



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 02/12/2024

ITEM NO: 4

DATE: February 9, 2024
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review and Make a Recommendation to the Town Council to Accept as Presented or Accept with Modification the FY 24 Five-Year Forecast and Supporting Work Product

RECOMMENDATION:

Review and provide recommendations to the Town Council regarding the Five-Year Forecast (Fiscal Years 2024/25 – 2028/29), assumptions, and scenarios, and provide input for the FY 2024/25 budget direction.

EXECUTIVE SUMMARY:

The base case Five-Year Forecast (FY 2024/25 – 2028/29) (Attachment 2) identifies deficits for all future years, using 2% salary increase assumption and 4.6% vacancy saving factor approved by the Town Council for the FY 2023/24 budget and other assumptions (see Attachments 3 and 4). The deficits are on the order of approximately \$2M per year and can currently be resolved through expenditure controls and the use of one-time funds. The persistent presence of a deficit indicates that the Town needs to consider new revenue measures if it wants to maintain high levels of municipal services.

The sensitivity of the Forecast to its assumptions is demonstrated in this report. The Finance Commission can provide recommendations on the assumptions and selections from different options for Council consideration for the FY 2024/25 budget and provide other budget direction as appropriate. The Capital Program is scheduled for a separate discussion at the next Commission meeting.

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager, and Assistant Town Manager

BACKGROUND:

With the passage of Measure A, the Finance Commission has been tasked with several mandated duties as described in the provisions of the adopted Ordinance. Section 2.50.225. – Duties states that:

- (a) The Finance Commission shall:
Serve as an on-going, substantive and expert advisory body to the Town and Town Council so that the Town and Town Council can make informed decisions about the Town's financial, budgetary and investment matters and operations related thereto.

On February 20, 2024, the Town Council is scheduled to consider the FY 2024/25 Five Year Forecast which is an important component of the annual budget cycle (Attachment 1).

The Commission is welcome to provide comments on the Forecast, its assumptions, and scenarios as well as any comments for consideration in the preparation of the FY 2024/25 Operating Budget. The Finance Commission will have an opportunity to discuss the Capital Program at its March meeting.

DISCUSSION:

An important aspect of the Town's budget development process is taking a multi-year approach to understand revenue and expenditure trends over time. Serving as the foundation of the budget planning process (Attachment 1), the Town develops a Five-Year Financial Forecast ("Forecast") beginning in the winter of each year. The Forecast enables the Town to evaluate the Town's fiscal condition and to help guide policy, programmatic planning, and budget decisions. Development of a financial forecast as part of the budget development process has been identified as a best practice by the Government Financial Officers Association (GFOA).

The Forecast takes a forward look at the Town's General Fund revenues and expenditures and is updated regularly. Its purpose is to identify financial trends, potential shortfalls, and other issues so the Town can proactively address them and budget accordingly. It does so by projecting out into the future the fiscal results of continuing the Town's current service levels and policies. This process helps to provide a snapshot of what the future may look like as a result of the decisions made to date.

The initial Forecast (FY 2024/25 – 2028/29) is predicated on estimates derived from the FY 2023/24 Mid-Year review and includes updates to Town revenues and expenditures based on the Mid-Year end of year projections. Like any forecast, the Forecast's revenue estimates for the first year is the most critical in the process as they ultimately define the expenditure limitations for the upcoming budget year.

DISCUSSION (continued):

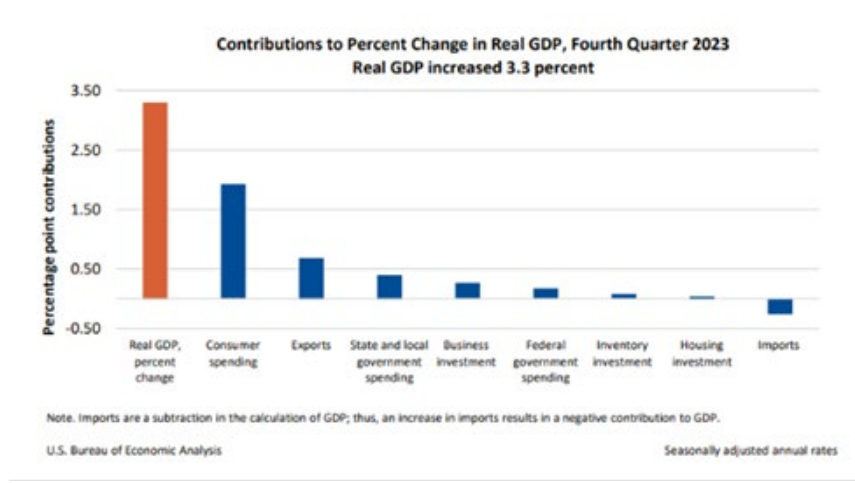
This report contains detailed information that contributes to the preparation of the annual budget, including the Town's "Base Case" Five-Year Forecast, its data sources, and budget assumptions. This report also provides two additional forecast scenarios utilizing a sensitivity analysis for four of the major revenue assumptions. These additional forecast scenarios illustrate the effects on future budgets of a more optimistic revenue scenario ("Greater Growth") and a pessimistic revenue one ("Lower Growth").

The Five-Year Financial Forecast is not a budget, nor a proposed plan. The Five-Year Financial Forecast sets the stage for the upcoming budget process and is a tool in facilitating both the Town Council and Town Manager in establishing priorities and allocating resources appropriately.

National and Local Economic Backdrop

The UCLA Anderson School of Business publishes a quarterly economic forecast for the nation and California. The results of the forecast are utilized as a portion of the macroeconomic basis of the Five-Year Forecast development. In their December 2023 Report, they mentioned that based on their analysis, the chance of recession in U.S. have diminished. Their assessment was backed by strong consumer and government spending that offset the tightening monetary policy in 2022. Their assumption is that the economy will grow 2.4% in 2023, 1.9% in 2024, and 1.5% in 2025. The report indicates the reason for the slower growth in the upcoming years is due mainly to the monetary policy affecting economic growth.

The US economy's resiliency is demonstrated by the Gross Domestic Product (GDP) increase of 4.9% in the third quarter and 3.3% in the fourth quarter of 2023 (Advance Estimate). As the graph below illustrates, the 3.3% increase in GDP is comprised of gains in all areas except imports.



DISCUSSION (continued):

In the quarterly California state report, Anderson indicates that California will outpace the US economy by a small margin. The main areas of concern are the tightened monetary policy and risks of instability in domestic politics and geopolitics. The negative factors are offset by an increase in technical manufacturing and international immigration. Anderson forecasts the state unemployment rate to decline on average from 4.7% in 2023 to 4.5% in 2024 and then 3.8% in 2025. Housing stock is expected to increase based on new building policies. Stock is forecasted to increase to 127,000 net new units in 2024 to 155,000 in 2025.

Operating Revenue Trends and Five-Year Forecast Scenarios

The Town is highly dependent on five economically sensitive revenues comprising 70% of General Fund forecasted revenues. Following are summaries of the Town's major revenues of property tax, sales tax, business license tax, franchise fees, and transient occupancy tax (TOT). To provide context for the development of the Five-Year Forecast (FY 2024/25 – 2028/29), the prior year's growth assumptions and resulting revenue projections are provided. The Base Case Forecast can be found in Attachment 2.

With that context, updated growth assumptions are provided for each revenue source, and the resultant projected revenues for the new Forecast period. The revenue assumptions provided are informed by the County Tax Assessor, the Town's sales tax consultant, and direct communication with the Town's hospitality industry. In addition, alternative forecast scenarios are discussed in this report for these three revenue streams. Please see Attachment 3 for a description of all revenue categories with a comprehensive listing of revenue forecast assumptions.

Property Tax

Property tax is the single largest revenue source for the Town and comprised approximately 42% of total Town estimated General Fund revenues for FY 2023/24. The County of Santa Clara provides property tax collection updates and projections quarterly. The following table illustrates the most recent estimates relative to the Adopted FY 2023/24 Budget and FY 2022/23 actuals. The current County estimate indicates \$654,587 more than the FY 2023/24 Adopted Budget. The increase is a combined effect of higher-than-expected Redevelopment Agency (RDA) Residual Apportionment, and Motor Vehicle License in Lieu (VLF), Educational Revenue Augmentation Fund (ERAF) estimates and decrease in secured property tax estimates and in property transfer tax.

