



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 05/18/2021

ITEM NO: 7

DATE: May 13, 2021

TO: Mayor and Town Council

FROM: Laurel Prevetti, Town Manager

SUBJECT: Operating and Capital Budgets

A. Consider the recommendations of the Finance Commission and staff, and provide direction on the Town of Los Gatos Proposed Operating and Capital Budget for Fiscal Year (FY) 2021/22 and on the Proposed Capital Improvement Program for FY 2021/22 – FY 2025/26; including but not limited to:

1. Determine the use of the accumulated \$1.2 Million Measure G funds through June 30, 2020
2. Determine the use of the Measure G proceeds in FY 2020/21
3. Determine the use of Measure G proceeds in FY 2021/22
4. Determine the use of the of Measure G proceeds for the remaining years of the forecast period
5. Provide direction balancing the FY 2020/21 Budget
6. Provide direction on any changes to proposed expense/revenue assumptions for the FY 2021/22 Budget and the remaining forecast period
7. Provide direction balancing the FY 2021/22 Proposed Budget
8. Determine the use of \$1.2 Million in Surplus Property Reserve (Winchester property sale proceeds)
9. Provide direction on the Proposed Operating Budget
10. Provide direction on the Proposed Capital Budget
11. Consider the FY 2021/22 List of Potential Donations consistent with the Town's Donation Policy
12. Clarify the Council's Strategic Priority for revenue enhancements

RECOMMENDATION:

The Town Council should conduct a public hearing, consider the recommendations of the Finance Commission and staff, and provide direction on the Town of Los Gatos Proposed

PREPARED BY: Stephen Conway
Finance Director

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

Operating and Capital Budgets for Fiscal Year 2021/22 and the Town of Los Gatos Proposed Capital Improvement Program for Fiscal Years 2021/22 - 2025/26, including but not limited to:

1. Determine the use of accumulated \$1.2 million Measure G funds through June 30, 2020
2. Determine the use of Measure G funds for FY 2020/21
3. Determine the use of Measure G funds for FY 2021/22
4. Determine the future use of Measure G funds for the remaining years of the forecast period
5. Provide direction balancing the FY 2020/21 budget
6. Provide direction on any changes to proposed revenue/expense assumptions for the FY 2021/22 Budget and the remaining forecast period
7. Provide direction balancing the FY 2021/22 Proposed Budget
8. Determine the use of \$1.2 Million in Surplus Property Reserve (Winchester property sale proceeds)
9. Provide direction on the Proposed Operating Budget
10. Provide direction on the Proposed Capital Budget
11. Consider the FY 2021/22 List of Potential Donations consistent with the Town's Donation Policy
12. Clarify the Council's Strategic Priority for revenue enhancements

BACKGROUND:

On April 19, 2021, the Town Manager's Proposed FY 2021/22 Operating and Capital Budgets were posted on the Town's website for the public's review and comment (see Attachments 1 and 2). The Proposed Budgets were published a month earlier than prior practice and 22 business days before May 18, 2021 (Council's public hearing on the Budgets), in accordance with Measure A. The transmittal letter in the Proposed FY 2021/22 Operating Budget provides an executive summary of the budget, including the fiscal outlook, key budget assumptions, and other information.

The Proposed Operating and Capital Budget for FY 2021/22 (Attachment 1) is the Town Manager's recommended comprehensive financial plan to provide services to the Town of Los Gatos and address the priorities set by the Town Council. The Proposed FY 2021/22 – 2025/26 Capital Improvement Program (Attachment 2) is a five-year capital improvement plan which identifies projects to construct and maintain the Town's infrastructure.

Both budget documents were prepared with contributions from all Town Departments. Of particular note, the Finance Department took the lead in developing revenue and expenditure forecasts, ensuring that the most current information was used in the preparation of the proposed budgets. In addition, the Department of Parks and Public Works identified high

BACKGROUND (continued):

priority projects for inclusion in the Capital Budget based on its familiarity with the Town's facilities, equipment, and infrastructure, and its work with various Town Commissions on these assets.

