



**TOWN OF LOS GATOS  
COUNCIL MEETING AGENDA  
FEBRUARY 16, 2021  
110 EAST MAIN STREET  
LOS GATOS, CA**

*Marico Sayoc, Mayor  
Rob Rennie, Vice Mayor  
Mary Badame, Council Member  
Matthew Hudes, Council Member  
Maria Ristow, Council Member*

**PARTICIPATION IN THE PUBLIC PROCESS**

**How to participate:** The Town of Los Gatos strongly encourages your active participation in the public process, which is the cornerstone of democracy. If you wish to speak to an item on the agenda, please follow the participation instructions on page 2 of this agenda. If you wish to speak to an item NOT on the agenda, you may do so during the “Verbal Communications” period, by following the participation instructions on page 2 of this agenda. The time allocated to speakers may change to better facilitate the Town Council meeting.

**Effective Proceedings:** The purpose of the Town Council meeting is to conduct the business of the community in an effective and efficient manner. For the benefit of the community, the Town of Los Gatos asks that you follow the Town’s meeting guidelines while attending Town Council meetings and treat everyone with respect and dignity. This is done by following meeting guidelines set forth in State law and in the Town Code. Disruptive conduct is not tolerated, including but not limited to: addressing the Town Council without first being recognized; interrupting speakers, Town Council or Town staff; continuing to speak after the allotted time has expired; failing to relinquish the podium when directed to do so; and repetitiously addressing the same subject.

**Deadlines for Public Comment and Presentations are as follows:**

- Persons wishing to make an audio/visual presentation on any agenda item must submit the presentation electronically, either in person or via email, to the Clerk’s Office no later than 3:00 p.m. on the day of the Council meeting.
- Persons wishing to submit written comments to be included in the materials provided to Town Council must provide the comments as follows:
  - For inclusion in the regular packet: by 11:00 a.m. the Thursday before the Council meeting
  - For inclusion in any Addendum: by 11:00 a.m. the Monday before the Council meeting
  - For inclusion in any Desk Item: by 11:00 a.m. on the day of the Council Meeting

***Town Council Meetings Broadcast Live on KCAT, Channel 15 (on Comcast) on the 1st and 3rd Tuesdays at 7:00 p.m.  
Rebroadcast of Town Council Meetings on the 2<sup>nd</sup> and 4<sup>th</sup> Mondays at 7:00 p.m.  
Live & Archived Council Meetings can be viewed by going to:  
[www.LosGatosCA.gov/TownYouTube](http://www.LosGatosCA.gov/TownYouTube)***

***IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN THIS MEETING, PLEASE CONTACT THE CLERK DEPARTMENT AT (408) 354-6834. NOTIFICATION 48 HOURS BEFORE THE MEETING WILL ENABLE THE TOWN TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY TO THIS MEETING [28 CFR §35.102-35.104]***

**TOWN OF LOS GATOS  
COUNCIL MEETING AGENDA  
FEBRUARY 16, 2021  
7:00 PM**

**IMPORTANT NOTICE REGARDING THE FEBRUARY 16, 2021 MEETING**

This meeting is being conducted utilizing teleconferencing and electronic means consistent with State of California Executive Order N-29- 20 dated March 17, 2020, regarding the COVID- 19 pandemic. The live stream of the meeting may be viewed on television and/or online at [www.losgatosca.gov/AgendasAndVideos](http://www.losgatosca.gov/AgendasAndVideos). **In accordance with Executive Order N-29- 20, the public may only view the meeting on television and/or online and not in the Council Chamber.**

**PARTICIPATION**

If you are not interested in providing oral comments in real-time during the meeting, you can view the live stream of the meeting on television (Comcast Channel 15) and/or online at [www.LosGatosCA.gov/TownYouTube](http://www.LosGatosCA.gov/TownYouTube).

If you are interested in providing oral comments real-time during the meeting, you must join the Zoom webinar:

- Join from a PC, Mac, iPad, iPhone or Android device: click this link <https://us02web.zoom.us/j/86113121512?pwd=ZVY5UmlZMmZ6Y251SVk1QkNTWjJDdz09>. Password: 091034. You can also type in 86113121512 in the “Join a Meeting” page on the Zoom website at <https://zoom.us/join>.
- Join by telephone: Dial: 877 336 1839. Conference code: 969184

During the meeting:

- When the Chair announces the item for which you wish to speak, click the “raise hand” feature in Zoom. If you are participating by phone on the Zoom app, press \*9 on your telephone keypad to raise your hand. If you are participating by calling in, press #2 on your telephone keypad to raise your hand.
- When called to speak, please limit your comments to three (3) minutes, or such other time as the Chair may decide, consistent with the time limit for speakers at a Council meeting.