	FY 2022/23 Actual	FY 2023/24 Adopted Budget	FY 2023/24 County Estimates
Property Tax Revenue & Vehicle License Fee Backfill	\$22.7 M	\$23.2 M	\$23.9 M

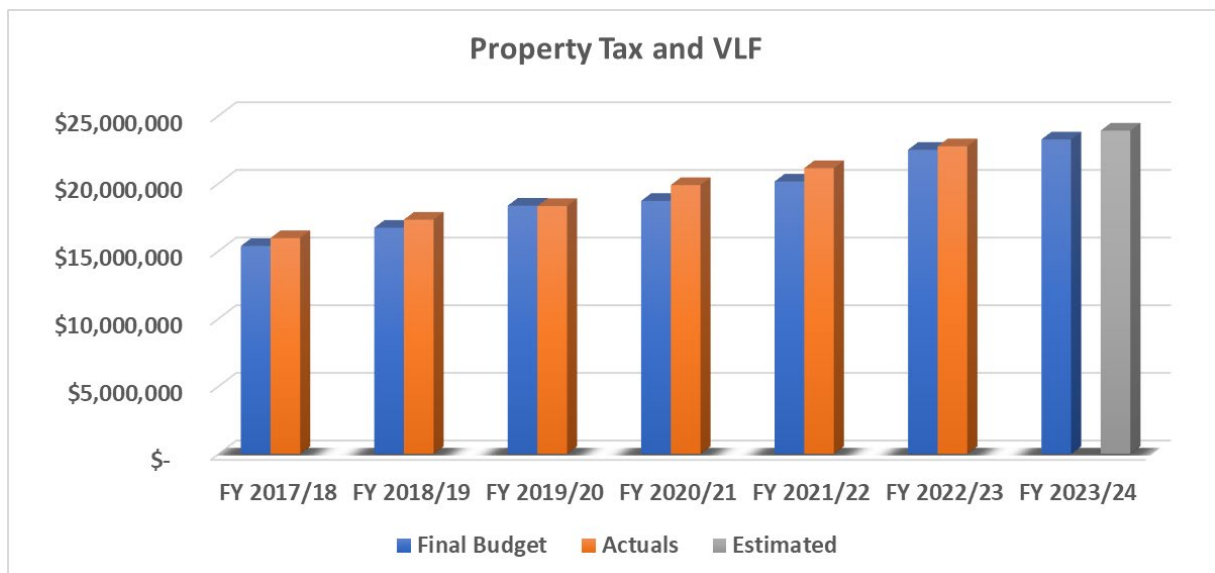
DISCUSSION (continued):

As the following table illustrates, Los Gatos has benefited from the economic expansion as evidenced by year-over-year (YOY) roll growth in property assessment since 2018. For the 6-year period, the average annual growth rate was 6.6%.

	2018	2019	2020	2021	2022	2023	Six Year Average Growth
Total Assesment Roll (Values in Billions)	13.15	13.84	14.9	15.6	16.8	18.1	6.6%
Percent Growth	6.95%	5.23%	7.70%	4.33%	7.77%	7.72%	

Source: Santa Clara County Assessors Annual Reports

The following table illustrates the Town budget to actuals total Property Tax and VLF proceeds for the same time period.

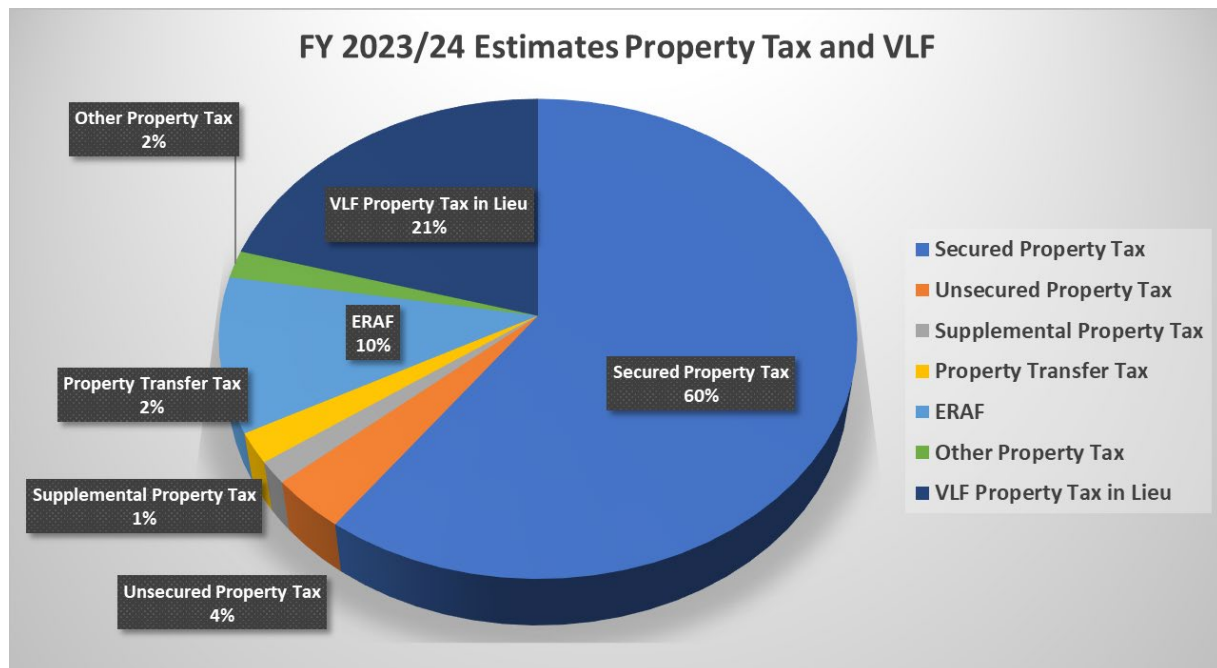


	Budget FY 2017/18	Budget FY 2018/19	Budget FY 2019/20	Budget FY 2020/21	Budget FY 2021/22	Budget FY 2022/23	Adopted FY 2023/24
Final Budget	\$ 15,370,934	\$ 16,718,348	\$ 18,352,880	\$ 18,705,325	\$ 20,138,320	\$ 22,484,118	\$ 23,249,311
Actuals	\$ 15,958,406	\$ 17,321,347	\$ 18,330,426	\$ 19,878,835	\$ 21,129,080	\$ 22,743,088	
Estimated							\$ 23,903,989
Final Budget YOY Growth		8.8%	9.8%	1.9%	7.7%	11.6%	3.4%
Actuals YOY Growth		8.5%	5.8%	8.4%	6.3%	7.6%	
Estimated YOY Growth							5.1%

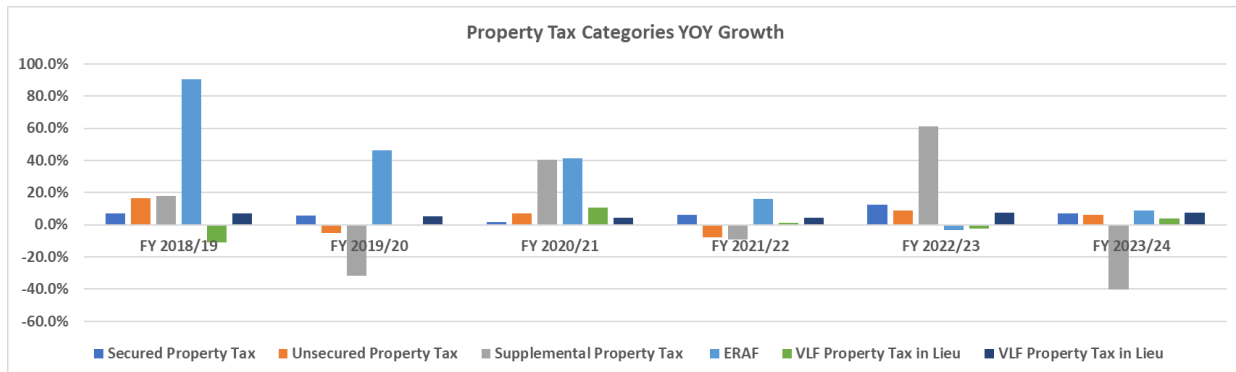
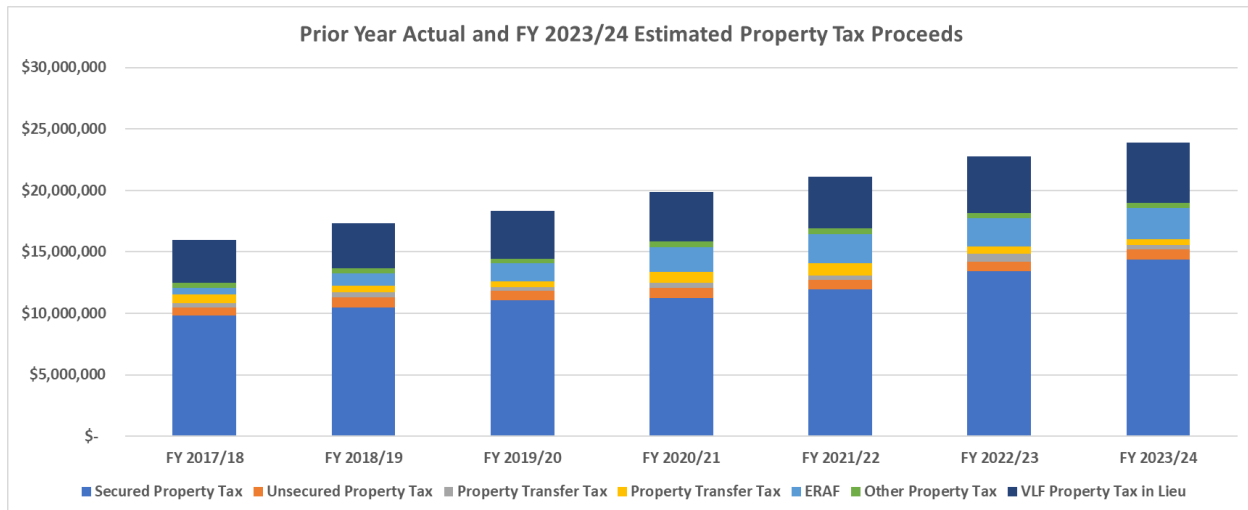
DISCUSSION (continued):

The average YOY Property Tax Budget growth is 7.2% and the Actual Property Tax YOY growth including FY 2023/24 most recent estimates is 7.0%.

The following chart illustrates the major categories of the FY 2023/24 Estimated Property Tax. Secured Property Tax, VLF Property Tax in Lieu, and ERAF constitutes 91% of the current year proceeds.



The following graphs illustrate the historical amounts based on the major categories and the YOY growth of these categories.