The proposed Budget also acknowledges the economic realities associated with the global COVID-19 pandemic and other unforeseen budgetary impacts. As stated in last year's Budget message and remains true today, the ultimate impact to the organization is not expected to be known until the depth and breadth of the pandemic recession is fully understood. Even with areas of continued uncertainty, this Budget positions the organization well for continued excellence in service delivery to the community.

The FY 2021/22 Budget endeavored to maintain essential public services while controlling operational costs in light of the Five-Year Financial Forecast, which predicts operating shortfalls in subsequent fiscal years. Providing current service levels to the community in future fiscal years will require a strong return to pre-pandemic performance of the Town's economically sensitive revenues and/or revenue enhancements as identified as one of the Town Council's Strategic Priorities. However, in the event pre pandemic revenue levels do not return and new revenue sources are not identified, the current projected deficits may need to be addressed through service delivery reductions. If this occurs, the Council will need significant input from the community to identify and determine service reductions.

With the passage of Measure A, the newly constituted Finance Commission has been tasked with a thorough review of the FY 2021/22 Proposed Operating and Capital Budgets. As stated in the Measure A adopted Ordinance, the Finance Commission is to perform the following functions:

(a) The Finance Commission shall:

(2) Review the Town Manager's annual proposed budget prepared in accordance with section 2.30.295(6) of the Town Code. and provide written comments and recommendations to the Town Council.

(A) The Finance Commission's comments and recommendations shall include a recommendation about whether the Town Council should approve or disapprove the proposed budget. The Finance Commission may make a recommendation of approval of the budget conditional upon the Town Council's acceptance of one or more of the Finance Commission's recommendations.

(B) The Town Manager must provide a proposed budget to the Finance Commission at least twenty (20) business days before the first meeting at which the proposed budget is considered by the Town Council.

BACKGROUND (continued):

In addition to the Town Manager's Proposed Budget, the Town Council is being asked to consider the Finance Commission recommendations contained in Attachment 3. The Town Council is also being asked to consider additional staff recommended changes based on additional review and analysis since publication (Attachment 5). Any recommended changes and additional direction to the Proposed Operating and/or Capital Budgets provided by Council at the May 18, 2021 budget hearing will be incorporated into the implementing documents to be presented for final Council approval on June 1, 2021. Finally, the Council is asked to review the annual list of donations and approve budget adjustments for FY 2020/21.

DISCUSSION:

Proposed Operating and Capital Budgets and Five-Year Forecast Development

The FY 2021/22 General Fund Budget programs total revenues and reserve transfers of \$47 million, and expenditures and allocations of \$46 million. The Budget currently anticipates no significant new programming, and does maintain existing service and staffing levels. This Budget also provides for limited, continued strategic investments toward important wildfire vegetation management as grant funding allows and other necessary infrastructure improvements, as the pandemic is not the only threat to our community's health and safety.

The Proposed Operating and Capital Budgets and Five-Year Forecast were developed with a cautionary post COVID-19 economic recovery base case. The economic ramifications of the pandemic have created lower revenue bases than in prior years which reverberate throughout the forecast period as future revenue growth is extrapolated from the lower initial base revenues. Revenue forecasts for the current Budget have been developed in close consultation with the Santa Clara County Assessor, Town Sales Tax consultant MuniServices, and a review of national and regional hospitality research.

In addition to developing revenue growth projections, the Proposed Budget also forecasts anticipated increases in the Town's pension obligations and salaries. The delivery of Town services is highly dependent on talented staff which comprises 68.7% of budgeted General Fund expenditures and 51.0% of budgeted total expenditures for FY 2021/22. One of the major cost drivers for the Town's service delivery over the past decade has been unanticipated increases in pension and Other Post-Employment Benefits (OPEB).

For FY 2021/22, the Proposed Operating Budget was balanced utilizing three primary budget balancing strategies. The first was direction to all Departments to identify expenditure reductions that would not degrade service levels and other expense containment strategies. To that end, all Departments programmed savings from traditional travel and training budgets, expecting that most professional development opportunities will continue to be offered

DISCUSSION (continued):

remotely. Other examples include the use of one-time unbenefited part time employees where applicable, delayed purchase of additional recycling bins, and limited in-person Library programming to reflect the slow easing of the pandemic’s effects.

