
Subject: FW: 2019 General Fund Reserves
Attachments: 2019 GF Reserve resolution (002).pdf; ATT00001.htm; Transmittal Letter - GF Balance.pdf; ATT00002.htm

From: Phil Koen <pkoen@monteropartners.com>
Date: December 15, 2019 at 10:08:38 AM PST
To: Marcia Jensen <MJensen@losgatosca.gov>, BSpector <BSpector@losgatosca.gov>, Marico Sayoc <MSayoc@losgatosca.gov>, Rob Rennie <RRennie@losgatosca.gov>, Steven Leonardis <SLeonardis@losgatosca.gov>
Cc: Laurel Prevetti <LPrevetti@losgatosca.gov>, "jvannada@gmail.com" <jvannada@gmail.com>, Terry Duryea <tduryea@aol.com>, Ron Dickel <rondickel@gmail.com>, Rick Tinsley <rnt97@yahoo.com>
Subject: 2019 General Fund Reserves

Dear Honorable Mayor and Council Members,

Before you vote on the proposed resolution which assigns the General Fund Balance as of June 30, 2019 to restricted, committed or assigned reserves, the Council should discuss why the Staff has not recommended any fund balance to be set aside as "unassigned". Under the resolution being considered, all of the General Fund balance will be formally committed. The General Fund Balance can be legally assigned by this Council based on your judgment of the current needs of the Town. The Council is not legally required to follow Town policy in this process.

Secondly, the Council should request the Staff to explain why the actual General Fund Balance as of June 30, 2019 is \$17.1m or 82% greater than what was forecasted at the time the 2019 budget was adopted. I have attached the analysis from the Staff's 2019 Budget transmittal letter which details the forecasted balance as of June 30, 2019. The difference is material and the Council should understand why this has occurred.

Additionally, why wouldn't some of this windfall increase be set aside as "unassigned" thus giving the Council more future flexibility? The proposed fund balance assignment will have \$13.3m allocated to a reserve for Capital Projects. Does this make sense given that the 2019 plan forecasted a balance of \$5.1m which was approved by this Council? Why increase this by \$8.2m if there isn't a specific project need identified? By designating as "unassigned" some amount of fund balance, the Council retains total flexibility to assign these funds in the future as the need arises. The resident members of the Finance Committee raised this issue during the most recent Finance Committee with regard to the assignment of the "closed" Internal Services Funds as "assigned reserves" as opposed to "unassigned".

It should also be pointed out that according to the proposed resolution the Town has a total of \$9.2m (\$5.0m and \$4.2m) available to make an additional discretionary payment to CALPERS to reduce what Moody's has called an "inflated pension liability" which is "unfavorably well above the US median". Given the high level of pension debt and the interest charged by CALPERS on this debt, it is only prudent to reduce this liability as quickly as possible by paying these funds into the CALPERS pension plans.

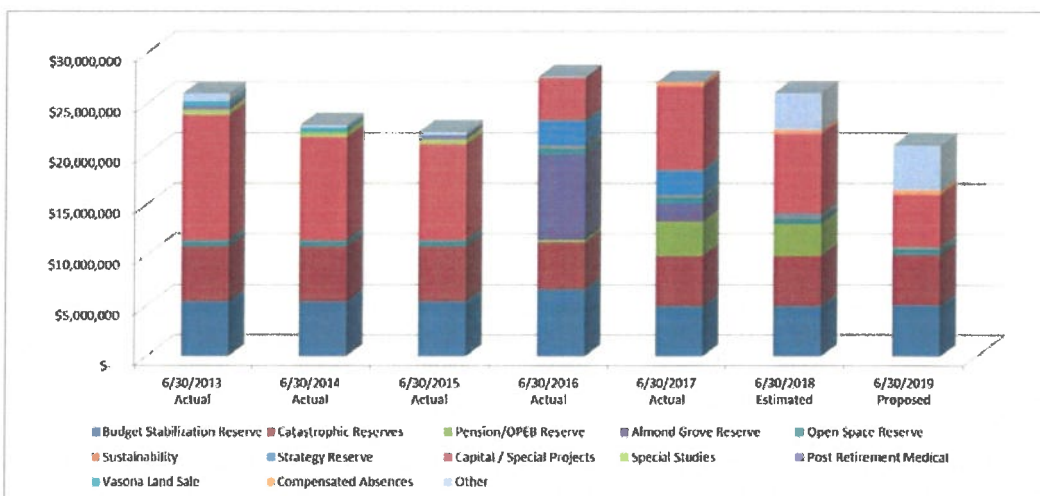
Thank you.