If you are unable to participate in real-time, you may email to [PublicComment@losgatosca.gov](mailto:PublicComment@losgatosca.gov) the subject line “Public Comment Item #\_\_ ” (insert the item number relevant to your comment) or “Verbal Communications – Non Agenda Item.” Comments received by 11:00 a.m. the day of the meeting will be reviewed and distributed before the meeting. All comments received will become part of the record.

## REMOTE LOCATION PARTICIPANTS

*The following Council Members are listed to permit them to appear electronically or telephonically at the Town Council meeting: MAYOR MARICO SAYOC, VICE MAYOR ROB RENNIE, COUNCIL MEMBER MARY BADAME, COUNCIL MEMBER MATTHEW HUDES, and COUNCIL MEMBER MARIA RISTOW. All votes during the teleconferencing session will be conducted by roll call vote.*

## MEETING CALL TO ORDER

## ROLL CALL

## COUNCIL / MANAGER MATTERS

**CONSENT ITEMS** *(Items appearing on the Consent Items are considered routine and may be approved by one motion. Any member of the Council or public may request to have an item removed from the Consent Items for comment and action. A member of the public may request to pull an item from Consent by following the Participation Instructions contained on Page 2 of this agenda. If an item is pulled, the Mayor has the sole discretion to determine when the item will be heard. Unless there are separate discussions and/or actions requested by Council, staff, or a member of the public, it is requested that items under the Consent Items be acted on simultaneously.)*

1. Approve Draft Minutes of January 26, 2021 Town Council Strategic Priority Meeting.
2. Approve Draft Minutes of January 28, 2021 Joint Meeting of the Town Council and Finance Commission.
3. Approve Draft Minutes of the February 2, 2021 Closed Session Meeting.
4. Approve Draft Minutes of February 2, 2021 Town Council Meeting.
5. Receive the Second Quarter Investment Report (October through December 2020) for Fiscal Year 2020/21.
6. Guardrail Replacement Project (CIP No. 812-0120):
  - a. Approve the Project Plans and Specifications;
  - b. Authorize Advertising the Project for Bid;
  - c. Authorize the Town Manager to Award and Execute a Construction Agreement in an Amount not to Exceed \$800,000, Including Contingencies and Change Orders; and
  - d. Authorize Staff to Execute Future Change Orders in an Amount Not to Exceed Ten Percent of the Contract Award Amount.
7. Authorize the Town Manager to Negotiate and Execute a Vendor Agreement with Econolite Systems, Inc. in an Amount Not to Exceed \$352,494, Including Contingency, for the Automated Traffic Signal Performance Measures and Virtual Bike Detection/Bike Signal Priority Project (CIP No. 813-0227 Traffic Signal Modernization).
8. Authorize the Town Manager to Execute an Agreement with HouseKeys for Administration of the Town's Below Market Price Affordable Housing Program.
9. Authorize the Town Manager to Purchase Two Vehicles:
  - a. One Vehicle from Folsom Lake Ford in an Amount not to Exceed \$43,405; and
  - b. One Cab Chassis with Aerial Lift Platform Body from Altec Industries, Inc. in an Amount not to Exceed \$129,658.
10. Consider a Request for an Exception to the Story Pole Policy to Allow an Alternative to Standard Story Pole Installation to Illustrate and Provide Notice of the Proposed Project on

Property Zoned R:PD. Located at 110 Wood Road. APN 510-47-038. Applicant: Frank Rockwood. Property Owner: Covia Communities. Project Planner: Jocelyn Shoopman.

- [11.](#) Adopt a Modified Economic Recovery Resolution to Reflect the Town Council’s Direction on Conditional Use Permits for up to Five New Markets or Other Non-Restaurant Uses; and Extend the Resolution Until At Least December 31, 2021.