The second strategy is the use of \$1.56 million of the Town’s \$5.7 million allocation from the American Rescue Plan Act to replace lost revenue as a result of COVID as directed by the Town Council in early April. The Act identified four eligible uses for funding including the provision of government services to the extent that the COVID–19 public health emergency resulted in a reduction in revenue.

The third strategy was full programming of Measure G funds toward eligible operating purposes per the Sales Tax Measure that the voters approved a 1/8th cent sales tax dedicated to the Town of Los Gatos. Eligible uses are discussed in more detail later in this report.

The culmination of these revenue, expense, and other assumptions is a FY 2021/22 balanced budget and projected deficits in the range of \$0.8 million to a maximum of \$1.3 million per year in the remaining years of the forecast five-year forecast.

5 Year Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Base Case Modest Growth (millions)	(\$1.3)	(\$0.8)	(\$0.8)	\$0.1	\$0.5

Given the unknown nature of the transitioning economy, staff continues to monitor revenue trends. In the event pre pandemic revenue levels do not return and new revenue sources are not identified the current projected deficits may need to be addressed through service delivery reductions at mid-year FY 2021/22. If this occurs, the Council will need significant input from the community through various means to identify and determine service reductions.

The FY 2021/22 – FY 2025/26 Capital Improvement Program (CIP) sets forth a five-year plan for proposed streets, parks, and public facility projects. The transmittal letter contained in the CIP provides a summary of the program including funding sources, recently completed projects, and the proposed projects for FY 2021/22. Only the first year of the plan is formally adopted with funds appropriated by the Town Council as part of the budget process.

During the January 2021 Strategic Priorities discussion, the Town Council stated its priorities to begin to implement the Comprehensive Parking Study, continue mobility improvements for all

DISCUSSION (continued):

transportation modes, manage the vegetation on Town lands to protect against wildfire, and advance other needed improvements. All of these efforts support improving and enhancing transportation options, public safety, and quality of life within the context of prudent fiscal management. The Proposed CIP for FY 2021/22 includes a total budget of \$22.7 million of new and carry-forward funding.

Town staff go through a rigorous process to evaluate all previously funded projects and potential new projects when preparing the CIP. There are more needs than available funding, and staff recommends high priority projects that are consistent with the Strategic Priorities. This year, due to limited available funds, the proposed CIP concentrates on funding key ongoing maintenance commitments (e.g., street paving), projects that have grant funding and the FY 2021/22 schedule obligation, and supplementing projects that are underway to ensure that they re completed. On April 28, 2021, the Planning Commission reviewed the proposed CIP, found it consistent with the General Plan, and recommended its adoption by the Town Council.

Proposed Operating and Capital Budgets and Five-Year Forecast in Relation to Finance Commission Recommendations

As previously mentioned, the newly constituted Finance Commission is tasked with a thorough review of the FY 2021/22 Proposed Operating and Capital Budgets. The Finance Commission recommended approval of the Proposed Budgets predicated on nine recommended changes to the Proposed Budget.

The Commission's deliberations coalesced around the following goals and observations:

- Enhance transparency in budget development, budget assumptions, and budget presentation.
- The Proposed Budget significantly restricts capital expenditures relative to historic allocations.
- The Proposed Capital Improvement Plan (CIP) is challenged by a lack of dedicated funding.
- The higher percentage increases in the primary expenditures of Salary and Benefits relative to revenues is constraining other investments.
- Recommend strategies to slow the growth in expenditures until there is greater clarity on impacts to revenues.

Of the nine recommendations, three have no impact on the Proposed Budget, four have direct impacts on the Proposed Budget, and two provide budget balancing recommendations.

DISCUSSION (continued):

Town Council Budget Considerations

Decisions Pertaining to Measure G

Per Measure G, prior to the Town's expenditure of any revenues from the tax the Finance Commission is to review the proposed expenditures and advise the Town Council on whether such expenditures meet the Town Council's objectives for that tax:

- (A) Maintaining and enhancing neighborhood police patrols and local crime prevention programs;
- (B) Improving traffic flow to reduce congestion;
- (C) Repairing potholes and maintaining the Town's streets, roads, and sidewalks; and
- (D) Maintaining the Town's long-term financial stability.