Phil Koen

the Town's RDA. These funds include Certificates of Participation issued to finance several capital improvement projects throughout the Town and repayment of obligations incurred by the Town's RDA prior to its dissolution. The FY 2018/19 budgeted expenditures in this trust fund total \$3.8 million.

GENERAL FUND RESERVES

The total General Fund Reserves are forecasted at a balance of approximately \$20.8 million as of June 30, 2019. As indicated in the next chart, the General Fund reserves are decreasing due to programmed payments to the Town's California Public Employees Retirement System (CalPERS) side-fund payoff in June 2014 of \$4.5 million dollars, transfers to the CIP program in FY 2016/17 (\$7.0 million), FY 2017/18 (\$2.4 million), and FY 2018/19 (\$2.4 million), and the \$4.3 million scheduled payment to the IRS 115 Pension Trust Fund.



General Fund Reserve	6/30/2013 Actual	6/30/2014 Actual	6/30/2015 Actual	6/30/2016 Actual	6/30/2017 Actual	6/30/2018 Estimated	6/30/2019 Proposed
Committed to:							
Budget Stabilization Reserve	\$ 5,450,000	\$ 5,450,000	\$ 5,450,000	\$ 6,621,808	\$ 4,969,847	\$ 4,969,847	\$ 5,037,243
Catastrophic Reserves	5,450,000	5,450,000	5,450,000	4,637,406	4,969,847	4,969,847	5,037,243
Pension/OPEB Reserve	-	-	-	300,000	3,388,913	3,188,913	-
Almond Grove Reserve	-	-	-	8,459,973	1,801,318	-	-
Assigned to:							
Open Space Reserve	562,000	562,000	562,000	562,000	562,000	562,000	562,000
Sustainability				140,553	140,553	140,553	140,553
Strategy Reserve				2,600,000	2,600,000	263,882	129,090
Capital / Special Projects	12,427,161	10,218,579	9,511,527	4,222,405	8,273,124	7,881,738	5,096,118
Special Studies	490,000	490,000	490,000	-	34,852	34,852	34,852
Post Retirement Medical	400,000	-	400,000	-	-	-	-
Vasona Land Sale	410,599	411,245	-	-	-	-	-
Compensated Absences					350,329	350,329	350,329
Other	787,294	297,294	339,837	99,284		3,670,447	4,486,166
Total General Fund Reserve	\$ 25,977,054	\$ 22,879,118	\$ 22,203,364	\$ 27,643,429	\$ 27,090,783	\$ 26,032,408	\$ 20,873,994

Catastrophic and Budget Stabilization Reserves

As per the Town's Reserve Policy, the Catastrophic and Budget Stabilization Reserves are to be maintained at combined minimum funding level of 25% of General Fund ongoing operating

WHEREAS, there exists an assigned Capital/Special Project Reserve in the amount of \$13,262,303;
and

NOW, THEREFORE, THE TOWN COUNCIL OF THE TOWN OF LOS GATOS DOES HEREBY RESOLVE that the following fund balances as of June 30, 2019 as restricted, assigned, or formally committed as follows:

	General Fund	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance				
Restricted for:				
Capital Outlay	\$ -	\$ 133,169	\$ 6,562,064	\$ 6,695,233
Pension	5,015,316	-	-	5,015,316
Repairs and Maintenance			208,139	208,139
Committed to:				
Budget Stabilization	5,419,222	-	-	5,419,222
Catastrophic	5,419,222	-	-	5,419,222
CalPERS/OPEB	4,232,500	-	-	4,232,500
Almond Grove Street Project		2,579,997		2,579,997
Assigned to:				
Open Space	562,000	-	-	562,000
Parking	-	1,460,210	-	1,460,210
Sustainability	140,553	-	-	140,553
Capital/Special Projects	13,262,303	4,344,618	-	17,606,921
Carryover Encumbrances	413,729	-	-	413,729
Comcast PEG	-	50,000	-	50,000
Vehicle Maintenance & Stores	1,040,375	-	-	1,040,375
Compensated Absences	1,232,654	-	-	1,232,654
To Workers' Comp	1,232,653	-	-	1,232,653
Special Revenue Funds	-		326,102	326,102
Total Fund Balances	\$ 37,970,527	\$ 8,567,994	\$ 7,096,305	\$ 53,634,826

PASSED AND ADOPTED at a regular meeting of the Town Council held on the 17th day of December 2019 by the following vote:

COUNCIL MEMBERS:

AYES:

NAYS:

ABSENT:

Subject: Staff Transmittal Letter - Agenda item # 17 - 2019 CAFR
Attachments: Issuer Comment - Town-of-Los-Gatos-CA - 30Aug19.pdf; ATT00001.htm

From: Phil Koen <pkoen@monteropartners.com>

Date: December 15, 2019 at 10:33:36 AM PST

To: Marcia Jensen <MJensen@losgatosca.gov>, BSpector <BSpector@losgatosca.gov>, Marico Sayoc <MSayoc@losgatosca.gov>, Rob Rennie <RRennie@losgatosca.gov>, Steven Leonardis <SLeonardis@losgatosca.gov>

Cc: "jvannada@gmail.com" <jvannada@gmail.com>, Laurel Prevetti <LPrevetti@losgatosca.gov>

Subject: Staff Transmittal Letter - Agenda item # 17 - 2019 CAFR

Dear Honorable Mayor and Council Members,

I believe the transmittal letter from Staff regarding the 2019 CAFR falls short in providing a complete picture. Let me explain why:

1. Reference is made in the Background Section that Moody's recently affirmed the Town's general credit rating with the comment that it is "the highest rating possible". No other comments are made and the report is not provided. I have attached the report for your review. While the statement is correct, it is taken out of context. While Moody's did state the Town's credit position is "superior", Moody's also noted "it also reflects an extremely small debt burden and an inflated pension liability". Additionally the report stated "the Moody's adjusted net pension liability to operating revenues (3.5x) is unfavorably well above the US median". Moody's has computed the Town's adjusted net pension liability to be \$141.9m as of 2018 compared to a US median of \$32.5m. I believe that the transmittal letter should have included this information so the Council has a complete understanding of the Moody's report and specifically how negatively the Town's inflated net pension liability is viewed.

2. Reference is made in Discussion Section that changes made to the draft CAFR are based on "continued staff analysis, public comments, auditor review and Committee members' comments". This does not properly describe the significant input and value-add that the resident members of the Finance Committee provided in redrafting the 2019 CAFR. In fact, all of the redline corrections to the MD&A section and the Statement of Activities, which are material in number and scope, directly resulted from detail comments made by the resident members of the Finance Committee. The number of redline edits speak for themselves. The transmittal letter should have acknowledged the significant contribution made by the residents. I am sure that the Council members of the Finance Committee can confirm the massive contribution the resident members made.

The work put forth in correcting the 2019 CAFR shows the importance of having independent, resident experts advising the Council. I doubt, as do many others, that these corrections would have been made without their involvement. We should give credit where credit is due, especially when it is coming from residents who have volunteered their time and expertise for the betterment of the Town.

Thank you and wishing all of you the very best this Holiday Season.

Phil Koen

Phil Koen public comment dated December 15, 2019

Subject: Staff Transmittal Letter – Agenda item #17 – 2019 CAFR

Attachment not included per Moody's Investors Service disclaimer:

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