



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 02/18/2020

ITEM NO: 8

DESK ITEM

DATE: February 12, 2020
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Staff recommends that the Town Council:
a. Receive the Fiscal Year (FY) 2019/20 Mid-Year Budget Performance Report - July 1, 2019 Through December 31, 2019; and
b. Authorize Budget Adjustments as Recommended in the Attached Budget Performance Report.

REMARKS:

Attachment 3 contains public comments received after 11:01 a.m. February 14, 2020 and before 11:00 a.m. February 18, 2020.

Below are staff responses to the public comments as requested by a Council Member.

Please advise as to how the differing methodologies of calculation impact "Surplus funds."

The public comment dated February 16, 2020 (item #1) appears to argue that the mid-year budget presentation should not include the approximate \$538K in budgeted operating transfers as they are an "other financing source" in the Comprehensive Annual Financial Report (CAFR). The amount of estimated surplus for budget purposes for the current fiscal year is approximately \$1.1 million as stated in the FY 19/20 Mid-Year Budget Report. As mentioned in the public comment, the Town's CAFR reports General Fund operating transfers classified as "Other Financing Sources" as prescribed by governmental accounting standards. The CAFR presents financial actuals against approved budget appropriations.

Municipal finance practice differentiates between a budget and a CAFR. For General Fund budget purposes, staff analyzes the source of any operating transfer amount and carefully examines whether it can be considered an ongoing source of revenue to include as part

PREPARED BY: Stephen Conway
Finance Director

Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

REMARKS (continued):

of the budgeted General Fund revenues. The FY 19/20 Mid-Year Report, consistent with the Adopted Budget, includes approximately \$538,000 in operating transfers-in. These budgeted transfers are derived from sources that are reasonably expected to provide annual funding on an ongoing basis. For instance, the Town's General Fund receives approximately \$106,000 each year from the Gas Tax funds for ongoing engineering support of the Town's street infrastructure. It also receives annual support from the Lighting and Landscape Districts. The Town also receives operating transfers for engineering support for certain GFAR funded projects over an expected multi-year time frame. If monies received are from one-time sources, for budgeting and forecasting purposes, the Town would not consider them as viable ongoing operating revenues suitable to project as available to fund future General Fund operations.

Public Comment Dated February 16, 2020, Item #2

The public comment indicates potential savings of \$2.0 million from step savings and vacancies. The Mid-Year Budget Report provides some quantitative data on current year vacant positions but is not intended to provide an estimate of expected savings. Staff projects year-end expenditures in the Mid-Year Budget Report to ensure alignment with the Adopted Budget and identify any potential concerning patterns. As part of the development of the FY 20/21 Proposed Budget, Finance staff meets with each Department in the March/April timeframe to consider line Department staffing and to update estimated expenditures through June 30, 2020. This detailed process provides more accurate forecasts of potential year-end savings that will be reported to Town Council as part of the FY 2020/21 Proposed Budget.

The Town will likely experience some amount of vacancy savings for the current budget year and the actual amount is not determined until the year-end audit is completed.

Public Comment Dated February 16, 2020, Item #3

Staff projects year-end expenditures in the Mid-Year Budget Report to ensure alignment with the Adopted Budget and identify any potential concerning patterns. As part of the development of the FY 20/21 Proposed Budget, Finance staff meets with each Department in the March/April timeframe to consider line Department staffing and to update estimated expenditures through June 30, 2020. This detailed process provides a more accurate forecasts of potential year-end savings that will be reported to Town Council as part of the FY 2020/21 Proposed Budget.

Public Comment Dated February 17, 2020

- 1. Operating revenues (as defined by the CAFR) increasing 1.6% over prior year actuals***
- 2. Salary and Benefit expenditures increasing 15.4% over prior year actuals***
- 3. All other operating expenses increasing 13% over prior year actuals.***

REMARKS (continued):

The key issue is the problem of comparing prior year actual expenditures to current fiscal year budgeted amounts. Regarding the mathematical calculations presented in the public comments, staff has only minor rounding differences noted. However, the methodology used for comparisons has inherent problems as noted in prior discussions. Comparing budget to budget is a standard municipal finance practice when explaining changes to budgeted line items that change between fiscal years.

Budget comparison information is usually more relevant. For instance, in comparing adopted budgets, it is important to see the changes scheduled for salaries and benefits. For example purposes, let us say a city has an adopted FY 2019/20 budget of \$10,000,000 for salaries and benefits in its current year. For the following fiscal year, the Council has approved an increase of 2% for FY 2020/21 for a total of \$10,200,000. This example indicates a 2% salary and benefit increase for the next fiscal year as Council has approved.

If the Town were to compare actuals to actuals, then for the above example let us assume there were unanticipated vacancies leading salary and benefit actuals for the year to finalize at \$9,700,000. Let us further assume that in the following FY 2020/21 only \$100,000 of unanticipated vacancies occur. Using the suggested approach above, the real raises would be distorted. Comparing actuals to actuals would lead to following result:

- FY 19/20 Actuals: \$9,700,0000 (\$10M salary less vacancy savings)
- FY 20/21 Actuals: \$10,100,000 (\$10.2 M budgeted salary and benefits less \$100K vacancy savings)

As the above example illustrates, a \$400,000 increase between fiscal years would result if expressed as a percentage (4% increase from the prior year-double the actual increase). This example also demonstrates using actuals indicates a 4% increase due to the vacancy savings incurred each fiscal year when in fact the actual raises for FY 20/21 approved by the Council amounted to a 2% increase from the prior year’s budgeted amount. This is confirmed by comparing budgeted salaries and benefits for each fiscal year.

In comparing General Fund budgeted salaries and benefits for FY 2018/19 to FY 19/20 the increase is more appropriately calculated as follows:

Town of Los Gatos General Fund	FY 2018/19	FY 2019/20	
	Final Approved	Adjusted	
	Budget	Budget	% Change
Salaries and Benefits	\$ 28,765,614.00	\$ 30,933,028.00	7.53%

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SUBJECT: FY 2019/20 Mid-Year Budget Performance Report

DATE: February 18, 2020

REMARKS (continued):

Presenting budget to budget comparisons indicates a true growth of approximately 7.5% as shown in the table above, as compared to the 15.4% increase as stated in the public comment. This increase accurately reflects the approximate 3.0% cost of living salary increase approved by Town Council in the FY 19/20 budget year, augmentations to staffing, an approximate 13% increase in required safety pension contributions, and 8% increase in miscellaneous classification pension contribution costs.

Attachments previously distributed with the Staff Report:

1. Budget Performance Report for the Six Months Ending December 31, 2019
2. Public Comments Received before Publishing the Staff Report

Attachment distributed with this Desk Item:

3. Public Comments Received between 11:01 a.m. February 14, 2020 and before 11:00 a.m. February 18, 2020