



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 06/06/2023

ITEM NO: 13

DATE: May 30, 2023

TO: Mayor and Town Council

FROM: Laurel Prevetti, Town Manager

SUBJECT: Operating and Capital Budgets

- a. Adopt a Resolution Approving the Town of Los Gatos Fiscal Year (FY) 2023/24 Operating Budget and FY 2023/24 – 2027/28 Capital Improvement Program (CIP), New Appropriations, Additional Council Actions on May 16, 2023; American Rescue Plan Act Budget Adjustment, Minor Corrections, and Carry-Forward Appropriations.
- b. Adopt a Resolution Approving Commitment of Fund Balances under GASB 54.
- c. Approve FY 2022/23 Budget Adjustments:
  - 1. Major Revenue Adjustments to Match Year-End Estimated Revenues as Directed by the Town Council on May 16, 2023 and as Determined from Updated Information
    - i. Property Tax revenue Increase in the Amount of \$140,000,
    - ii. Educational Realignment Augmentation Fund (ERAF) Revenue Increase in the Amount of \$818,891.60 and Reserve 30% (689,607.60) of the Total Proceeds (\$2,298,691.60) in an ERAF Risk Reserve,
    - iii. Transient Occupancy Tax Increase in the Amount of \$348,547,
    - iv. Interest Revenue Increase in the Amount of \$237,074,
    - v. Sales Tax Revenue Increase in the Amount of \$121,878 (\$124,851 Increase in Regular Sales Tax and \$2,973 Decrease in Measure G Sales Tax),
    - vi. Business License Tax Revenue Decrease in the Amount of \$133,890,
    - vii. Plan Check Pass Through Service Revenue Increase in the Amount of \$125,000,

PREPARED BY: Gitta Ungvari  
Finance Director

Reviewed by: Town Manager and Town Attorney

- viii. Map Plan Check Pass Through Service Revenue Increase in the Amount of \$120,000,
  - ix. OPEB Trust Withdrawal Revenue Decrease in the Amount of \$902,579 as Current Year End Estimates FY 2022/23 Surplus,
  - x. Recognize \$140,195 General Fund Salary Reimbursement for Capital Improvement Staff Work,
  - xi. Recognize Additional Police Foundation Donation Received in the Amount of \$50,195, and
  - xii. Recognize up to \$20,000 General Fund Salary Reimbursement for Enterprise Resource Upgrade Project Staff Work.
- 2. Expenditure Increases:
  - i. In the Amount of \$140,195 for General Fund Salary Reimbursement for Capital Improvement Staff Work,
  - ii. In the Amount of \$125,000 for Plan Checking Pass Through Services,
  - iii. In the Amount of \$100,000 for Map Plan Checking Pass Through Services,
  - iv. In the Amount of \$50,195 to Authorize the Spending the Additional Police Foundation Donation Received,
  - v. In the Amount of \$32,000 to Cover Third Party Business License Administrator Services, and
  - vi. In the Amount of up to \$20,000 General Fund Salary Reimbursement for Enterprise Resource Upgrade Staff Work.
- 3. Approve American Rescue Plan Act (ARPA) Replacement Revenue Tracking Pass Through Revenue and Expenditures Budget Adjustments in the Amount of \$453,465.
- d. Adopt the Following Salary Schedules:
  - 1. Salary Schedule for Management Classifications Effective April 2, 2023,
  - 2. American Federation of State, County, and Municipal Employees (AFSCME) Salary Schedule Effective July 9, 2023,
  - 3. Police Officer Association (POA) Salary Schedule Effective July 9, 2023,
  - 4. Town Employees' Association (TEA) Salary Schedule Effective July 9, 2023,
  - 5. Salary Schedule for Confidential Classifications Effective July 9, 2023,
  - 6. Salary Schedule for Management Classifications Effective July 9, 2023, and
  - 7. Salary Schedule for Temporary/Hourly Classifications Effective July 9, 2023.

