEB buried in Footnote 10 - \$12.5 M
- The Town Council Is In Charge, Not The Staff.
- We Gave The Town Council A Finance Commission Available to Them At Any Time.

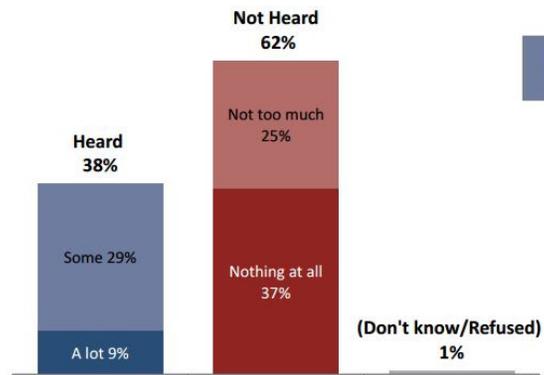


## Awareness of General Plan



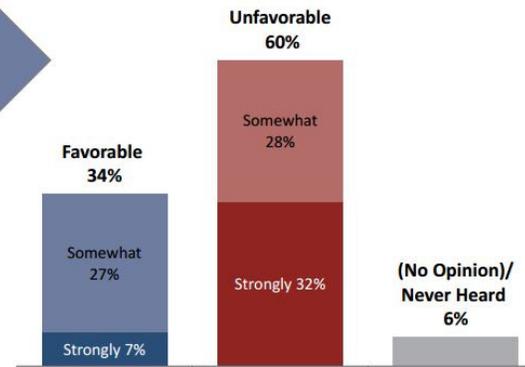
More than a third of voters have heard something about the General Plan, and among those who are familiar it is overwhelmingly unpopular.

How much, if anything, have you heard or seen recently about the Los Gatos 2040 General Plan? Have you heard a lot, some, not too much, or nothing at all?



Heard (n=158)

And do you have a favorable or unfavorable opinion of the Los Gatos 2040 General Plan?



Q12 and 15.

21-8285 Los Gatos 2040 General Plan | 10

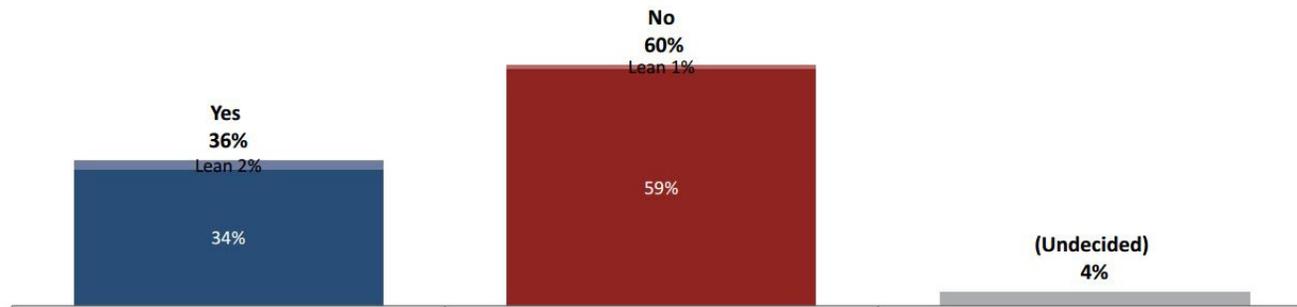


## Informed Referendum Vote Preference



If the Town Council adopts the 2040 General Plan, voters may have an opportunity on a future ballot to vote in a referendum to approve or reject the plan.

If the election were held today, would you vote yes to approve or no to reject the proposed 2040 General Plan?



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## What If The General Plan Costs More \$\$ ?



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# Fiscal Impact Analysis

APRIL 2022



## General Plan and Fiscal Impact Analysis

- The General Plan is the primary tool for guiding future development in the Town of Los Gatos for the next 20 years
- The General Plan is the framework of making CHOICES about growth, housing, transportation, neighborhood improvement and service delivery.
- A Fiscal Impact Analysis documents the General Fund revenues and costs and capital investment that are attributable to alternative land use scenarios considered by the General Plan Update process.
- Just like an Environmental Impact report documents the environmental impacts, a FIA documents the fiscal impacts.