**VERBAL COMMUNICATIONS** *(Members of the public are welcome to address the Town Council on any matter that is not listed on the agenda consistent with the Participation Instructions contained on Page 2 of this agenda. To ensure all agenda items are heard and unless additional time is authorized by the Mayor, this portion of the agenda is limited to 30 minutes and no more than three (3) minutes per speaker. In the event additional speakers were not able to be heard during the initial Verbal Communications portion of the agenda, an additional Verbal Communications will be opened prior to adjournment.)*

**OTHER BUSINESS** *(Up to three minutes may be allotted for each comment on any of the following items consistent with the Participation Instructions contained on page 2 of this agenda.)*

- [12.](#) Mid-Year Budget Performance report - Six Months ending December 31, 2020.
- a. Accept FY 2020/21 Mid-Year Budget Performance Report;
  - b. Authorize Budget Adjustments as Recommended in the Mid-Year Budget Performance Report.
- [13.](#) Discuss the Five-Year Forecast, Provide Direction on the Other Budget Assumptions, and Provide any Specific Direction for the Preparation of the Town’s Fiscal Year 2021/22 Operating and Capital Budgets.

**ADJOURNMENT** *(Council policy is to adjourn no later than midnight unless a majority of Council votes for an extension of time.)*

*Writings related to an item on the Town Council meeting agenda distributed to members of the Council within 72 hours of the meeting are available for review on the official Town of Los Gatos website.*

*Note: The Town of Los Gatos has adopted the provisions of Code of Civil Procedure §1094.6; litigation challenging a decision of the Town Council must be brought within 90 days after the decision is announced unless a shorter time is required by State or Federal law.*





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**Minutes of the Town Council Special Meeting – Strategic Priorities  
January 26, 2021**

The Town Council of the Town of Los Gatos conducted a Special Meeting on Tuesday, January 19, 2021, at 7:00 p.m. to determine Strategic Priorities.

**SPECIAL MEETING CALLED TO ORDER AT 7:01 P.M.**

**ROLL CALL**

Present: Mayor Marico Sayoc, Vice Mayor Rob Rennie, Council Member Mary Badame, Council Member Matthew Hudes, Council Member Maria Ristow. (All participating remotely).

Absent: None

**OTHER BUSINESS**

1. Approve the Following Strategic Priorities Actions:
  - A. Affirm the Town Goals of Community Character, Good Governance, Fiscal Stability, Civic Enrichment, Public Safety, and Quality Public Infrastructure
  - B. Affirm and/or Refine Ongoing Strategic Priorities for 2021-2023
  - C. For any new Strategic Priority, identify an existing Priority that should be removed or de-emphasized; and
  - D. Identify Ordinance Priorities

Laurel Prevetti, Town Manager, presented the item.

Opened public comment.

Amy Nishide

- Requested the Council consider the formation of a Diversity, Equity, and Inclusion Committee or Task Force.

David MacGregor-Scholes, Chamber of Commerce

- Requested the Town refrain from issuing parking tickets in the downtown area, refrain from collecting business license fees, and work with the Chamber of Commerce to streamline economic recovery events when allowed under the Santa Clara County Public Health Department's Orders.

Michael Miller, Arts and Culture Commission

- Commented in support of the Public Arts Ordinance.

Maureen Cappon-Javey, Arts and Culture Commission

- Commented in support of the Public Arts Ordinance.

Other Business Item #1 – continued

Sierra Barston

- Requested the Council consider forming a Diversity, Equity, and Inclusion Committee or Task Force, reducing police budget, and expanding local public transport.

Kiyoshi Nishide

- Requested the Council consider the formation of a Diversity, Equity, and Inclusion Committee or Task Force.

Ali Miano

- Requested the Town consider additional ways to recruit Board, Commission, and Committee members.

Emeric Bisbee

- Requested the Council consider the formation of a Diversity, Equity, and Inclusion Committee or Task Force; inquired how each Board, Commission, and Committee ensures accountability of addressing diversity and inclusion, and how each Board, Commission, and Committee addresses inclusion, diversity and equity in each project.

Tom Picraux, Community Health and Senior Services Commission

- Requested the Council consider implementing a quality-of-life study of people aged sixty and over to address aging in the community.

Brian Toy

- Requested the Town consider prioritizing Diversity, Inclusion, and Equity.