RECOMMENDATION:

Operating and Capital Budgets

- a. Adopt a Resolution Approving the Town of Los Gatos Fiscal Year (FY) 2023/24 Operating Budget and FY 2023/24 – 2027/28 Capital Improvement Program (CIP), New Appropriations, Additional Council Actions on May 16, 2023; American Rescue Plan Act Budget Adjustment, Minor Corrections, and Carry-Forward Appropriations.
- b. Adopt a Resolution Approving Commitment of Fund Balances under GASB 54.
- c. Approve FY 2022/23 Budget Adjustments:
  1. Major Revenue Adjustments to Match Year-End Estimated Revenues as Directed by the Town Council on May 16, 2023; and as Determined from Updated Information
    - i. Property Tax revenue Increase in the Amount of \$140,000,
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    - iii. Transient Occupancy Tax Increase in the Amount of \$348,547,
    - iv. Interest Revenue Increase in the Amount of \$237,074,
    - v. Sales Tax Revenue Increase in the Amount of \$128,878 (\$124,851 Increase in Regular Sales Tax and \$2,973 Decrease in Measure G Sales Tax),
    - vi. Business License Tax Revenue Decrease in the Amount of \$133,890,
    - vii. Plan Check Pass Through Service Revenue Increase in the Amount of \$125,000,
    - viii. Map Plan Check Pass Through Service Revenue Increase in the Amount of \$120,000,
    - ix. OPEB Trust Withdrawal Revenue Decrease in the Amount of \$902,579 as Current Year End Estimates FY 2022/23 Surplus,
    - x. Recognize \$140,195 General Fund Salary Reimbursement for Capital Improvement Staff Work,
    - xi. Recognize Additional Police Foundation Donation Received in the Amount of \$50,195, and
    - xii. Recognize \$20,000 General Fund Salary Reimbursement for Enterprise Resource Upgrade Project Staff Work.
  2. Expenditure Increases:
    - i. In the Amount of \$140,195 General Fund Salary Reimbursement for Capital Improvement Staff Work,
    - ii. In the Amount of \$125,000 for Plan Checking Pass Through Services,
    - iii. In the Amount of \$100,000 for Map Plan Checking Pass Through Services,
    - iv. In the Amount of 50,195 to Authorize the Spending the Additional Police Foundation Donation Received,
    - v. In the Amount of \$32,000 to Cover Third Party Business License Administrator Services, and
    - vi. In the Amount of \$20,000 General Fund Salary Reimbursement for Enterprise Resource Upgrade Staff Work.

3. Approve ARPA Replacement Revenue Tracking Pass Through Revenue and Expenditure Adjustments in the amount of \$453,465.
- d. Adopt the Following Salary Schedules:
  1. Salary Schedule for Management Classifications Effective April 2, 2023,
  2. American Federation of State, County, and Municipal Employees (AFSCME) Salary Schedule Effective July 9, 2023,
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  4. Town Employees' Association (TEA) Salary Schedule Effective July 9, 2023,
  5. Salary Schedule for Confidential Classification Effective July 9, 2023,
  6. Salary Schedule for Management Classifications Effective July 9, 2023, and
  7. Salary Schedule for Temporary/Hourly Classifications Effective July 9, 2023.

BACKGROUND:

On April 17, 2023, the Proposed FY 2023/24 Operating and Capital Budgets were posted to the Town's website. Per Measure A, the Finance Commission received the Proposed Budgets 21 business days before May 16, 2023, which is the first meeting at which the Proposed Budgets were considered by the Town Council. The Finance Commission held three public meetings at which Commissioners discussed the Proposed Budgets and provided recommendations to the Town Council per Measures A and G.

On May 16 2023, the Town Council conducted public hearings to discuss the proposed FY 2023/24 Operating and Capital Summary Budget and Proposed FY 2023/24– 2027/28 Capital Improvement Program. The Town Council considered public testimony, discussed both documents, considered the Finance Commission recommendations, and directed staff to bring back the documents for final approval incorporating the Council recommendations.

DISCUSSION:

The draft resolution (Attachment 1) incorporates the budget direction provided by the Council at the May 16, 2023 budget hearing including building in a 4.6% vacancy factor.

Attachment 2 contains the resolution to formally move General Fund balances based on the Town Council General Fund Reserve Policy and additional Council direction consistent with General Accounting Standards Board (GASB) 54.

In May, the Council directed that the proposed revenues reflect 100% of the projected Education Realignment General Fund (ERAF) revenue. This is built into the Resolution for the adoption of the budget (Attachment 1).

As requested by Town Council, at least three other jurisdictions in Santa Clara County with ERAF proceeds over \$1 million have started to reserve the at-risk amount since FY 2021/22 (Milpitas

DISCUSSION (continued):

30%, Palo Alto 25%, and Santa Clara 30%). Mountain View and Sunnyvale are recognizing the ERAF revenue as a one-time revenue.