To date, no Measure G funds have been expended. Approximately \$1.2 M have accumulated in a Measure G Reserve through June 30, 2020. Forecasted revenues are as follows:

Measure G District Tax	2020/21 Estimate	2021/22 Proposed	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Revenues (millions)	\$0.9	\$1.0	\$1.0	\$1.0	\$1.1	\$1.1	\$1.1

The Finance Commission (FC) has made recommendations for the use of Measure G funds and the Council should consider the recommendations as it makes its decisions for the use of the funds. For each FC recommendation, potential impacts are identified.

FC Recommendation: Recommend to Council the allocation of the accumulated Measure G funds through June 30, 2020 in the Measure G Reserve (\$1.2 million) to the General Fund Appropriated Reserve (GFAR) for capital budgeting purposes as determined by the Town Council's priorities.

Potential Impacts: The recommendation has no direct impact on the Proposed Operating Budget, would establish resources for future capital budgeting by committing previously unallocated monies.

FC Recommendation: Allocate 50% Measure G proceeds for capital purposes in FY 2020/21, FY 2021/22, and all periods after.

Potential Impacts: If Council agrees with this recommendation, operating deficits would increase by approximately \$500k per year based on Measure G revenue estimates.

DISCUSSION (continued):

Council Actions:

1. Determine the use of accumulated \$1.2 million Measure G funds through June 30, 2020
2. Determine the use of Measure G funds for FY 2020/21
3. Determine the use of Measure G funds for FY 2021/22
4. Determine the future use of Measure G funds for the remaining years of the forecast period

Decisions Pertaining to Budget Balancing Strategies for FY 2020/21

Based on the Town Council’s decision regarding the allocation of Measure G funds, an additional \$500k FY 2020/21 deficit may develop. The Finance Commission was presented with the following options for FY 2020/21 budget balancing consideration:

Budget Balancing Strategies	Pros	Cons
Use of either the Budget Stabilization or Catastrophic Reserves	<ul style="list-style-type: none"> • Sufficient funding available in each reserve 	<ul style="list-style-type: none"> • Funds are required to be replenished
Cancelation of the annual OPEB actuarial contribution funding	<ul style="list-style-type: none"> • Legally viable • \$600k in FY 20/21 and \$500k in FY 21/22 	<ul style="list-style-type: none"> • Counter to past funding objectives • Potential rating agency implications
Utilization of the OPEB IRS 115 Trust for annual Pay Go healthcare expenses	<ul style="list-style-type: none"> • Legally viable • \$1.3M in FY 20/21 and \$1.3M in FY 21/22 	<ul style="list-style-type: none"> • Counter to past funding objectives
Cancel programmed GF GFAR contribution for FY 21/22	<ul style="list-style-type: none"> • \$600k 	<ul style="list-style-type: none"> • Counter to the Commissions CIP funding objective
ARPA	<ul style="list-style-type: none"> • \$1.4M FY 20/21 and \$650k FY 21/22 	<ul style="list-style-type: none"> • Depletes resources available for other ARPA eligible purposes

Another option for Council consideration is using the unprogrammed proceeds from the Winchester property sale (\$1.2 M). The Proposed Operating Budget recommends maintaining these funds unprogrammed as future contingency due to an uncertain fiscal future. The FC recommended putting these proceeds towards the Capital Budget.

DISCUSSION (continued):

FC Recommendation: Cancel the FY 2020/21 and future years’ Other Post-Employment Benefits (OPEB) actuarial contribution(s) to the extent necessary to fund the CIP, increased salaries, and address uncertainties.

Potential Impacts: The recommendation provides legally viable resources of approximately \$600k in FY 2020/21 and \$500k in FY 2021/22. The recommendation is not consistent with past practice to prefund benefit obligations and could have rating agency implications.

Council Actions:

5. Provide direction to balance the FY 2020/21 budget

Decisions Associated with Revenue and Expenditure Assumptions in FY 2021/22 and Five-Year Forecast

An important aspect of the Town’s budget development process is taking a multi-year approach to understand revenue and expenditure trends over time. 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. The revenue and expense forecast assumptions can be found on pages A21-A24 of the Proposed Operating Budget and in Attachment 4.