## Does Growth Impact Operations?

- The Town provides services and infrastructure to residents and workers as reflected in the Town's budget
- Residents and workers consume services, and pay for those services through taxes and fees
- Therefore, new growth will consume additional services and pay additional taxes and fees
- Big Question – What is the balance of new costs and revenues from new growth?
- A Fiscal Impact Analysis will provide the answer

## Alternative Population Growth Scenarios

The Draft General Plan contains by far the highest Compound Annual Growth Rate (CAGR) assumption

Population Growth Scenarios	2018 Population (Estimate)	2040 Population (Projected)	Growth 2018 to 2040	CAGR 2018-2040
ABAG Projections 2040	31,472	33,050	1,578	0.2%
Alternative A: Low Growth	30,995	33,769	2,774	0.4%
Alternative B: Medium Growth	30,995	35,533	4,538	0.6%
Alternative C: Medium-High Growth	30,995	36,522	5,527	0.7%
Alternative D: High Growth	30,995	38,617	7,622	1.0%
<b>General Plan</b>	30,995	39,966	8,971	1.2%

## So What Is A Fiscal Impact Analysis (FIA)?

- A fiscal impact analysis is a test to see whether or not the growth-related demand for services and infrastructure, as reflected in the city's budget expenditures, will be balanced by the additional revenues generated by growth



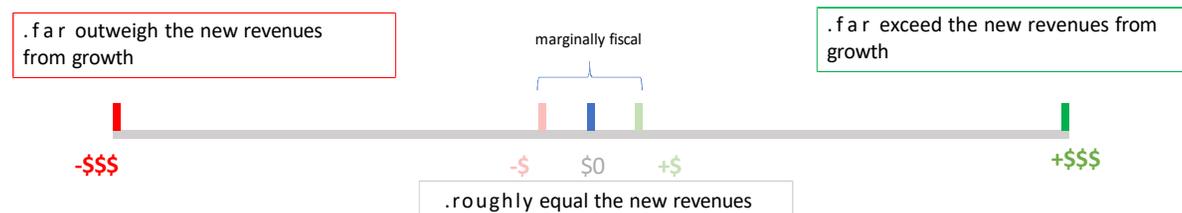


## **A FIA Provides Support To Decision Makers and Community Stakeholders**

- Identifies projected changes to local services and revenues
- Helps define achievable levels of service
- Projects capital facility needs
- Clarifies development policy impacts
- Calculates revenues and helps in the development of revenue strategies
- Encourages “what if” questions
- Promotes public education of the connection between land use and fiscal conditions.

## What Will The Findings Tell Us?

The costs that will be required to scale operations and/or provide new infrastructure to accommodate growth projected in the General Plan.



- There are **many potential interpretations** for the range of fiscal results
- The fiscal results **do not** provide a projection of future budget levels

## Alternative Mix of Housing Analyzed

	Alt. A	Alt. B	Alt. C	Alt. D	General Plan
Net New Dwellings	681	1,416	1,828	2,700	2,763
Pending/Approved Dwelling Units	475	475	475	475	475
Subtotal	1,156	1,891	2,303	3,175	3,238
Accessory Dwelling Unit (ADU)	-	-	-	-	500
Total Residential Units	1,156	1,891	2,303	3,175	3,738
Single Family	391	328	371	550	550
Multi-Family	765	1,563	1,932	2,625	3,188
Below-Market Purchase (BMP) Units	149	238	293	464	847
BMP Units: % of Total Residential	13%	13%	13%	15%	23%

## FIA Development Assumptions

Land Use Designation	Alternative D: High Growth						FAR
	Redevelopment Percent		Density Range (DU/AC)		Typical Density (DU/AC)		
	Outside OA	Inside OA	Outside OA	Inside OA	Outside OA	Inside OA	
LDR	10%	15%	5 to 12	12 to 20	10	16	0.75
MDR	15%	15%	14 to 24	14 to 24	20	20	1
HDR	15%	20%	20 to 30	30 to 40	26	36	1.5
NC	15%	15%	20 to 30	20 to 30	26	26	1
MU	15%	20%	30 to 40	30 to 40	36	36	1.5

- Redevelopment percentage is the percentage of the total area under each land use designation assumed to be redeveloped within the 2040 planning period