Based on this information, staff recommends establishing an ERAF Risk Reserve and reserve 30% of the anticipated proceeds in FY 2022/23 and FY 2023/24. Staff recommends continuing to reserve the at-risk amount until the lawsuit is resolved. If the result of the lawsuit is unfavorable to the Town, the County will reduce the Town Property Tax distribution by the at-risk amount; in this case, this reserve would provide the funding gap. If the lawsuit result is favorable to the Town, staff will come back to Council for direction on how to spend the accumulated reserve.

Upon Treasury's release of the simplified reporting process for entities awarded less than \$10 million in American Rescue Plan Act (ARPA) funding and additional guidance received through staff review of federal compliance issues, the Town recognized the \$3.4M in FY 2021/22 and will recognize the \$3.6M FY 2022/23 cash collections of ARPA revenues as qualified revenue loss under the Treasury provisions for use in providing essential government services. To further aid in compliance with federal uniform guidance and Single Audit requirements, staff claimed the lost revenue for use in providing essential government services and eligible public safety payroll costs for both FY 2021/22 and FY 2022/23. This action allocates all ARPA "replacement" revenues to the General Fund which in turn will unencumber other General Fund operating revenues which were previously dedicated for public safety costs.

Once the ARPA Revenues were fully recognized as loss revenue, it became part of General Fund and available for Council direction for any lawful government service. Staff is tracking the \$7.2 million total revenue received against Council directed use through pass through revenues and expenditures (Attachment 3). Staff is recommending establishing a Council Priorities – Economic Recovery Reserve to track any unallocated amount of the \$7.2 million.

In anticipation of the end of the 2022/23 fiscal year, the Council is being asked to make several revenue and expenditure budget adjustments. These adjustments recognize circumstances that have changed since the Mid-Year Review last February and assist with the annual audit.

As part of the Budget adoption process, the Town Council needs to adopt the salary schedules as separate actions (Attachment 4 through 10). As described in the Proposed Operating

Budget, the schedules reflect an approved 3% cost of living increase in the Memoranda of Understanding with the bargaining units. All unrepresented staff would receive the same cost of living increase. In addition, unrepresented Management did not receive a 5% market increase last summer as did all other employees. The Proposed Budget includes a 3% market increase for Management classifications retroactive to April (Attachment 4).

CONCLUSION:

Staff recommends approval of FY 2022/23 budget adjustments, establishment of ERAF Risk and Council Priorities – Economic Recovery Reserves, adoption of a Resolution approving the Town of Los Gatos Fiscal Year (FY) 2023 /24 Operating Budget and FY 2023/24 – 2027/28 Capital Improvement Program (CIP), approval of American Rescue Plan Act Budget Adjustments ARPA Loss Revenue and Expenditure Tracking Adjustments for FY 2022/23, adoption of a Resolution approving commitment of Fund Balances under GASB 54, and adoption of the Salary Schedules for Management effective April 2, 2023, and Salary Schedules for AFSCME, TEA, POA, Confidential, Management and Temporary/Hourly Classifications effective July 9, 2023.

COORDINATION:

The preparation of the budget documents involved the participation of all Town Departments.

FISCAL IMPACT:

The fiscal impact is presented in summary form in the Financial Summaries chapter of the Proposed Operating and Capital Budget for FY 2023/24.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachments:

1. Resolution of the Town Council Approving FY 2023/24 Operating Budget and FY 2023/24 – 2027/28 Capital Improvement Program (with Exhibit A)
2. Resolution of the Town Council of the Town of Los Gatos Approving Commitments of Fund Balance under GASB 54
3. ARPA Revenue Replacement Proceeds Tracking
4. Salary Schedule for Management Classifications Effective April 2, 2023
5. American Federation of State, County, and Municipal Employees (AFSCME) Salary Schedule Effective July 9, 2023
6. Police Officer Association (POA) Salary Schedule Effective July 9, 2023
7. Town Employees' Association (TEA) Salary Schedule Effective July 9, 2023
8. Salary Schedule for Confidential Classification Effective July 9, 2023
9. Salary Schedule for Management Classifications Effective July 9, 2023
10. Salary Schedule for Temporary/Hourly Classifications Effective July 9, 2023
11. Public comments received before publishing the staff report