FC Recommendation: Use a 2% inflation factor for development of base salary expenses for FY 2021/22 and the remaining forecast period, without implying a particular outcome for negotiations with bargaining units.

Potential Impacts: The recommendation would increase the FY 2021/22 operating deficit by approximately \$460k and throughout the forecast period as illustrated below.

2% Base Salary Inflation Factor	2021/22	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Total Projected Increase (millions)	\$0.46	\$0.90	\$1.34	\$1.80	\$2.24	\$2.72

Council Actions:

6. Provide direction on any changes to proposed revenue/expense assumptions for the FY 2021/22 Budget and the remaining forecast period

DISCUSSION (continued):**Decisions Pertaining to the Proposed FY 2021/22 Operating Budget**

Salary Costs: The FC discussed salary and benefit costs over time and recommended that the Town Council start taking action to control costs (see Attachment 3).

FC Recommendation: Freeze budgeted Full Time Equivalent (FTEs) at 145 for six months.

Potential Impacts: The recommendation would provide \$346,830 (\$69,366/FTE) savings in FY 2021/22. The table below provides an analysis of existing vacancies.

Vacant Position	Dept	Vacancy Date	Salary Range	Hourly Rate	6 mo. Salary/Benefit Cost Saving
Comms Dispatcher	PD	Dec-20	TEA - 14	\$39.05 - \$50.41	\$66,528
Comms Dispatcher	PD	Jan-21	TEA - 14	\$39.05 - \$50.41	\$66,528
Comms Dispatcher	PD	Mar-21	TEA - 14	\$39.05 - \$50.41	\$66,528
Comms Dispatcher	PD	Apr-21	TEA - 14	\$39.05 - \$50.41	\$66,528
Parks Maintenance Worker	PPW	Aug-20	AFSCME-05	\$29.90 - \$38.17	\$51,849
Legal Admin Assistant	Town Attorney	Jan-21	Conf-02	\$33.43 - \$43.26	\$58,459
Police Officer	PD	Dec-20	POA-02-0710	\$48.90	69,534
Police Officer	PD	Apr-21	POA-02-0711	\$51.47 - 62.57	\$108,224

It is important to note that the total minimum required employer pension contribution is the sum of the Plan's Employer Normal Cost Rate and the Employer Unfunded Accrued Liability (UAL). For FTE costing purposes, staff assumes a total pension percentage rate; however, the UAL portion is paid as a lump sum in July of each fiscal year, while the normal cost is paid with

DISCUSSION (continued):

the biweekly payroll. Consequently, anticipated savings are less since the lump sum payment happens regardless if the position is filled or not.

The FC did not think that freezing Town positions would impact services; however, as a lean service delivery organization, each position is critical to maintain service levels. An Addendum is expected to be published tomorrow documenting sample impacts to services.

Destination Marketing: The Chamber of Commerce requested the FC recommend to the Town Council funding for an “emergency” destination marketing campaign with the intended outcome of attracting visitors to stay at Los Gatos hotels and increasing Transient Occupancy Tax revenues.

FC Recommendation: Allocate \$55K to the Chamber of Commerce for a destination marketing utilizing American Rescue Plan Act funds.

Potential Impacts: ARPA funds would become unavailable for other uses.

Council Actions:

7. Provide direction on the Proposed Operating Budget, including but not limited to the FC recommendations. Council may wish to utilize its recently approved principles (see Attachment 6). If the Council is interested in the destination marketing concept, it should determine if the work should start in the current fiscal year or FY 2021/22 and determine its potential funding source (e.g., ARPA, Economic Recovery Fund, etc.).