DISCUSSION (continued):

	FY 2018/19 Actuals	FY 2019/20 Actuals	FY 2020/21 Actuals	FY 2021/22 Actuals	FY 2022/23 Actuals	FY 2023/24 Estimated	Average YOY Growth
Secured Property Tax	6.9%	5.6%	1.6%	6.1%	12.3%	7.0%	6.6%
Unsecured Property Tax	16.4%	-5.1%	6.9%	-7.8%	8.8%	6.1%	4.2%
Supplemental Property Tax	17.7%	-31.8%	40.3%	-9.0%	61.1%	-40.5%	6.3%
Property Transfer Tax	-21.8%	-9.2%	76.0%	17.0%	-37.8%	-23.2%	0.2%
ERAF	90.5%	46.1%	41.4%	16.1%	-3.1%	8.8%	33.3%
Other Property Tax	-11.1%	-0.2%	10.7%	1.0%	-2.6%	4.1%	0.3%
VLF Property Tax in Lieu	6.9%	5.2%	4.6%	4.4%	7.7%	7.7%	6.1%

As the graphs and table illustrate, the YOY performance for the different property tax categories varies from fiscal year to fiscal year.

DISCUSSION (continued):

Staff analysis includes the three most significant property tax categories.

Secured Property Tax and VLF Property Tax are usually increasing by the growth of the Total Assessment Rolls. The Total 2024 Assessment Roll will be published in July 2024 from the Santa Clara Assessor's Office. In addition to the annual assessment increases and the reassessed Proposition 13 properties as they changed ownership, the historical growth includes the annexation of 24 pockets from Santa Clara County and property sales from the First Phase of North Forty development. VLF Property Tax in Lieu collection based on the assessed roll is included as well.

ERAF, as the chart illustrates above, can vary from year to year, and it is not tied to the Total Assessment Roll. A portion of property tax revenue goes to the ERAF to support local school districts. When the amount contributed to ERAF is more than the minimum cost of funding local schools, excess funds have traditionally been returned to the county, cities, and special districts. The Santa Clara County has only provided projections for the current fiscal year. FY 2024/25 Excess ERAF projections will not be available until March 2024. FY 2025/26 estimates will be available in March 2025. The Town has been monitoring and providing periodic updates to the Finance Commission and to the Town Council on the ongoing developments regarding the distribution of excess ERAF funds. Additional information can be found Attachment 5.

The following table illustrates potential growth factors to choose in the development of the Five-Year Forecast (FY 2024/25 – 2028/29) based on the historical information provided. For each of the three largest revenue categories, staff is asking Finance Commission to select which option to recommend for inclusion in the Forecast.

DISCUSSION (continued):

		FY 2024/25 Assumptions	FY 2025/26 Assumptions	FY 2026/27 Assumptions	FY 2027/28 Assumptions	FY 2028/29 Assumptions
Secured Property Tax	Option A - Lowest YOY over the Last Six Year Period	4.3%	4.3%	4.3%	4.3%	4.3%
	Option B - Normalized for County Annexation and Other One Time Roll Growth ~\$1.5 M	5.1%	5.1%	5.1%	5.1%	5.1%
	Option C - Average YOY Property Tax Roll	6.6%	6.6%	6.6%	6.6%	6.6%
VLF Property Tax in Lieu	Option A - Lowest YOY VLF Revenue Growth over the Last Six Year Period	4.4%	4.4%	4.4%	4.4%	4.4%
	Option B - Normalized based on Property Tax Roll	5.1%	5.1%	5.1%	5.1%	5.1%
	Option C - Average YOY VLF Revenue Growth	6.1%	6.1%	6.1%	6.1%	6.1%
ERAF	Option A - No ERAF	\$0 M	\$0 M	\$0 M	\$0 M	\$0 M
	Option B - 50% of FY 2023/24 Estimated	\$1.25 M	\$1.25 M	\$1.25 M	\$1.25 M	\$1.25 M
	Option C - 70% of FY 2023/24 Estimated based on County Recommendation	\$1.75 M	\$1.75 M	\$1.75 M	\$1.75 M	\$1.75 M
Unsecured Property Tax	4% of Total Property Tax Collections	3.0%	3.0%	3.0%	3.0%	3.0%
Supplemental Property Tax	1% of Total Property Tax Collections varies by sales activity	3.0%	3.0%	3.0%	3.0%	3.0%
Property Transfer Tax	2% of Total Property Tax Collections varies by sales activity	3.0%	3.0%	3.0%	3.0%	3.0%
Other Property Tax	2% of Total Property Tax Collections	3.0%	3.0%	3.0%	3.0%	3.0%

Secured Property Tax:

Option A – Represent the lowest YOY growth rate the last six-year period.

Option B – Represent the normalized (24 County Packet annexation and North 40 First Phase of housing sale, approximately \$1.5 million) YOY growth over the last six-year period.

Option C – Represent the average YOY growth rate the last six-year period.

Staff recommendation is Option B highlighted in orange.

Motor Vehicle in Lieu (VLF):

Option A – Represent the lowest YOY growth rate the last six-year period.

Option B – Represent the normalized total assessed roll YOY growth rate.

Option C – Represent the average YOY growth rate the last six-year period.

Staff recommendation is Option B highlighted in orange.

DISCUSSION (continued):Excess ERAF:

Option A – Since the ERAF is not guaranteed and the FY 2024/25 ERAF estimates are not published until March 2024, one of the options is not to include estimates this time.

Option B – Represent the 50% of the FY 2023/24 Estimated ERAF

Option C – Assumes that the Town will receive 100% of the ERAF proceeds; however, per prior Council direction and the Santa Clara County Assessor's Office advice, 30% is set aside until the lawsuits and audit findings are resolved.

Staff recommendation is Option B highlighted in orange.

Unsecured, Supplemental, Other Property Tax, and Property Transfer Tax:

This category represents 9% of the current proceeds. Staff recommends growing them by 3%.

Staff recommends growing the rest of the property tax (Unsecured, Supplemental, Other Property Tax, and Property Transfer Tax) that represent 9% of the current proceeds by 3%.

For purposes of the Forecast, the "Base Case" utilizes the Option B growth factor for Secured Property Tax, VLF Property Tax in Lieu and Option B (50% of the FY 2023/24 Estimates) for Excess ERAF reflecting the volatility of the revenue source. Option A represent the "Lower Growth" and Option C represent the "Greater Growth" scenarios.

Property Tax (Property Tax & VLF)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)	2028/29 Forecast (\$M)
Option A - Lower Growth	\$22.17	\$23.10	\$24.08	\$25.09	\$26.15
Option B - Base Case	\$23.57	\$24.67	\$25.82	\$27.03	\$28.31
Option C - Higher Growth	\$24.34	\$25.74	\$27.23	\$28.81	\$30.49

Sales Tax

Sales tax is the second largest revenue source for the Town and comprised approximately 15% of total Town estimated General Fund revenues for FY 2023/24. The following table illustrates the most recent projections from the Town's sales tax consultant MuniServices relative to the Adopted FY 2023/24 budget and FY 2023/24 actuals.

DISCUSSION (continued):

	FY 2022/23 Actual	FY 2023/24 Adjusted Budget	January 2024 MuniServices Estimate
Base Sales Tax	\$7.5 M	\$7.8 M	\$6.9 M

	FY 2021/22 Actual	FY 2022/23 Adjusted Budget	January 2024 MuniServices Estimate
Measure G – 1/8 District Tax	\$1.3 M	\$1.3 M	\$1.3 M

Current total sales tax estimates include \$6,960,850 (\$915,383 decrease) in proceeds from regular sales tax and \$1,239,843 (\$36,802 decrease) in proceeds from the Measure G one-eighth cent district tax compared to the Adopted budget. Overall growth rates vary due to the anticipation of when and to what extent inflation may begin to decline. The current forecast incorporates a Recession Inflation Scenario, with the Consumer Price Index for all Urban Customers hitting a target of 2.8% at the middle of 2025. Taxable sales for general retail and transportation are expected to see the greatest impacts. Increased interest rates impact business to business activities, while increased mortgage rates leaves customers with less disposable income. In addition, gas service stations are projecting decreased activity due to the popularity of electric vehicles. The most recent forecast also reflects the change of Netflix discontinuing DVD rentals in September 2023. Actual receipts net of administrative fees collected by the State will be confirmed at the close of the fiscal year. Per prior Council direction, the Measure G funds are allocated 50% for capital improvement projects and 50% for operating expenses.

The following tables illustrates MuniServices Most Likely scenario relative to their “Conservative” and “Optimistic” scenarios. For both sales tax categories, staff is asking Finance Commission to select which option to recommend for inclusion in the forecast.

Base Sales Tax	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)	2028/29 Forecast (\$M)
Option A - Conservative	\$6.54	\$6.64	\$6.74	\$6.83	\$6.91
Option B - Most Likely	\$7.04	\$7.15	\$7.26	\$7.35	\$7.43
Option C- Optimistic	\$7.54	\$7.66	\$7.77	\$7.87	\$7.96

DISCUSSION (continued):

Measure G 1/8 District Tax	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)	2028/29 Forecast (\$M)
Option A - Conservative	\$1.22	\$1.26	\$1.29	\$1.32	\$1.35
Option B - Most Likely	\$1.28	\$1.32	\$1.35	\$1.39	\$1.42
Option C- Optimistic	\$1.33	\$1.37	\$1.41	\$1.45	\$1.48

Staff recommendation is Option B highlighted in orange.

Further Information related Sales Tax context is included as Attachment 6.

Transient Occupancy Tax

TOT is an important revenue source for the Town and comprises approximately 4% of total Town estimated revenues in the amount of \$2.3 million for FY 2023/24. The Town levies a 12% transient occupancy tax (TOT) on all hotel and motel rooms within the municipal limits of Los Gatos.