Lany Tran

- Requested the Town consider prioritizing climate change policy ideas such as: strengthening Reach Codes, mandating the utilization of clean energy sources, incentivizing sustainable options, annually or bi-annually measuring greenhouse gas emissions, and mandating local restaurants to provide plant-based options.

Jeffrey Suzuki

- Requested the Council consider the formation of a Diversity, Equity, and Inclusion Committee or Task Force, the formation of a Police Civilian Oversight Committee and the regular publication of Police stop data.

Michael Smythe

- Commented in support of the Public Arts Ordinance and Commercial Cannabis Operations and Facilities Ordinance.

Other Business Item #1- continued

Catherine Somers

- Requested the Town consider a third party to operate senior programs.

Lee Fagot

- Expressed concerns regarding the Commercial Cannabis Operations and Facilities Ordinance not aligning with federal law.

Ellis Wecker, Arts and Culture Commission

- Commented in support of the Public Arts Ordinance.

Sarah N.

- Requested the Council consider the formation of a Diversity, Equity, and Inclusion Committee or Task Force.

Tom Spilsbury, Arts and Culture Commission

- Commented in support of the Public Arts Ordinance.

Alicia Cinema-Stereo (Spargo)

- Requested the Council consider the formation of a Diversity, Equity, and Inclusion Committee or Task Force.

Closed public comment.

Council discussed the item.

**MOTION: Motion by Council Member Badame to affirm the Town Goals stated in recommendation A. Seconded by Council Member Ristow.**

**VOTE: Motion passed unanimously.**

**MOTION: Motion by Council Member Badame to affirm the ongoing strategic priorities for 2021-2023 outlined in Attachment 3 with reduced emphasis of additional discretionary pension payments and an emphasis on wildfire safety; diversity, equity, and inclusion; senior services; identification of new revenue sources; and acceleration of the short-term and medium-term actions stated in the Dixon Parking Study.**

**Seconded by Council Member Hudes.**

**VOTE: Motion passed unanimously.**

PAGE 4 OF 4

SUBJECT: Minutes of the Town Council Special Meeting of January 26, 2021

DATE: January 27, 2021

Other Business Item #1 – continued

**MOTION:** Motion by **Council Member Ristow** to approve the priority order of Potential Ordinances and Policies as noted in Attachment 7 with the following changes: remove the Face Covering Ordinance from the list, move Amendments to the Sign Ordinance to priority #6, keep the exploration of the Cannabis Ordinance as priority #7, and move Mills Act Ordinance to the end of the list. **Seconded** by **Council Member Rennie**.

**VOTE:** Motion passed unanimously.

**SPECIAL MEETING ADJOURNED**

Meeting adjourned at 10:21 p.m.

Respectfully submitted:

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Jenna De Long, Deputy Clerk



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**DRAFT  
Minutes of the Town Council Special Meeting  
Joint Council and Finance Commission Orientation  
January 28, 2021**

The Town Council of the Town of Los Gatos conducted a special meeting via Teleconference via COVID-19 Shelter in Place Guidelines on Tuesday, January 19, 2021, at 7:00 p.m. to hold a Joint Council and Finance Commission Orientation.

**SPECIAL MEETING CALLED TO ORDER AT 7:00 P.M.**

**ROLL CALL**

Present: Mayor Marico Sayoc, Vice Mayor Rob Rennie, Council Member Mary Badame, Council Member Matthew Hudes, Council Member Maria Ristow, Commissioner Ron Dickel, Commissioner Loreen Huddleston, and Commissioner Rick Tinsley. (Commissioner Kyle Park joined the meeting at 7:03 p.m.) (All participating remotely).

Absent: None

**VERBAL COMMUNICATIONS**

Deborah Weinstein

- Expressed regret that she is not qualified to join the Finance Commission and thanked the incoming Commissioners for their service.

**OTHER BUSINESS**

1. Joint Council and Finance Commission Orientation.

Laurel Prevetti, Town Manager, introduced and provided the qualifications of the Town Finance team that will be working with the Finance Commission: Arn Andrews, Stephen Conway, and Gitta Ungvari.

Arn Andrews, Assistant Town Manager, and Stephen Conway, Finance Director, presented the overview of the Town budgetary process and the duties of the Finance Commission as outlined in Measure A.

Town Council and Finance Commission discussed the information.

**SPECIAL MEETING ADJOURNED**

Meeting adjourned at 8:40 p.m.