## 2040 General Plan

- Density changes Town wide

Land Use Designation	Density Range (du/ac)		Typical Density		Redevelopment Assumptions		Draft General Plan	
	Existing General Plan	Draft General Plan	Existing General Plan	Draft General Plan	Derived Draft GP Total Units	Assumed Redevelp %	New Housing (redev)	New Housing (vacant)
Low Density Residential	0 to 5	1 to 12	4	12	1,680	5%	84	283
Medium Density Residential	5 to 12	14 to 24	10	20	3,430	10%	343	224
High Density Residential	12 to 20	30 to 40	18	36	1,787	15%	268	110
Neighborhood Commercial	10 to 20	10 to 20	16	18	910	10%	91	26
Community Commercial	0	20 to 30	0	26	1,040	15%	156	
Mixed-Use	10 to 20	30 to 40	16	36	3,025	20%	605	126
Central Business District	10 to 20	20 to 30	16	26	753	15%	113	21
Office Professional	0	30 to 40	0	36	1,700	15%	255	4
Service Commercial	0	20 to 30	0	26	293	15%	44	10
<b>Subtotal</b>					<b>14,618</b>		<b>1,959</b>	<b>804</b>
Housing Units, New and Redeveloped								2,763
Housing Units, ADUs								500
Subtotal								3,263
Housing Units, Existing Projects								475
<b>Total</b>								<b>3,738</b>

## Comparison of Alternatives – Net Fiscal Impact

	Alt. A	Alt. B	Alt. C	Alt. D	General Plan
Annual Revenues	\$ 4,320,000	\$ 5,796,000	\$ 6,564,000	\$ 8,378,000	???
Annual Costs	\$ (3,710,000)	\$ (5,280,000)	\$ (6,264,000)	\$ (8,413,000)	???
Net Fiscal Impact	\$ 610,000	\$ 516,000	\$ 300,000	\$ (35,000)	???
Residential Net Impact	\$ 190,000	\$ 96,000	\$ (120,000)	\$ (455,000)	???
Non-residential Net Impact	\$ 420,000	\$ 420,000	\$ 420,000	\$ 420,000	\$ 420,000

- Alternative C – 2,303 units – annual revenues exceed annual costs by \$300,000
- Alternative D – 3,175 units – annual costs exceed annual revenues by \$35,000
- General Plan – Unknown but must be worse than Alt D given higher growth and housing mix shift



Alternative D							
	Total	Single Family	Multi-Family	Commercial	Industrial	Office	Institutional
<b>REVENUES</b>							
Property Tax	\$3,419,046	\$744,996	\$2,186,673	\$391,559	\$29,284	\$60,067	\$6,467
Property Tax in lieu of VLF	\$915,576	\$199,500	\$585,563	\$104,854	\$7,842	\$16,085	\$1,732
Sales Tax	\$1,178,463	\$213,283	\$598,593	\$290,125	\$11,293	\$64,645	\$524
Franchise Fees	\$477,885	\$75,883	\$362,169	\$23,001	\$6,671	\$9,852	\$310
Transient Occupancy Tax	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other taxes	\$272,131	\$43,211	\$206,236	\$13,098	\$3,799	\$5,610	\$176
Licenses and Permits	\$657,495	\$104,403	\$498,287	\$31,646	\$9,179	\$13,555	\$426
Intergovernmental	\$228,500	\$39,583	\$188,917	\$0	\$0	\$0	\$0
Town Services	\$841,339	\$133,595	\$637,614	\$40,494	\$11,745	\$17,345	\$545
Fines and Forfeitures	\$92,376	\$14,644	\$69,891	\$4,528	\$1,313	\$1,939	\$61
Interest Earnings and Rents	\$121,642	\$23,534	\$80,524	\$13,372	\$1,231	\$2,839	\$153
Other Revenues	\$69,232	\$10,993	\$52,468	\$3,332	\$966	\$1,427	\$45
Transfers in	\$104,680	\$16,622	\$79,333	\$5,038	\$1,461	\$2,158	\$68
<b>TOTAL REVENUES</b>	<b>\$8,378,365</b>	<b>\$1,620,237</b>	<b>\$5,546,267</b>	<b>\$921,048</b>	<b>\$84,785</b>	<b>\$195,521</b>	<b>\$10,507</b>
<b>EXPENDITURES</b>							
General Government	\$1,426,709	\$223,897	\$1,068,600	\$90,283	\$17,380	\$25,712	\$836
Community Development	\$1,138,904	\$177,787	\$848,529	\$80,834	\$12,504	\$18,523	\$726
Police Dept.	\$3,289,855	\$512,610	\$2,446,546	\$237,738	\$36,776	\$54,478	\$1,707
Library	\$570,505	\$90,590	\$432,361	\$27,459	\$7,964	\$11,761	\$370
Parks and Public Works	\$479,596	\$76,028	\$362,859	\$23,507	\$6,818	\$10,068	\$316
Transfers Out	\$1,507,050	\$239,303	\$1,142,128	\$72,536	\$21,039	\$31,069	\$977
<b>TOTAL EXPENDITURES</b>	<b>\$8,412,619</b>	<b>\$1,320,214</b>	<b>\$6,301,023</b>	<b>\$532,357</b>	<b>\$102,482</b>	<b>\$151,612</b>	<b>\$4,932</b>
<b>TOTAL BUDGET NET (DEFICIT) SURPLUS</b>	<b>(\$34,253)</b>	<b>\$300,023</b>	<b>(\$754,755)</b>	<b>\$388,691</b>	<b>(\$17,697)</b>	<b>\$43,910</b>	<b>\$5,575</b>