The following table illustrates TOT FY 2022/23 actuals, the FY 2023/24 Adjusted Budget, and year-end collection estimates.

	FY 2023/24 Actual	FY 2023/24 Adjusted Budget	FY 2023/24 Year-end Estimate
TOT	\$2.2M	\$2.4 M	\$2.3 M

TOT is an important revenue source for the Town and comprises approximately 4% of total Town estimated revenues in the amount of \$2.3 million for FY 2023/24. The Town levies a 12% transient occupancy tax (TOT) on all hotel and motel rooms within the municipal limits of Los Gatos. The 12% rate has been in effect since January 1, 2017, after the voters approved a ballot measure to increase in the TOT from 10% to 12% at the November 8, 2016 election.

During the pandemic, TOT experienced the most significant percentage decline relative to historical adopted budgets. Due to a significant rebound in leisure “staycation” travel and modest improvements in business travel, TOT collections were recovering but current quarter is trending lower than prior year. Based on the current trend, staff is recommending a \$154,516 decrease to this revenue source.

DISCUSSION (continued):

TOT	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Proposed Growth	3%	3%	3%	3%	3%
Estimated Revenues	\$2.3 M	\$2.4 M	\$2.5 M	\$2.6 M	\$2.6 M

For purposes of the Forecast, the “Base Case” utilizes a growth factor as illustrated above and the “Greater Growth” and “Lower Growth” scenarios utilize a 2% differential from the Base Case.

TOT	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)	2028/29 Forecast (\$M)
Option A - Lower Growth 1%	\$2.29	\$2.31	\$2.33	\$2.36	\$2.38
Option B - Base Case 3%	\$2.33	\$2.40	\$2.47	\$2.55	\$2.63
Option C- Greater Growth 4%	\$2.36	\$2.45	\$2.55	\$2.65	\$2.76

TOT:

Staff is asking Finance Commission to select which option to recommend for inclusion in the forecast.

Staff recommendation is Option B highlighted in orange.

Business License Tax

The Town requires all businesses located within Los Gatos and/or those that operate within Los Gatos to obtain a business license. The amount of business license tax paid by each business is based on its business activity. In November 2022, Los Gatos voters approved Measure J, which modernized the Town’s business license tax program. This is the first update to the program since 1991, strengthening funding for core Town services that are enjoyed by Town businesses.

Measure J included a 30% increase on flat rate fees, a 40% increase in retailing gross receipts, and a 120% increase in e-commerce, manufacturing, wholesaling, and jobbing gross receipts. Fees for activities such as wholesale sales and manufacturing are charged on a sliding scale based on gross receipts, as is retail, with retail being capped at \$1,365. These gross receipt activities account for approximately 25% of annual business licenses, while the remaining 75% are flat fee businesses. Annual renewal payments are due on January 2 of each year. Payments for new flat-fee-based businesses are prorated by quarter.

Business license tax revenue projections provided by HdL are trending slightly lower than the adopted budget. Staff is recommending a \$11,347 decrease to this revenue source.

DISCUSSION (continued):

The following table illustrates Business License FY 2022/23 actuals, the FY 2022/23 Adjusted Budget, and FY 2023/24 year-end collection estimates.

	FY 2023/23 Actual	FY 2023/24 Adjusted Budget	FY 2023/24 Year-end Estimate
Business License Tax	\$2.36 M	\$2.44 M	\$2.43 M

Business License Tax	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Proposed Growth	3%	3%	3%	3%	3%
Estimated Revenues	\$2.5 M	\$2.6 M	\$2.7 M	\$2.7 M	\$2.8 M

For purposes of the Forecast, the “Base Case” utilizes a growth factor as illustrated above and the “Greater Growth” and “Lower Growth” scenarios utilize a 2% differential from the Base Case.

Business License Tax	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)
Option A - Lower Growth 1%	\$2.45	\$2.48	\$2.50	\$2.53	\$2.55
Option B - Base Case 3%	\$2.50	\$2.58	\$2.65	\$2.73	\$2.82
Option C - Greater Growth 4%	\$2.53	\$2.63	\$2.73	\$2.84	\$2.96

Business License

Staff is asking Finance Commission to select which option to recommend for inclusion in the forecast.

Staff recommendation is Option B highlighted in orange.

Garbage Franchise Fee

Franchise fees are collected by the Town for the privilege of operating a utility service within Los Gatos, and as a fee in lieu of a business license tax. Franchise fees are currently received from Comcast for cable television, PG&E for gas and electric services, West Valley Collection and Recycling for solid waste collection services, and AT&T and Comcast for video services. Franchise fees represent 6% of projected General Fund revenues in FY 2023/24.

DISCUSSION (continued):

As the Town previously disclosed in the FY 2021/22 Annual Comprehensive Financial Report (ACFR), the California Supreme Court recently issued an opinion in a case challenging the franchise fees that the City of Oakland charges to certain waste hauling companies. In *Zolly v. City of Oakland*, the court concluded that it did not have enough evidence to rule as a matter of law that the fees are exempt from the voter approval requirements that apply to taxes under Proposition 26, Article XIII C of the California Constitution.

However, there are several exceptions to the general rule that a tax must be approved by the voters. One exception (Article IIIC, section 1 (e)(1)) is for “a charge imposed for a specific benefit conferred or privileged granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.”

Town anticipated the impact starting on March 1, 2024 when the new garbage hauler contract goes into effect and reduced the Adopted Budget accordingly. The Town has a seat on the Board of the West Valley Solid Waste Management Authority (WVSWMA), a Joint Powers Authority (JPA) that manages the solid waste contracts. The West Valley Solid Waste Management Authority recently completed Franchise Valuation Study indicates that prior level of proceeds will be restored. Staff is recommending \$1,097,703 increase in garbage franchise fee collection to restore the prior year levels of proceeds, and a \$94,530 increase in PG&E Franchise Fee collection.

The following table illustrates Franchise Fee FY 2022/23 actuals, the FY 2022/23 Adjusted Budget, and FY 2023/24 year-end collection estimates.

	FY 2022/23 Actual	FY 2023/24 Adjusted Budget	FY 2023/24 Year-end Estimate
Franchise Fees	\$3.07 M	\$2.12 M	\$3.31 M

Franchise Fees	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Proposed Growth	3%	3%	3%	3%	3%
Estimated Revenues	\$3.4 M	\$3.5 M	\$3.6 M	\$3.7 M	\$3.8 M

For purposes of the Forecast, the “Base Case” utilizes a growth factor as illustrated above and the “Greater Growth” and “Lower Growth” scenarios utilize a 2% differential from the Base Case.

DISCUSSION (continued):

Franchise Fees	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)
Option A - Lower Growth 1%	\$3.34	\$3.38	\$3.41	\$3.44	\$3.48
Option B - Base Case 3%	\$3.41	\$3.51	\$3.62	\$3.72	\$3.84
Option C- Greater Growth 4%	\$3.44	\$3.58	\$3.72	\$3.87	\$4.03

Franchise Fees:

Staff is asking Finance Commission to select which option to recommend for inclusion in the forecast.

Staff recommendation is Option B highlighted in orange.

Operating Expense Trends and Five-Year Forecast Scenarios

Forecasts of future operating expenditures take into account two key factors: cost escalation and new operating expenditures. New operating expenditures refer to costs created by new or enhanced service programs approved during the annual budget process. Attachment 4 contains the expenditure assumptions.

Cost escalation refers to largely unavoidable increases in the cost of doing business. It includes inflation, multi-year contract costs, health care costs, and unfunded State mandates. Cost escalation also includes other unavoidable cost increases unique to a government organization, such as a rise in wages consistent with collective bargaining agreements and annual pension payments mandated by CalPERS. The Town has three bargaining units, including the Town Employees' Association (TEA), the American Federation of State, County and Municipal Employees (AFSCME), and the Police Officers' Association (POA). The unrepresented groups are Management and Confidential.

For FY 2023/24, General Fund Estimated Operating expenditures (not including debt payment and transfers out) are \$51.6 million. The delivery of Town services is highly dependent on talent which comprises 67.4% of estimated General Fund expenditures. Given the high dependence on labor for service delivery, the Town has helped manage salary escalation (and benefits) through the maintenance of lower staffing levels.

Mandated pension payments to CalPERS has consistently been one of the major cost drivers for the Town over the past decade with persistent unanticipated increases in pension costs. The Town's plans over the past several decades, like all other CalPERS participants, have

DISCUSSION (continued):

experienced unfavorable investment returns, changes in actuarial assumptions, and demographic changes which have outweighed any positive plan experiences. The outcome of these unfavorable economic and demographic results is the development of unfunded pension and Other Post-Employment Benefit (OPEB) obligations for the Town. To address the escalation in pension costs, previous Councils have allocated additional discretionary pension funding, totaling \$10.4 million. These additional discretionary payments will ultimately yield an approximate additional \$12.7 million in contribution savings.

The Town and its bargaining groups have also worked to contain benefit costs. The Town closed the CalPERS retiree Tier 1 benefit for non-safety employees and created a new Tier 2 for non-safety new employees in 2012, implemented the Public Employees' Pension Reform Act (PEPRA) for all new non-classic employees starting in 2013, and participates in the CalPERS discounted prepayment option.

In addition to the management of the Town's pension obligations, prior Councils and the Town's bargaining groups have worked to curb cost escalation in OPEB. In 2009, the Town initiated prefunding of the retiree healthcare benefit and has since established approximately \$23.4 million in OPEB assets (as of 9/31/2023) from zero in 2009. In 2016, the Town's bargaining groups approved the introduction of dependent cost sharing and a reimbursement cap to Medicare eligible employees, and in 2018 the elimination of the Town's existing retiree healthcare benefit prospectively.