Respectfully submitted:

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Jenna De Long, Deputy Clerk



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/16/2021

ITEM NO: 2

ADENDUM

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DATE: February 12, 2021  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Approve Draft Minutes of January 28, 2021 Joint Meeting of the Town Council and Finance Commission

REMARKS:

Staff received the following comment from a Member of the Finance Commission:

*“Can you change the Minutes regarding [the verbal communication from] Deborah [Weinstein] to say that she did not satisfy the education requirement of Measure A to serve on the Finance Committee?”*

Staff’s response:

Staff is recommending the following edits to the Verbal Communications portion of the Draft Minutes:

Deborah Weinstein

- Expressed regret that **the education and skills that she gained will not allow her to serve the Town of Los Gatos in this volunteer position** and thanked the incoming Commissioners for their service.

PREPARED BY: Jenna De Long  
Deputy Town Clerk

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

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**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/02/2021

ITEM NO: 3

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**DRAFT  
Minutes of the Town Council Special Meeting - Closed Session  
February 2, 2021**

The Town Council of the Town of Los Gatos conducted a Special Meeting via Teleconference, due to COVID-19 Shelter in Place guidelines on Tuesday, February 2, 2021, to hold a Closed Session at 5:30 p.m.

**MEETING CALLED TO ORDER AT 5:30 P.M.**

**ROLL CALL**

Present: Mayor Marico Sayoc, Vice Mayor Rob Rennie, Council Member Mary Badame, Council Member Matthew Hudes, Council Member Maria Ristow. (All Participating Remotely.)

Absent: None

**VERBAL COMMUNICATIONS**

None.

**THE TOWN WILL MOVE TO CLOSED SESSION ON THE FOLLOWING ITEM:**

1. Conference with Labor Negotiator (Government Code §54957.6)  
To meet with Town Negotiators listed below in closed session pursuant to Government Code §54957.6 regarding negotiations with the Employee Organizations listed below:

Town Negotiators:

Donna Williams, Liebert Cassidy Whitmore  
Arn Andrews, Assistant Town Manager  
Lisa Velasco, Human Resources Director

Employee Organizations:

American Federation of State, County and Municipal Employees (AFSCME)  
Town Employees Association (TEA)  
Police Officers' Association (POA)

**ADJOURNMENT**

Closed Session adjourned at 6:30 p.m.

Attest:

Submitted by:

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Jenna De Long, Deputy Clerk

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Laurel Prevetti, Town Manager





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**DRAFT  
Minutes of the Town Council Meeting  
February 2, 2021**

The Town Council of the Town of Los Gatos conducted a regular meeting via Teleconference via COVID-19 Shelter in Place Guidelines on February 2, 2021, at 7:00 p.m.

**MEETING CALLED TO ORDER AT 7:00 P.M.**

**ROLL CALL**

Present: Mayor Marico Sayoc, Vice Mayor Rob Rennie, Council Member Mary Badame, Council Member Matthew Hudes, Council Member Maria Ristow. (All participating remotely).

Absent: None

**CLOSED SESSION REPORTS**

Robert Schultz, Town Attorney, stated Council met in closed session as duly noted on the agenda and there is no reportable action.

**COUNCIL/TOWN MANAGER REPORTS**

**Council Matters**

- Vice Mayor Rennie stated he attended the Bay Area Air Quality Management District (BAAQMD) Retreat, Valley Transportation Authority (VTA) Board workshop, and met with the Los Gatos High School Environmental Outreach Club with Council Member Ristow.
- Council Member Ristow stated she attended the League of California Cities New Mayors and Council Members Orientation with Council Members Badame and Hudes; met with El Camino Hospital Director of Health and with the Los Gatos High School Environmental Outreach Club; and attended the Safe Routes to School Education Subcommittee meeting, Council Policy Committee meeting with Mayor Sayoc, and the General Plan Advisory Committee (GPAC) meeting with Council Member Badame.
- Council Member Hudes stated he attended the League of California Cities New Mayors and Council Members Orientation, the League of California Cities Homeless Workshop, the League of California Cities Peninsula Division meeting, Santa Clara Valley Water Commission meeting, and Silicon Valley Interoperability Authority Board of Directors meeting; met with a member of the sunsetted Ad Hoc Wildfire Committee and listened to Historical Preservation Committee (HPC) meeting.
- Council Member Badame stated she attended the League of California Cities New Mayors and Council Members Orientation, GPAC meeting, Town Council Strategic Priorities, Study Session with Finance Commission, and a Town Council Closed Session; and met with the Director of Government and Community Relations at El Camino Hospital.

