



**TOWN OF LOS GATOS**  
**FINANCE COMMISSION REPORT**

MEETING DATE: 10/10/2022

ITEM NO: 3

DATE: October 4, 2022  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Receive Financial Information and Continue Review and Analysis of the Town's Five-Year Forecast

**RECOMMENDATION:**

Receive financial information and continue review and analysis of the Town's Five-Year Forecast.

**DISCUSSION:**

On June 21, 2022, the Town Council adopted revisions related to salary and benefit costs associated with labor agreements adopted on June 7, 2022. The Forecast was partially updated to reflect the adjustments to salary and benefit costs. The following table illustrates the previous projected deficits relative to the updated Forecast.

5 Year Forecast	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 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)

On August 11, 2022, the Town Council adopted a Resolution to modernize the Town's existing business license structure. If approved by the voters on November 8, 2022, the estimated additional revenue generated by the modernization is approximately \$1,100,000 annually. The table on the following page illustrates the potential impacts to the forecast assuming the modernization is approved by voters.

**PREPARED BY:** Arn Andrews  
Assistant Town Manager

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

DISCUSSION (continued):

5 Year Forecast	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)
Updated Surplus/Deficit	(\$3.8)	(\$4.3)	(\$3.7)	(\$4.0)	(4.0)
Potential Impact of Business License Modernization	\$1.1	\$1.1	\$1.1	\$1.1	\$1.1
Updated Surplus/Deficit	(\$2.7)	(\$3.2)	(\$2.6)	(\$2.9)	(\$2.9)

On September 12, 2022, the Commission received staff analysis for determining a reasonable vacancy factor based on a five-year review of past vacancy savings (Attachment 1). The table below illustrates the potential impact to the forecast assuming a 4% salary and benefit savings based on the Fiscal Year 2020/21 actuals to budget.

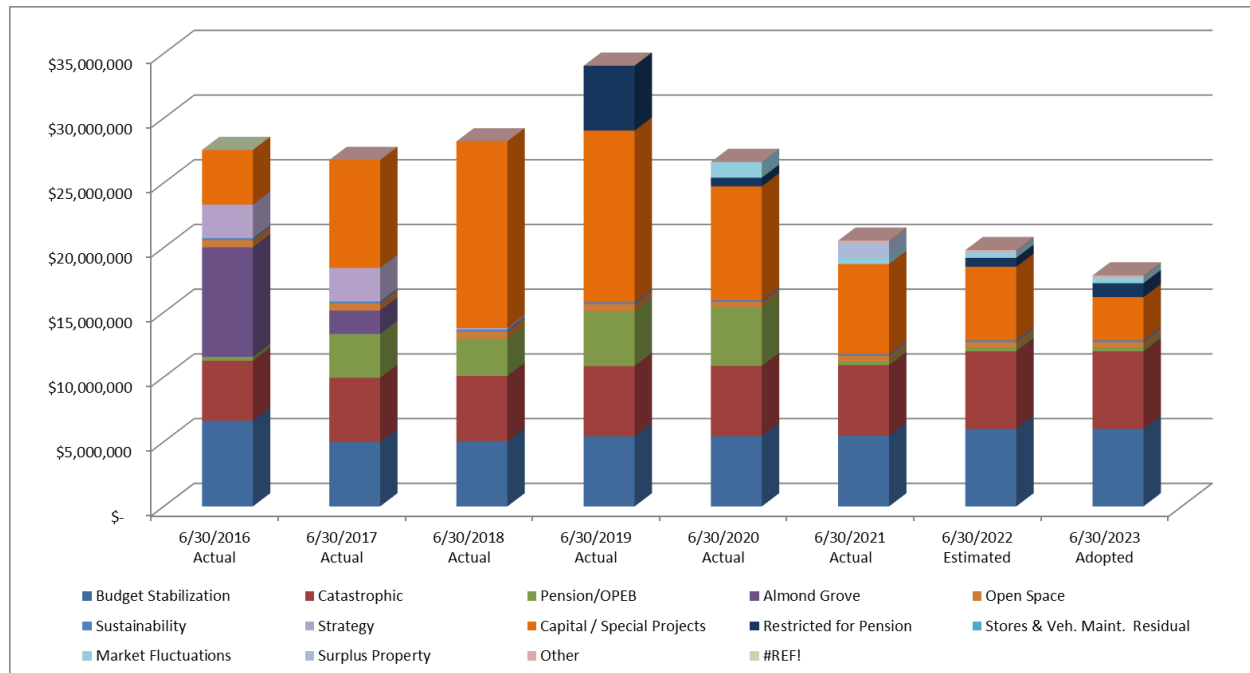
5 Year Forecast	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)
Updated Surplus/Deficit	(\$2.7)	(\$3.2)	(\$2.6)	(\$2.9)	(\$2.9)
Potential Impact of 4% Vacancy Factor	\$1.2	\$1.2	\$1.2	\$1.2	\$1.2
Updated Surplus/Deficit	(\$1.5)	(\$2.0)	(\$1.4)	(\$1.7)	(\$1.7)