While these collective measures have helped to slow the growth in salary and benefit expenses, the Forecast anticipates continued increases in the Town's pension obligations.

Provided below are the expense assumptions for salary and benefits and alternate case scenarios for pension contributions. The majority of other expenses are assumed to increase at 3% per annum. Detailed expenditure assumptions and factors can be found in Attachment 4.

Salary and Benefits

Salary

The Town has historically budgeted vacant and non-sworn positions at top step of the range for the position. Sworn and management positions are budgeted at one step higher of current step in anticipation of any merit increases expected to be awarded in the upcoming fiscal year. Based on Council's direction for FY 2021/22, salaries were budgeted at actual salary plus a one step increase, which was a significant budgeting methodology change from previous practice. In addition, the FY 2023/24 budget built in a 4.6% vacancy factor. These methodologies will be continued for the development of FY 2024/25 budget unless modified by the Town Council.

DISCUSSION (continued):

For the Forecast, positions are budgeted at the actual rate of pay of employees including benefits as of January 2023. Then, by position, salary costs are updated in accordance with the applicable Memorandum of Understanding (MOU) between the Town and its bargaining units. The Memoranda of Understanding that outline the individual agreements between the Town and each unit related to compensation, health benefits, leave time, and grievance procedures will expire with TEA and AFSCME on June 30, 2024. POA's MOU will expire on September 30, 2024. The Management and Confidential groups are unrepresented.

In addition to the economic terms of the MOUs, the Forecast assumes step increases for employees in applicable positions, and merit increases for Management and Confidential employees. In addition, based on prior Council guidance, 2% cost of living wage adjustments (COLA) are included in the Forecast for each year starting in 2024/25 and a 4.6% vacancy factor.

Salaries (2%)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)	2028/29 Forecast (\$M)
Base Case	\$23.10	\$23.62	\$24.09	\$24.63	\$25.17

Pension and Other Benefits

For purposes of the Forecast, staff utilizes estimates provided by each plan's most recent actuarial valuation received from CalPERS. The employer contribution rates reflect percentages of covered payroll. Rates shown for FY 2023/24 are actual rates as prescribed by CalPERS. Forecasted rates for FY 2024/25 and subsequent years are based on the most recent CalPERS Actuarial Valuation Reports as adjusted by the impact related to the FY 2022/23 CalPERS actual investment return and forecasted payroll.

Beginning in FY 2021/22, the estimates of employer contributions were credited with an anticipated reductions associated with the approximate \$4.8 million additional discretionary payment (ADP) toward the 2016 unfunded amortization base paid off in October 2019 and the total of approximately \$5.8 million in ADPs toward unfunded 2013 and 2015 amortization bases that were paid off in FY 2020/21. Other Benefits includes health insurance, life insurance and workers' compensation insurance premium. The forecast models a \$500,000 increase in the Premium Townwide in FY 2024/25 with a 3% growth in the out years to properly recover the cost of the program.

Pension Benefits	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)	2028/29 Forecast (\$M)
Base Case	\$8.98	\$9.15	\$9.72	\$10.32	\$11.22

DISCUSSION (continued):

Other Benefits	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)	2028/29 Forecast (\$M)
Base Case	\$5.59	\$5.78	\$5.97	\$6.18	\$6.39

Given that investment returns have one of the largest impacts on contribution variability, CalPERS provides projected employer Unfunded Actuarial Liability (UAL) contributions under alternate investment returns. Analysis using the investment return scenarios from the Asset Liability Management process completed in 2021 was performed to determine the effects of various future investment returns on required employer contributions.

The projections below reflect the impact of the CalPERS Funding Risk Mitigation policy. The projected normal cost rates reflect that the rates are anticipated to decline over time as new employees are hired into lower-cost benefit tiers. The projections also assume that all other actuarial assumptions will be realized and that no further changes in assumptions, contributions, benefits, or funding will occur. The table shows projected contribution requirements if the fund were to earn either 3.0% or 10.8% annually. These alternate investment returns were chosen because 90% of long-term average returns are expected to fall between these levels over the 20-year period ending June 30, 2041.

UAL Town Contributions (Misc & Safety)	2025/26 Forecast	2026/27 Forecast	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Greater Investment Return Scenario (10.8%)	\$5,492,000	\$5,650,000	\$5,540,000	\$5,469,000	\$1,453,000
Base Investment Return Case (3.0%)	\$5,797,000	\$6,564,000	\$7,381,000	\$8,580,000	\$9,526,000

CalPERS Actuarial Valuations as of June 30, 2022.

For the year ending June 30, 2023, the Public Employees Retirement Fund (PERF) returned 6.1%. The table below illustrates the historic investment returns for five years, ten years, twenty years, and thirty years.

CalPERS Compound Annual Rates of Return (as of June 30, 2022)	5 Years	10 Years	20 Years	30 Years
Compound Annual Return	8.30%	7.10%	8.50%	8.60%

Workers' Compensation and Liability Self Insurance Internal Service Charges

Workers' Compensation Fund and Joint Powers Authority Pooled Liability Network (PLAN) Self-Insurance Fund finance and account for workers' compensation and general liability services for the entire Town.

DISCUSSION (continued):

Increased premium rates and increased claim activities require the Town to increase its Liability Internal Service charges to increase by \$450,000 or 58% percent to assure cost recovery. Staff recommends increasing the internal service rate by \$500,000 or 45% percent to assure cost recovery in the Workers' Compensation Internal Service Fund. Staff incorporated this increase starting FY 2024/25 in the forecast.

Alternative Scenario Other Benefits Without Workers' Comp Rate Increase	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)
	\$5.09	\$5.28	\$5.47	\$5.68	\$5.89

Alternative Scenario Internal Service Charges Without General Liability Rate Increase	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)
	\$3.59	\$3.76	\$3.94	\$4.11	\$4.28

Staff recommends including the increase in the Forecast; however, the Finance Commission can select not to include the rate increase to the Forecast. One-time General Fund transfers will be required at year end if the fund balance is trending negative.

Five-Year Financial Forecast Alternative Scenarios

The tables below present the "Base Case" forecast contrasted against the two alternative revenue scenarios of "Greater Growth" and "Lower Growth." All scenario includes a 4.6% salary saving factor. The fourth scenario presents the predicted results without workers' compensation and self-insurance rate increase. As illustrated in the tables, even modest changes to the "Base Case" forecast can result in either additional surpluses or deficits during the forecast period.

5 Year Forecast "Base Case" with 4.6% Vacancy Factor	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)	2028/29 Forecast (\$M)
Total Revenues & Transfers and Use of Reserves	\$54.5	\$56.3	\$58.1	\$59.6	\$61.4
Total Expenditures & Reserve Allocations	\$56.8	\$58.1	\$60.1	\$61.7	\$63.8
Surplus/Deficit	(\$2.3)	(\$1.8)	(\$2.0)	(\$2.1)	(\$2.4)

DISCUSSION (continued):

Alternative Scenario "Greater Growth" with 4.6% Vacancy Factor	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)	2028/29 Forecast (\$M)
Total Revenues & Transfers and Use of Reserves	\$55.5	\$57.5	\$59.6	\$61.8	\$64.2
Total Expenditures & Reserve Allocations	\$56.8	\$58.1	\$60.1	\$61.7	\$63.8
Surplus/Deficit	(\$1.3)	(\$0.6)	(\$0.5)	\$0.1	\$0.4

Alternative Scenario "Lower Growth" with 4.6% Vacancy Factor	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)	2028/29 Forecast (\$M)
Total Revenues & Transfers and Use of Reserves	\$53.1	\$54.4	\$55.7	\$57.1	\$58.5
Total Expenditures & Reserve Allocations	\$56.8	\$58.1	\$60.1	\$61.7	\$63.8
Surplus/Deficit	(\$3.7)	(\$3.7)	(\$4.4)	(\$4.6)	(\$5.3)

Alternative Scenario "Base Case" with 4.6% Vacancy Factor Without Workers Comp and General Liability Rate Increase	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)	2028/29 Forecast (\$M)
Total Revenues & Transfers and Use of Reserves	\$54.5	\$56.3	\$58.1	\$59.6	\$61.4
Total Expenditures & Reserve Allocations	\$55.9	\$57.1	\$59.1	\$60.7	\$62.7
Surplus/Deficit	(\$1.3)	(\$0.8)	(\$1.0)	(\$1.1)	(\$1.3)

CONCLUSION:

The Finance Commission should review and discuss the elements and select the assumptions of the initial Five-Year Forecast and other budget considerations. The "Base Case" Forecast estimates deficits at this time. Staff looks forward to answering the Finance Commission questions and receiving any recommendations for Council consideration for the preparation of the proposed FY 2024/25 Operating Budget that results from the discussion.

CONCLUSION (continued):

The preparation of the FY 2024/25 Operating and Capital Budgets is taking into account the Town's current economic reality and long term fiscal picture, as well as maintaining the Town's high level of municipal services. This is considered a "status quo" approach with no major new initiatives or staffing. Key budget principles include:

- Develop and recommend a balanced budget that maintains service levels;
- Address projected deficits;
- Continue to make progress on Strategic Priorities identified by the Town Council; and
- Identify opportunities to maintain or enhance service delivery through new revenue sources and technology.

The Capital Improvement Program and direction will be discussed separately at the March meeting. The Finance Commission may also discuss budget assumptions. The Draft FY 2024/25 Operating and Capital Budgets will be available in April for the Finance Commission elaboration with the budget hearing tentatively scheduled for May 21, 2024.