Decisions to Balance the FY 2021/22 Operating Budget

Based on the Town Council’s decisions regarding the allocation of Measure G funds and any revenue and expense assumption changes, additional FY 2021/22 deficits may develop. The options for budget balancing for FY 2021/22 are the same as presented earlier in the report and are repeated for ease of use):

Budget Balancing Strategies	Pros	Cons
Use of either the Budget Stabilization or Catastrophic Reserves	<ul style="list-style-type: none"> • Sufficient funding available in each reserve 	<ul style="list-style-type: none"> • Funds are required to be replenished
Cancelation of the annual OPEB actuarial contribution funding	<ul style="list-style-type: none"> • Legally viable • \$600k in FY 20/21 and \$500k in FY 21/22 	<ul style="list-style-type: none"> • Counter to past funding objectives • Potential rating agency implications

Utilization of the OPEB IRS 115 Trust for annual Pay Go healthcare expenses	<ul style="list-style-type: none"> • Legally viable • \$1.3M in FY 20/21 and \$1.3M in FY 21/22 	<ul style="list-style-type: none"> • Counter to past funding objectives
Cancel programmed GF GFAR contribution for FY 21/22	<ul style="list-style-type: none"> • \$600k 	<ul style="list-style-type: none"> • Counter to the Commissions CIP funding objective
ARPA	<ul style="list-style-type: none"> • \$1.4M FY 20/21 and \$650k FY 21/22 	<ul style="list-style-type: none"> • Depletes resources available for other ARPA eligible purposes

Another option for Council consideration is using the unprogrammed proceeds from the Winchester property sale (\$1.2 M). The Proposed Operating Budget recommends maintaining these funds unprogrammed as future contingency due to an uncertain fiscal future. The FC recommended putting these proceeds towards the Capital Budget.

FC Recommendation: Cancel the FY 2020/21 and future years’ Other Post-Employment Benefits (OPEB) actuarial contribution(s) to the extent necessary to close, fund the CIP, increased salaries, and address uncertainties.

Potential Impacts: The recommendation will provide legally viable resources of approximately \$600k in FY 2020/21 and \$500k in FY 2021/22. The recommendation is not consistent with past practice to prefund benefit obligations and could have rating agency implications.

In addition to the formal recommendation for the use of OPEB contributions, the Commission opined that the savings from a 6-month hiring freeze should alleviate any additional deficits in FY 2021/22 from their recommended actions.

Council Actions:

8. Provide direction balancing the FY 2021/22 Proposed Budget

Determine the Use of the Winchester Property Sale Proceeds

In the FY 2021/22 Proposed Operating Budget the proceeds from the sale of the Winchester property remain in reserve and unallocated. Dependent on other Council action(s), the proceeds are still available for budget balancing or other uses.

FC Recommendation: Recommend the allocation of the \$1.2 million Surplus Property Reserve (Winchester property sale proceeds) to the Capital/Special Project Reserve for capital budgeting purposes as determined by the Town Council’s priorities.

Potential Impacts: The recommendation has no direct impact on the Proposed Operating Budget but would commit previously unallocated monies.

DISCUSSION (continued):

Council Actions:

9. Determine the use of \$1.2 Million in Surplus Property Reserve (Winchester property sale proceeds)

Decisions Pertaining to the Capital Budget

In addition to the aforementioned budget actions, the Council may wish to consider other Proposed Capital budgetary items.

FC Recommendation: Allocate \$500k from the previously recommended additional allocations to the Capital Budget for continuation of the roadside vegetation management project.

Potential Impacts: The recommendation has no direct impact on the budget but would commit previously unallocated monies.

Council Actions:

10. Provide direction on the Proposed Capital Budget

Cumulative Consideration of FC Recommendations

To understand the cumulative effects of most of the Finance Commission recommendations, the table below contains an updated five-year forecast.

The updated Forecast on the following page incorporates the following:

- 2% salary escalator built in the forecast from FY 2021/22 to FY2026/27
- OPEB payment eliminated from FY 2021/22 to FY2026/27
- 50% of the Measure G proceeds allocated to capital spending FY 2020/21 to FY2026/27
- \$1.2 million Measure G reserve (balance accumulated until 6/30/2020) allocated to capital in FY 2021/22
- \$1.2 million balance of the Surplus Property Reserve (Winchester property sale proceeds) is allocated to capital in FY 2021/22