- The mix of single family VS. multi-family units has a material impact on the fiscal analysis



## Major Shortcomings of The Town's FIA

- The fiscal analysis did not study the 2040 Draft General Plan –
  - Studied the impact of adding **3,175 total units** including **464 BMP** units and **0 ADU's**
  - 2040 GP consists of **3,738 total units** including **847 BMP** units and **500 ADU's**
- No base case or downside case scenarios were presented – consultants stated “consider a best-case scenario over the long run”
- Amount of property tax revenues and sales tax is extremely dependent on the mix of units in each land use alternative
- The revenue generating potential of development will decline as Prop 13 limits the escalation of assessed values compared to inflation of municipal service costs

## Major Shortcomings of The Town's FIA

- The analysis is for full buildout at one point in time and does not consider effects of inflation over 20-year period, which will affect the Town's revenues and costs differently
  - From FY 2018 -21 total salaries, wages and benefits increased at a 11% CAGR VS Total General Fund Revenues increased at 1.8% CAGR
  - A 20 year build out of cost/revenue trends by year is required to determine fiscal impacts of inflation and growth
- The analysis is based on pre-pandemic financial information and does not reflect the Town's current budget and most recent five- year outlook
  - Five-year outlook is projecting annual operative deficits each year and a cumulative deficit of \$10.4m



## Major Shortcomings of The Town's FIA

- Analysis did not evaluate current departmental capacity nor additional staff or facilities needed to support planned growth
  - Police and Fire safety costs are highly variable with growth
- Analysis did not evaluate the Town's ability to maintain service standards
  - A negative fiscal impact would suggest the Town would must reduce service standards

## Major Shortcomings of The Town's FIA

- The analysis did not expand beyond the General Fund to the Appropriated Reserves Fund (GFAR) which is used to fund capital projects
  - Money transferred from the General Fund to GFAR
    - FY 19 - \$2.8m, FY 20 - \$8.1m, FY 21 - \$3.4m
  - Ability to fund \$80.0m of unfunded capital projects
- The analysis did not address cost of increasing facilities and infrastructure capabilities resulting from 2040 GP growth
  - A 25% growth in VMT will require more street and road maintenance expenditures
  - Storm water system is outdated, shallow and undersized



## **But....not all is lost.....some obvious conclusions**

- Less residential growth is better – limit to RHNA 1,993 plus required buffer
- Land use mix should be planned to generate a fiscally neutral outcome – will be challenging given mix of BMP to total units
- Residential growth focused in Opportunity Areas will have a different fiscal impact than growth Town wide
- Commercial growth such as work/live units would appear to have a net positive fiscal impact
- Given the difference in historical growth rates in salary, wages and benefits vs total revenues, impact of inflation and large unfunded capital needs, substantial new sources of revenues will need to be found
  - How much and how quickly can be answered by a proper FIA.



## **In Closing – two key questions that need to be asked**

- How do we really know if the 2040 draft General Plan is Fiscally Stable and Responsible?
- Who benefits from NOT doing a FIA of the 2040 General Plan ?



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**Thank you**