COORDINATION:

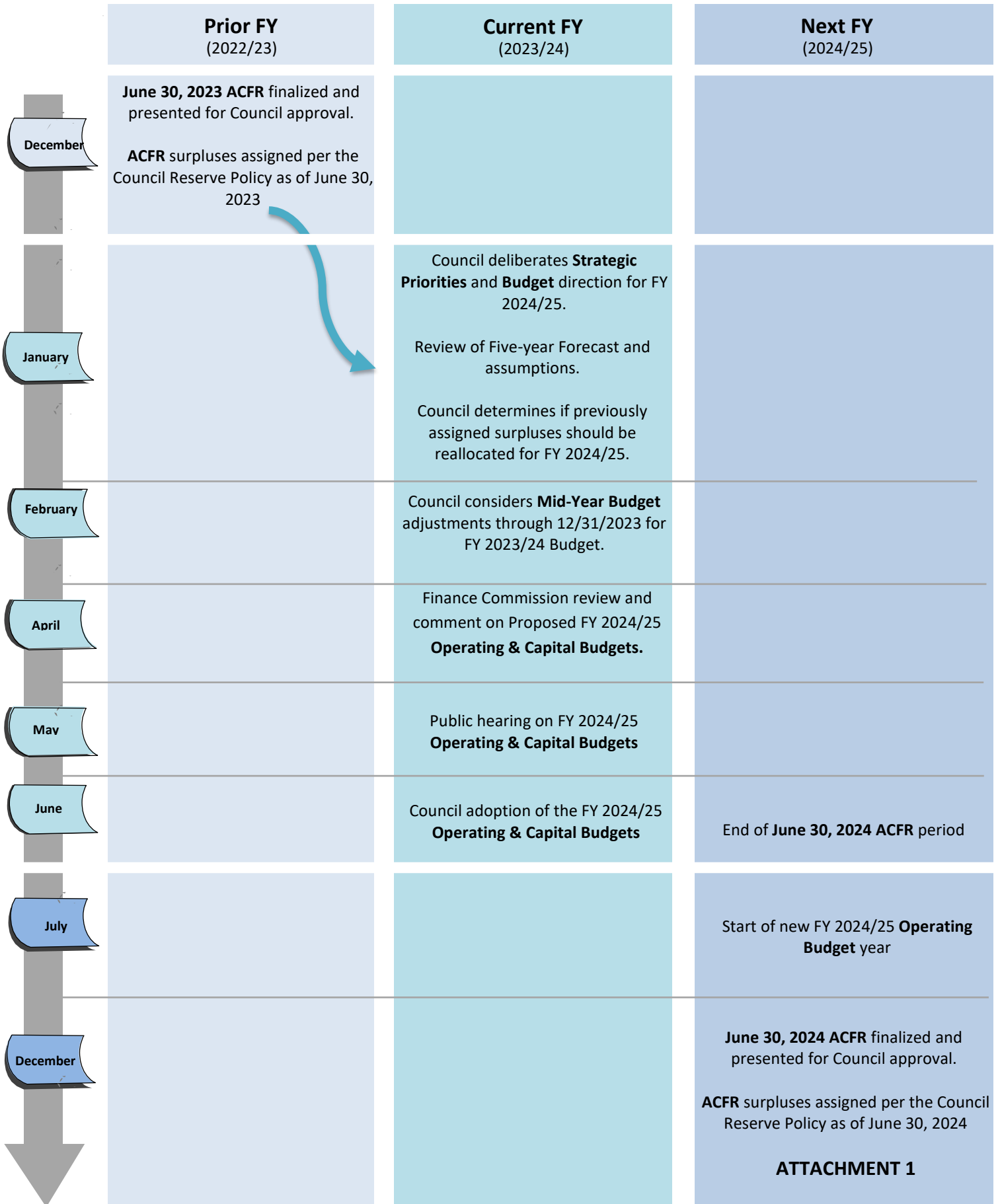
This Report was prepared by the Finance Department and the Town Manager's Office.

ENVIRONMENTAL ASSESSMENT:

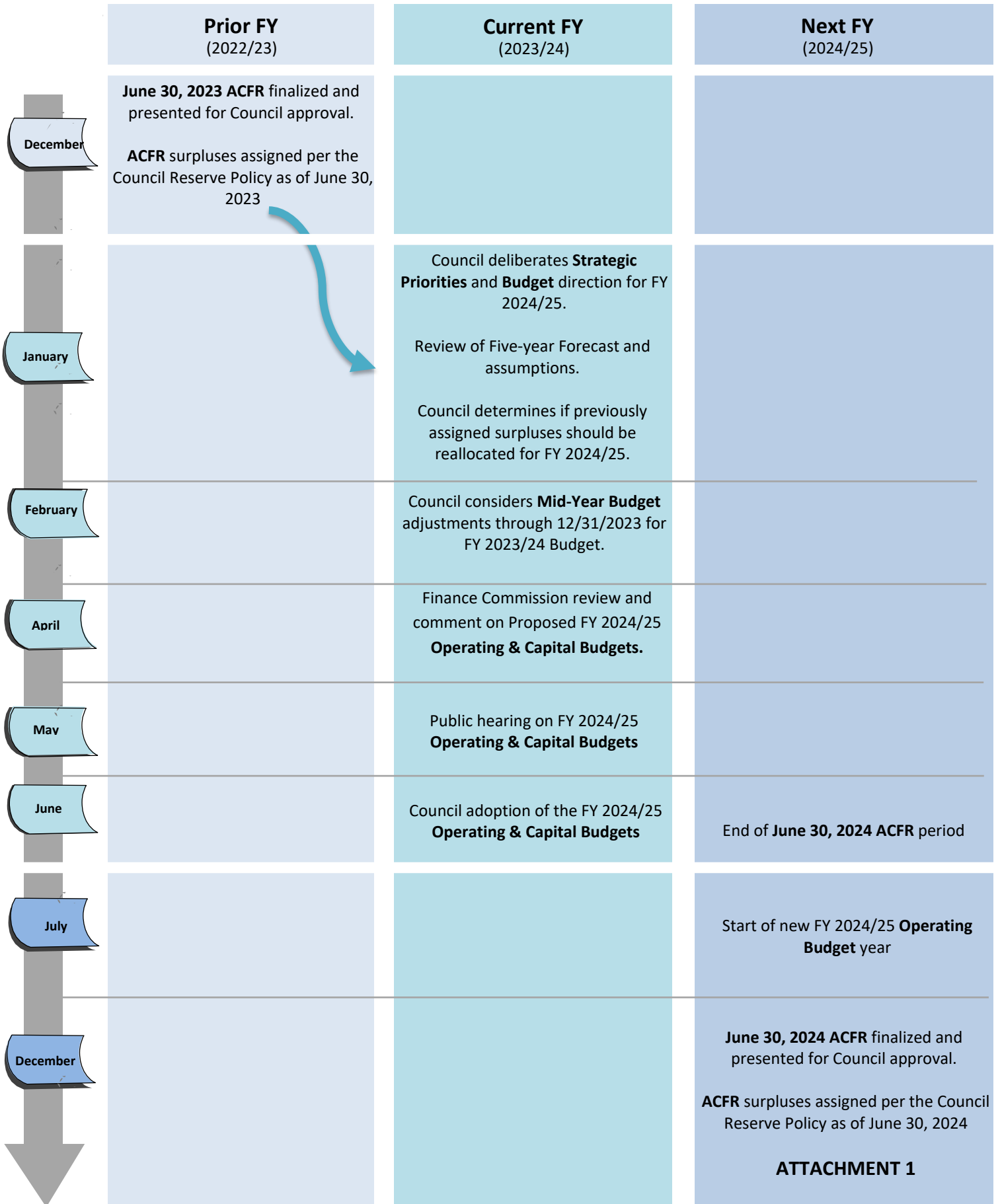
This is not a project defined under CEQA, and no further action is required.

Attachments:

1. Annual Budget Process
2. Base Case Five-Year Forecast
3. Forecast Revenue Assumptions
4. Forecast Expense Assumptions
5. Additional Information on ERAF
6. Additional Sales Tax Context from MuniServices
7. Commissioner Comments



All Council deliberations and actions include opportunities for public input



All Council deliberations and actions include opportunities for public input

General Fund 5-Year Forecast - Base Case
(in \$ million)