**Town of Los Gatos General Fund 5-Year Forecast - FC Recommendations
(in \$ million)**

Account	Revenue Category	2020/21 Adjusted Budget	2020/21 Estimates	2021/22 Proposed Budget	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
4100	Property Tax	\$ 13.9	\$ 14.7	\$ 15.7	\$ 15.8	\$ 16.3	\$ 16.8	\$ 17.3	\$ 17.8
4110	VLF Backfill Property Tax	4.1	4.1	4.2	4.3	4.4	4.5	4.7	4.8
4200	Sales & Use Tax	6.7	6.2	7.2	7.4	7.7	7.8	8.0	8.2
4200	Measure G District Sales Tax	1.0	0.9	1.0	1.0	1.0	1.1	1.1	1.1
4250	Franchise Fees	2.5	2.5	2.6	2.7	2.8	2.8	2.9	3.0
4251	Transient Occupancy Tax	0.7	0.7	0.9	1.1	1.2	1.3	1.4	1.5
4400	Business License Tax	1.1	1.3	1.3	1.3	1.4	1.4	1.4	1.4
4400	Licenses & Permits	3.0	3.0	2.7	2.8	2.9	3.0	3.0	3.1
4500	Intergovernmental	1.5	4.3	3.9	0.9	0.9	0.9	0.9	0.9
4600	Town Services	3.9	3.7	3.6	3.4	3.5	3.6	3.7	3.8
4700	Fines & Forfeitures	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
4800	Interest	0.6	0.6	0.4	0.3	0.2	0.2	0.2	0.2
4850	Other Sources	3.4	3.5	2.4	2.3	2.3	2.2	2.2	2.2
4900	Fund Transfers In	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
TOTAL OPERATING REVENUES & TRANSFERS*		\$ 43.1	\$ 46.2	\$ 46.7	\$ 44.1	\$ 45.4	\$ 46.4	\$ 47.6	\$ 48.8
	Use of Capital/Special Project Reserve - Capital	3.4	3.4	0.6	1.3	1.3	1.9	1.3	1.4
	Use of Pension/OPEB Reserve	4.5	4.5	-	-	-	-	-	-
	Use of Capital/Special Project Reserve - Other	0.9	0.9	-	-	-	-	-	-
	Use of Property Surplus Reserve	-	-	1.2	-	-	-	-	-
	Use of Measure G Reserve	-	-	1.2	-	-	-	-	-
TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES		\$ 51.9	\$ 55.0	\$ 49.7	\$ 45.4	\$ 46.7	\$ 48.3	\$ 48.9	\$ 50.2
									0
Account	Expenditure Category	2020/21 Adjusted Budget	2020/21 Estimates	2021/22 Proposed Budget	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
5110	Salary	20.3	20.6	20.3	20.6	21.0	21.5	21.9	22.3
5120	CalPERS Benefits	7.3	6.4	7.3	7.8	8.2	8.7	8.6	8.9
5200	All Other Benefits	4.1	3.8	4.2	3.9	4.1	4.2	4.3	4.4
6211	OPEB Pay as You Go	1.3	1.3	1.3	1.4	1.5	1.7	1.8	1.9
6000	Operating Expenditures	6.6	6.1	6.1	6.1	6.1	6.4	6.4	6.7
7200	Grants & Awards	0.2	0.6	0.5	0.2	0.3	0.3	0.3	0.3
7400	Utilities	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
8060	Internal Service Charges	2.4	2.4	2.7	2.9	3.1	3.3	3.4	3.4
8900	Debt Service	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
TOTAL OPERATING EXPENDITURES		\$ 44.6	\$ 43.7	\$ 45.0	\$ 45.5	\$ 46.8	\$ 48.4	\$ 49.2	\$ 50.4
	GASB 45 Retiree Medical Actuarial	0.6	-	-	-	-	-	-	-
	Additional Discretionary Payment - Pension	4.9	4.9	0.4	0.4	0.4	0.4	0.4	0.4
TOTAL OPERATING & DISCRETIONARY EXPENDITURES		\$ 50.1	\$ 48.6	\$ 45.4	\$ 45.9	\$ 47.2	\$ 48.8	\$ 49.6	\$ 50.8
	Capital Transfers Out to GFAR	3.4	3.9	3.4	1.3	1.3	1.9	1.3	1.4
	Allocate to Property Surplus Reserve	1.2	1.2	-	-	-	-	-	-
	Allocate to ARPA Reserve	-	1.2	0.9	-	-	-	-	-
TOTAL EXPENDITURES & RESERVE ALLOCATIONS		\$ 54.7	\$ 54.9	\$ 49.7	\$ 47.2	\$ 48.5	\$ 50.7	\$ 50.9	\$ 52.2
NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES & RESERVE ALLOCATIONS FOR FINAL ALLOCATION AFTER YEAR END CLOSE		\$ (2.8)	\$ 0.1	\$ -	\$ (1.8)	\$ (1.8)	\$ (2.4)	\$ (2.0)	\$ (2.0)
<p>* Due to rounding of individual categories FY 2021/22 Total Expenditures and Reserve Allocations includes \$0.1 million. General Fund (111) Forecast does not include Pension Trusts activities.</p>									