On September 12, 2022, Commissioners requested that staff provide some additional historic context of revenues and expenditures which illustrates compound annual growth rate (CAGR) data. Attachment 2 provides Town wide revenue and expenditure growth rates from FY 2015/16 through FY 2022/23. Attachment 3 illustrates Department expenditure growth rates by service area from FY 2018/19 through FY 2022/23.

In addition, on September 12, 2022, Commissioners discussed receiving a review of existing revenues for consideration of other possible incremental revenue enhancement strategies. Commissioners wanted to consider questions such as how soon could the enhancement strategies be considered and how certain are their revenue streams? To facilitate the Commission's revenue review, Attachment 4 contains a summary review of Town revenues. Attachment 5 provides additional information from a previous staff report regarding revenues.

DISCUSSION (continued):

Lastly, the Chair requested current General Fund Reserve data. The following chart and table illustrate the historic breakdown and use of General Fund Reserve balances.



General Fund Reserve	6/30/2016 Actual	6/30/2017 Actual	6/30/2018 Actual	6/30/2019 Actual	6/30/2020 Actual	6/30/2021 Actual	6/30/2022 Estimated	6/30/2023 Adopted
<b>Restricted for:</b>								
Pension				\$ 5,015,316	\$ 669,978	\$ -	\$ 690,000	\$ 1,080,000
<b>Committed to:</b>								
Budget Stabilization	\$ 6,621,808	\$ 4,969,847	\$ 5,037,243	\$ 5,419,222	\$ 5,427,603	\$ 5,460,485	\$ 5,991,566	\$ 5,991,566
Catastrophic	4,637,406	4,969,847	5,037,243	5,419,222	5,427,603	5,460,485	5,991,566	5,991,566
Pension/OPEB	300,000	3,388,913	2,878,913	4,232,500	4,532,500	300,000	300,000	300,000
Almond Grove	8,459,973	1,801,318	-	-	-	-	-	-
<b>Assigned to:</b>								
Open Space	562,000	562,000	562,000	562,000	410,000	410,000	410,000	410,000
Sustainability	140,553	140,553	140,553	140,553	140,553	140,553	140,553	140,553
Strategy	2,600,000	2,600,000	129,090	-	-	-	-	-
Capital / Special Projects	4,222,405	8,332,953	14,421,203	13,262,303	8,787,958	6,965,356	5,682,452	3,332,452
Authorized Carryforward	99,284	34,852	99,927	413,729	-	-	-	-
Compensated Absences		350,329	2,122,512	1,232,653	1,539,408	1,649,917	1,649,917	1,649,917
To Workers' Compensation				1,232,654				
Measure G District Sales Tax					1,181,162	1,730,490	679,443	-
Stores & Veh. Maint. Residual				1,040,375	-	-	-	-
Market Fluctuations					1,218,732	438,333	438,333	438,333
Surplus Property				-		1,200,000	-	-
Other						159,000	159,000	159,000
<b>Total General Fund Reserve</b>	<b>\$ 27,643,429</b>	<b>\$ 27,150,612</b>	<b>\$ 30,428,684</b>	<b>\$ 37,970,527</b>	<b>\$ 29,335,497</b>	<b>\$ 23,914,619</b>	<b>\$ 22,132,830</b>	<b>\$ 19,493,387</b>

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SUBJECT: Review Five-Year Forecast

DATE: October 4, 2022

CONCLUSION AND NEXT STEPS:

Staff looks forward to the Commission's discussion and additional direction regarding the Five-Year Forecast. In November, staff anticipates bringing expenditure reduction options to the Commission for its consideration and discussion.

Attachments:

1. Vacancy Savings Analysis
2. Revenue and Expenditure Growth Rates
3. Department Expenditure Growth Rates
4. Municipal Revenue Summary
5. July 2021 Revenue Review
6. Public Comment received at the September 12, 2022 meeting