Revenue Category	FY 2022/23 Actuals	FY 2023/24 Adjusted Budget	FY 2023/24 Estimates	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast	FY 2028/29 Forecast
Property Tax	\$ 18.2	\$ 18.6	\$ 19.0	\$ 18.6	\$ 19.5	\$ 20.4	\$ 21.3	\$ 22.3
VLF Backfill Property Tax	4.6	4.7	4.9	4.9	5.2	5.4	5.7	6.0
Sales & Use Tax	7.5	7.9	7.0	7.0	7.2	7.2	7.3	7.5
Measure G District Sales Tax	1.3	1.3	1.2	1.3	1.3	1.4	1.4	1.4
Franchise Fees	3.1	2.1	3.3	3.4	3.5	3.6	3.7	3.8
Transient Occupancy Tax	2.2	2.4	2.3	2.3	2.4	2.5	2.5	2.6
Business License Tax	2.4	2.4	2.4	2.5	2.6	2.7	2.7	2.8
Licenses & Permits	3.3	2.9	3.3	2.9	3.0	3.1	3.2	3.3
Intergovernmental	1.6	1.2	1.4	0.9	0.9	1.0	0.9	0.9
Town Services	4.6	4.4	5.1	4.2	4.3	4.4	4.5	4.6
Fines & Forfeitures	0.4	0.2	0.4	0.4	0.4	0.4	0.4	0.4
Interest	0.6	1.0	1.6	1.7	1.6	1.5	1.4	1.3
Other Sources	8.1	3.9	4.1	3.1	3.1	3.2	3.3	3.2
Fund Transfers In	0.5	0.5	0.6	0.5	0.5	0.5	0.5	0.5
TOTAL OPERATING REVENUES & TRANSFERS*	\$ 58.4	\$ 53.5	\$ 56.6	\$ 53.7	\$ 55.5	\$ 57.3	\$ 58.8	\$ 60.6
Use of Capital/Special Projects Reserve	2.4	2.1	0.8	0.8	0.8	0.8	0.8	0.8
Use of Pension/OPEB Reserve	0.3	-	0.3	-	-	-	-	-
Use of Council Priorities - Economic Recovery	-	1.6	1.5	-	-	-	-	-
TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES	\$ 61.1	\$ 57.2	\$ 59.2	\$ 54.5	\$ 56.3	\$ 58.1	\$ 59.6	\$ 61.4
Expenditure Category	FY 2022/23 Actuals	FY 2023/24 Adjusted Budget	FY 2023/24 Estimates	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast	FY 2028/29 Forecast
Salary	\$ 20.4	21.3	21.5	23.2	23.7	24.2	24.8	25.3
Overtime	1.4	0.6	1.2	0.6	0.6	0.6	0.6	0.6
CalPERS Benefits	7.1	8.2	7.3	9.0	9.1	9.7	10.3	11.2
All Other Benefits	3.8	4.7	4.2	5.6	5.8	6.0	6.2	6.4
4.6% Salary and Benefits Savings	-	-	-	(1.8)	(1.8)	(1.9)	(1.9)	(2.0)
OPEB Pay as You Go	1.5	1.6	1.6	1.8	1.9	2.0	2.0	2.0
Operating Expenditures	11.7	10.0	10.9	8.7	8.8	9.2	9.4	9.7
Grants & Awards	0.6	0.9	0.9	0.4	0.3	0.3	0.3	0.3
Utilities	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.8
Internal Service Charges	2.6	3.4	3.3	4.0	4.2	4.4	4.6	4.8
Debt Service	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
TOTAL OPERATING EXPENDITURES	\$ 51.8	\$ 53.4	\$ 53.8	\$ 54.2	\$ 55.5	\$ 57.5	\$ 59.1	\$ 61.2
Additional Discretionary Payment - Pension	0.7	0.4	0.7	0.4	0.4	0.4	0.4	0.4
TOTAL OPERATING & DISCRETIONARY	\$ 52.5	\$ 53.8	\$ 54.5	\$ 54.6	\$ 55.9	\$ 57.9	\$ 59.5	\$ 61.6
Capital Transfers Out to GFAR	2.4	1.6	1.6	1.1	1.1	1.1	1.1	1.1
Allocate ERAF Risk Reserve	0.7	0.7	0.8	-	-	-	-	-
Allocate to Pension Trust	0.7	0.4	0.7	0.4	0.4	0.4	0.4	0.4
TOTAL EXPENDITURES & RESERVE ALLOCATIONS	\$ 56.2	\$ 57.2	\$ 57.5	\$ 56.8	\$ 58.1	\$ 60.1	\$ 61.7	\$ 63.8
NET REVENUES , TRANSFERS IN, USE OF RESERVES LESS EXPENDITURES, TRANSFERS IN, AND RESERVE ALLOCATIONS	\$ 4.9	\$ -	\$ 1.7	\$ (2.3)	\$ (1.8)	\$ (2.0)	\$ (2.1)	\$ (2.4)
* Due to rounding of individual categories FY 2022/23 Actual total revenues, and FY 2023/24 Estimated total expenditures includes \$0.1 million.								

Revenue Baselines and Projection Factors

Type of Revenue	FY 2023/24 Estimates Baseline	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast	FY 2028/29 Forecast
Property Tax/VLF Backfill	Current baseline set by SCC Assessor Office February 2024 report	5.1%	5.1%	5.1%	5.1%	5.1%
Motor Vehicle License in Lieu (VLF)	Current baseline set by SCC Assessor Office February 2024 report	5.1%	5.1%	5.1%	5.1%	5.1%
ERAF	Current baseline set 100% of SCC Assessor Office November 2023 report Reserving 30% to ERAF Risk Reserve	\$1.25 million	\$1.25 million	\$1.25 million	\$1.25 million	\$1.25 million
Sales Tax	MuniServices January 2024 Most Likely Estimates	MuniServices January 2024 Most Likely Estimates	MuniServices January 2024 Most Likely Estimates	MuniServices January 2024 Most Likely Estimates	MuniServices January 2024 Most Likely Estimates	MuniServices January 2024 Most Likely Estimates
Sales Tax - Measure G	MuniServices January 2024 Most Likely Estimates	MuniServices January 2024 Most Likely Estimates	MuniServices January 2024 Most Likely Estimates	MuniServices January 2024 Most Likely Estimates	MuniServices January 2024 Most Likely Estimates	MuniServices January 2024 Most Likely Estimates
Franchise Fee	Current baseline set by FY 2023/24 Estimates	3%	3%	3%	3%	3%
Transient Occupancy Tax	Current baseline set by FY 2023/24 Estimates	3%	3%	3%	3%	3%
Business License Tax	Current baseline set by FY 2023/24 Estimates	2%	2%	2%	2%	2%
License & Permits	Current baseline set by FY 2023/24 Estimates	3%	3%	3%	3%	3%

Revenue Baselines and Projection Factors

Type of Revenue	FY 2023/24 Estimates Baseline	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast	FY 2028/29 Forecast
Town Services	Current baseline set by FY 2023/24 Estimates	3%	3%	3%	3%	3%
Fine & Forfeitures	Current baseline set by FY 2023/24 Estimates	Varies	Varies	Varies	Varies	Varies
Interest	Current baseline set by FY 2023/24 Actuals	4%	4%	3%	3%	3%
Other Sources	Current baseline set by FY 2023/24 Estimates	Varies	Varies	Varies	Varies	Varies

EXPENDITURE BASELINE AND PROJECTION FACTORS

Beginning in FY 2020/21, the Town started budgeting salaries at the actual salary plus a one-step increase. In the Five-Year Forecast, positions are forecasted at the actual rate of pay including salaries and benefits as of December 31, 2023. Beginning FY 2023/24 the total budget includes 4.6% vacancy factor.

Type of Expenditure	FY 2023/24 Budget	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast	FY 2024/25 Forecast
Salaries*(TEA, Conf, Temp)	3%	2%	2%	2%	2%	2%
Salaries *(POA)	3%	2%	2%	2%	2%	2%
Salaries*(AFSCME)	3%	2%	2%	2%	2%	2%
Salaries * (Management)	3%	2%	2%	2%	2%	2%
Benefit - Medical**	7%	7%	7%	7%	7%	7%
Operating Expenditures***	3%	3%	3%	3%	3%	3%
Grants & Awards	0%	0%	0%	0%	0%	0%
Utilities***	Varies	3%	3%	3%	3%	3%
Workers Comp Charges	Based on projected payroll	Additional \$0.5 M to the base	3%	3%	3%	3%
General Liability Charges	Based on projected payroll	Additional \$0.45 M to the base	3%	3%	3%	3%
Other Internal Service Charges***	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement
Debt Service	Debt Service Schedules					

*Salary increases are based on actual step increases and approved Memoranda of Understanding with the bargaining units plus the Council's assumption of 2% per year cost of living adjustment.

** Benefit increase estimates are provided by CalPERS/Public Employees' Medical and Hospital Care Act (PEMHCA)

*** Based on historical trends.

The Town's required employer contribution rate estimates were developed using data provided by each plan's most recent CalPERS actuarial valuation. The employer contribution rates reflect percentages of covered payroll. Rates shown for FY 2023/24 are actual rates as prescribed by CalPERS. Forecasted rates for FY 2024/25 and subsequent years are based on the most recent CalPERS actuarial valuation Reports as adjusted by the impact related to the FY 2022/23 CalPERS 6.1% investment return and forecasted payroll.

Beginning in FY 2021/22, the estimates of employer contributions were credited with an anticipated reductions associated with the approximate \$4.8 million additional discretionary payment (ADP) toward the 2016 unfunded amortization base paid off in October 2019 and the total of approximately \$5.8 million in ADPs toward unfunded 2013 and 2015 amortization bases that were paid off in FY 2020/21.