DISCUSSION (continued):

Donation Opportunities - FY 2021/22 List of Town Needs

As part of the budget development process, the List of Town Needs is updated per Town Council Donation Policy (Attachment 7) to reflect goods, services, and other contributions that would help enhance Town services, programs, and events (Attachment 8).

CONCLUSION AND NEXT STEPS:

At its May 18, 2021 meeting, the Council will have an opportunity to listen to public testimony, ask questions, consider the Finance Commission's recommendations, deliberate, and direct changes to the Proposed Operating and/or Capital Improvement Program Budgets. Any changes to the Proposed Operating and/or Capital Budgets directed by Council or identified by staff (see Attachment 5.) will be included for Council consideration in the resolution formally adopting the Budgets to be considered by Council on June 1.

The recommendation section identifies a series of decisions for the Town Council to work through the Budget documents. Individual requests for new spending (e.g., the Chamber's Emergency Destination Marketing Campaign) should be considered in the context of the Proposed Operating Budget, using the Council's principles (Attachment 6), and identifying the source of funding for these items.

During and after the Budget adoption, staff continues to monitor revenues and expenditures closely and will report to the Town Council actual revenues and expenditures later in the year as the data become available. Any modifications needed will be brought back to the Council as Budget Adjustments.

Given the Finance Commission's concern about cost containment, staff will initiate community surveys and workshops to ask the public about service reductions. This engagement is critical for the Council to make sound decisions about potential service reductions especially if revenues do not rebound. While Town staff continues to implement efficiencies and cost cutting ideas (e.g., electronic bidding, digital contract approvals, online permits, etc.), staff will also be consulted for additional expenditure reduction ideas.

Finally, the Town Council identified revenue enhancement as one of its Strategic Priorities. As the Finance Commission is scheduled to discuss this topic next, the Town Council should clarify the purpose of revenue enhancements to ensure the Commission is following Council direction on this Strategic Priority. For example, is the purpose of revenue enhancement to maintain existing high levels of operating services, create a sustainable source for the capital program, or both?

COORDINATION:

The preparation of the budget documents involved the participation of all Town Departments. The Finance Commission deliberated and provided its recommendations to the Council as discussed in this report.

FISCAL IMPACT:

Under State law, the Town Council is required to enact a balanced budget. The Proposed Operating and Capital Budgets are balanced and as the Council directs changes, the outcome must be a balanced fiscal plan.

ENVIRONMENTAL ASSESSMENT:

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

Attachments:

1. FY 2021/22 Proposed Operating and Capital Budget, provided to the Council in April and available: <https://www.losgatosca.gov/2668/FY-21-22-Proposed-Operating-Budget>
2. FY 2021/22 – FY 2025/26 Proposed Capital Improvement Program Budget, provided to the Council in April and available: <https://www.losgatosca.gov/2669/FY-21-22-Proposed-Capital-Budget>
3. Finance Commission Recommendations
4. Revenue and Expense Forecast Assumptions
5. List of proposed changes related to typos and adding clarifications
6. Council Principles for Considering Requests
7. Town of Los Gatos Donation Policy
8. Town of Los Gatos Donation Opportunities: FY 2021/22