Type of Expenditure	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast	FY2028/29 Forecast
Safety POA	81.31%	96%	98.7%	102.3%	106.1%	116.0%
Safety Management POA	84.31%	99%	101.7%	105.3%	109.1%	118%
Safety POA - PEPRA	14.5%	15.6%	15.6%	15.7%	16.0%	16.0%
Miscellaneous TEA/AFSCME/Confidential/Management	29.97%	30.6%	296%	31.0%	32.3%	33.8%
Miscellaneous TEA/AFSCME/Confidential/Management PEPRA						
Separate PEPRA rate for Miscellaneous has not been established yet by CalPERS.	29.97%	30.6%	296%	31.0%	32.3%	33.8%

The Town has been monitoring and providing periodic update to the Finance Commission and to the Town Council on the ongoing developments regarding the distribution of excess ERAF funds. A portion of property tax revenue goes to the ERAF to support local school districts. When the amount contributed to ERAF is more than the minimum cost of funding local schools, excess funds have traditionally been returned to the county, cities, and special districts. Five counties, including Santa Clara, have been using a redistribution allocation formula that has been contested by the State. Santa Clara County provided an update on the Excess ERAF at its September property tax meeting. The Third District Court of Appeal has affirmed the Trial Court decision in the California School Boards Association (CSBA) case, ruling that CSBA did not establish that charter schools are entitled to ERAF. However, in January the Santa Clara County advised the Town that the FY 2024/25 State Budget Governor proposes legislation allocating ERAF to charter schools, potentially reversing the recent appellate decision the County and State Controller's Office obtained holding that charter schools do not get ERAF. Annual negative impact on local jurisdiction's Excess ERAF is approximately 8 % which may fluctuate annually. Proposing In August 2023, the State Controller's Office (SCO) issued a negative audit finding to Marin County regarding inclusion of the redevelopment dissolution revenue in the Excess ERAF calculation, asserting that this violated Health & Safety Code section 34188(d). Excess ERAF counties do not agree with this finding and are currently working to find a resolution. The annual at-risk percentage is now at about 22% of the distribution both on an ongoing basis and going back to the distribution in Fiscal Year 2020/21. The County filed a lawsuit against the State Controller's Office on this matter in late December. The County also provided the updated projection for FY 2023/24 Excess ERAF distribution (\$2,500,000) based on the latest State-released information. The amounts provided are before any provision to account for the State Controller's audit finding or other annual adjustments in the calculation. The County will provide an updated estimates for the FY 2023/24 excess ERAF distribution and estimates for FY 2024/25 excess ERAF distribution in March 2024.

The following table illustrates the potential at-risk amount from FY 2020/21.

	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24
Actual Excess ERAF Distributed	\$ 2,043,321	\$ 2,371,984	\$ 2,298,692	
Estimated Excess ERAF (11/3/2023)				\$ 2,500,000
30% At Risk	\$ 612,996	\$ 711,595	\$ 689,607	\$ 750,000
22% At Risk	\$ 449,531	\$ 521,836	\$ 505,712	\$ 550,000
Town ERAF Risk Reserve - 30%			\$ 689,607	\$ 750,000

With the adoption of the FY 2023/24 budget, Council directed a 30% ERAF Risk Reserve. The ERAF Risk Reserve is estimated at \$1,439,607 and the at-risk amount from FY 2020/21 is estimated at \$2,027,079.

Los Gatos

Bradley Burns 1% Sales & Use Tax Forecast Comparison Summary
As of 01/18/2024

A Revenue forecast was provided on 10/13/23 based on 2023Q2 Sales Tax data.
A Revenue forecast was provided on 01/03/24 based on 2023Q3 Sales Tax data.
This analysis compares those forecasts.

COMPARISON:								
	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27	FY 27 - 28	FY 28 - 29	FY 29 - 30
Previous Forecast	7,452,000	7,284,000	7,364,000	7,490,000	7,605,000	7,709,000	7,802,000	7,884,000
Current Forecast	7,452,000	6,961,000	7,041,000	7,152,000	7,256,000	7,349,000	7,433,000	7,508,000
Change	0	(323,000)	(323,000)	(338,000)	(349,000)	(360,000)	(369,000)	(376,000)
% Change	0.0%	-4.4%	-4.4%	-4.5%	-4.6%	-4.7%	-4.7%	-4.8%
----- % COMPARISON: -----								
	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27	FY 27 - 28	FY 28 - 29	FY 29 - 30
Previous Forecast	4.6%	-2.3%	1.1%	1.7%	1.5%	1.4%	1.2%	1.1%
Current Forecast	4.6%	-6.6%	1.1%	1.6%	1.5%	1.3%	1.1%	1.0%
% Change	0.0%	-4.3%	0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%

The current forecast is lower in all forecast years. Overall Growth Rates vary, due to the anticipation when and to what extent inflation will begin to decline.
The current forecast incorporates a Disinflation Scenario, with the CPI-U hitting a target of 2.8% by the middle of 2025.

Category	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	
General Retail		(110,000)	(144,000)	(160,000)	Category declined by -9.4% QTR over QTR in 2023Q3, grew by +10.5% in 2023Q2
County Pool		(143,000)	(160,000)	(161,000)	Category declined by -28.4% QTR over QTR in 2023Q3, grew by +2.2% in 2023Q2 -\$1.4 million in corrections caused a -\$2.1 million swing in 2023Q3 Santa Clara Countywide Pool Revenues
All		(70,000)	(19,000)	(17,000)	Various other factors
	\$ -	\$ (323,000)	\$ (323,000)	\$ (338,000)	Total Forecast Change

Los Gatos

Bradley Burns 1% Sales & Use Tax Forecast Comparison Summary
As of 10/16/2023

A Revenue forecast was provided on 06/28/23 based on 2023Q1 Sales Tax data.
A Revenue forecast was provided on 10/13/23 based on 2023Q2 Sales Tax data.
This analysis compares those forecasts.

COMPARISON:								
	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27	FY 27 - 28	FY 28 - 29	FY 29 - 30
Previous Forecast	7,396,000	7,379,000	7,609,000	7,829,000	8,034,000	8,223,000	8,397,000	
Current Forecast	7,452,000	7,284,000	7,364,000	7,490,000	7,605,000	7,709,000	7,802,000	7,884,000
Change	56,000	(95,000)	(245,000)	(339,000)	(429,000)	(514,000)	(595,000)	
% Change	0.8%	-1.3%	-3.2%	-4.3%	-5.3%	-6.3%	-7.1%	
----- % COMPARISON: -----								
	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27	FY 27 - 28	FY 28 - 29	FY 29 - 30
Previous Forecast	3.8%	-0.2%	3.1%	2.9%	2.6%	2.4%	2.1%	
Current Forecast	4.6%	-2.3%	1.1%	1.7%	1.5%	1.4%	1.2%	1.1%
% Change	0.8%	-2.0%	-2.0%	-1.2%	-1.1%	-1.0%	-0.9%	

The current forecast is lower in all forecast years. Overall Growth Rates vary, due to the anticipation when and to what extent inflation will begin to decline.
The current forecast incorporates a Recession Inflation Scenario, with the CPI-U hitting a target of 2.2% at the end of 2024.

Category	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	
General Retail	70,000				Category grew by +9.4% QTR over QTR in 2023Q2, declined by -11.3% in 2023Q1, better than expected. Apple Stores, (23.9% of General Retail), grew by +132.4% QTR over QTR in 2023Q2, by +31.7% in 2023Q1.
Transportation	(30,000)	(75,000)	(100,000)	(160,000)	Category declined by -15.6% QTR over QTR in 2023Q2, -14.8% in 2023Q1. Zero Emission Vehicles (ZEVs) comprised 24.3% of the sales of new light vehicles in CA for the first six months of 2023. Forecast includes a -40% reduction of Service Station Sales Tax Revenues by 2030, -75% reduction by 2035 and a -90% reduction by 2040.
All	16,000	(20,000)	(145,000)	(179,000)	Various other factors
	\$ 56,000	\$ (95,000)	\$ (245,000)	\$ (339,000)	Total Forecast Change

Los Gatos

Bradley Burns 1% Sales & Use Tax Forecast Comparison Summary
As of 08/16/2023

A Revenue forecast was provided on 03/13/23 based on 2022Q4 Sales Tax data.
A Revenue forecast was provided on 06/28/23 based on 2023Q1 Sales Tax data.
This analysis compares those forecasts.

COMPARISON:								
	FY 21 - 22	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27	FY 27 - 28	FY 28 - 29
Previous Forecast	7,125,000	7,684,000	7,876,000	8,128,000	8,410,000	8,685,000	8,950,000	9,207,000
Current Forecast	7,125,000	7,396,000	7,379,000	7,609,000	7,829,000	8,034,000	8,223,000	8,397,000
Change	0	(288,000)	(497,000)	(519,000)	(581,000)	(651,000)	(727,000)	(810,000)
% Change	0.0%	-3.7%	-6.3%	-6.4%	-6.9%	-7.5%	-8.1%	-8.8%
----- % COMPARISON: -----								
	FY 21 - 22	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27	FY 27 - 28	FY 28 - 29
Previous Forecast	5.9%	7.8%	2.5%	3.2%	3.5%	3.3%	3.1%	2.9%
Current Forecast	5.9%	3.8%	-0.2%	3.1%	2.9%	2.6%	2.4%	2.1%
% Change	0.0%	-4.0%	-2.7%	-0.1%	-0.6%	-0.7%	-0.7%	-0.8%

The current forecast is lower in all forecast years. Overall Growth Rates vary, due to the anticipation when and to what extent inflation will begin to decline.
The current forecast incorporates a Recession Inflation Scenario, with the CPI-U hitting a target of 2.2% at the end of 2024.

Category	FY 21 - 22	FY 22 - 23	FY 23 - 24	FY 24 - 25	
General Retail		(65,000)	(195,000)	(227,500)	Category declined by -12.4% QTR over QTR in 2023Q1, grew by 6.2% in 2022Q4. Miscellaneous Retail, (38% of this category), declined by -11.5% QTR over QTR in 2023Q1 Furniture / Appliance, (23% of this category), declined by -12.8% QTR over QTR in 2023Q1 Drug Stores, (12% of this category), declined by -11.6% QTR over QTR in 2023Q1
Transportation		(70,000)	(210,000)	(245,000)	Category declined by -15.9% QTR over QTR in 2023Q1, grew by +7.6% in 2022Q4. Prices for gasoline have plummeted from \$6.20 in June 2022 to \$4.27 in January 2023. Auto Sales declined by -19.0% QTR over QTR in 2023Q1, grew by +10.7% in 2022Q4.
All		(153,000)	(92,000)	(46,500)	Various other factors, including using a Recession Inflation Scenario with 2.2% target
	\$ -	\$ (288,000)	\$ (497,000)	\$ (519,000)	Total Forecast Change