Council Matters – continued

- Mayor Sayoc stated that in addition to the items mentioned by other Members, she attended the West Valley Mayors and Managers meeting with Town Manager Prevetti and participated in the Santa Clara County calls regarding COVID-19 with Assistant Town Manager Andrews.

**Manager Matters**

- Announced Finance Commission recruitment is underway for one open seat and that applications are due February 19, 2021 by 4:00 p.m. The Mayor will review applications and make her appointment which will be ratified at the March 2, 2021 Council meeting.
- Announced February programs for the Library are listed on the website, including Black History Month offerings, and encouraged the community to check them out.

**CONSENT ITEMS (TO BE ACTED UPON BY A SINGLE MOTION)**

1. Approve Draft Minutes of January 19, 2021 Commission Interview Minutes.
2. Approve Draft Minutes of the January 1, 2019 Council Meeting.
3. Annual Curb, Gutter, and Sidewalk Maintenance Project (CIP No. 813-9921):
  - a. Approve the Plans and Specifications;
  - b. Authorize Advertising the Project for Bid;
  - c. Authorize the Town Manager to Award and Execute a Construction Agreement in an Amount Not to Exceed \$771,100, Including Contingencies; and
  - d. Authorize Staff to Execute Future Change Orders in an Amount Not to Exceed Ten Percent of the Contract Award Amount.
4. Annual Street Repair and Resurfacing Project (CIP No. 811-9901):
  - a. Approve the Plans and Specifications;
  - b. Authorize Advertising the Project for Bid;
  - c. Authorize the Town Manager to Award and Execute a Construction Agreement in an Amount Not to Exceed \$4,763,000, Including Contingencies and Change Orders;
  - d. Authorize Staff to Execute Future Change Orders in an Amount not to Exceed Ten Percent of the Contract Award Amount;
  - e. Authorize the Town Manager to Execute a Cost Share Agreement with the City of Monte Sereno Not to Exceed \$400,000 for the Work within the City's section of Winchester Boulevard;
  - f. Authorize Revenue and Expenditure Budget increases in the Amount of \$334,000 for the Annual Street Repair & Resurfacing Project (CIP No. 811-9901) and \$66,000 for the Curb, Gutter, and Sidewalk Maintenance Project (CIP No. 813-9921) for Anticipated Reimbursements; and
  - g. Authorize Revenue and Expenditure Decrease in the Amount of \$78,339 to Recognize Lower than Anticipated Costs and Reimbursements from Prior Cost share Agreements.
5. Authorize the Town Manager to Submit Grant Applications to the Caltrans Sustainable Transportation Planning Grant Program and the VTA Measure B Bicycle and Pedestrian Planning Grant Program.

Consent Items - continued

6. Authorize Revenue and Expenditure Budget Adjustments in the Amount of \$4,729 to Recognize Receipt and Expenditure of Pacific Library Partnership Grant Funds.

**MOTION: Motion by Council Member Hudes to approve Consent Items 1-6. Seconded by Council Member Ristow.**

**VOTE: Motion passed unanimously.**

**VERBAL COMMUNICATIONS**

Jeffrey Suzuki

- Requested the Council consider the formation of a Diversity, Equity, and Inclusion (DEI) Committee and stated reforming the Below Market Price (BMP) program or consider implementing a new program should be a priority.

Amy Nishide

- Agreed with the comments made by Mr. Suzuki.

Alicia Cinema Stereo (Spargo)

- Requested the Council consider the formation of a DEI Committee and hire a social worker to respond to homeless and mental health related calls.

Ali Miano

- Requested the Council consider the formation of a DEI Committee.

Emeric Bisbee

- Requested the Council consider the formation of a DEI Committee and hire a social worker to respond to homeless and mental health related calls.

Town Manager Prevetti provided an update on the Town's progress on Police reform and DEI efforts, and encouraged the community to get involved in the General Plan update process to address affordable housing.

**OTHER BUSINESS**

7. Approve a First Amendment to a Parking Agreement with Tesla, Inc. for the Installation of Eight Additional Charging Stations in the North Parking Lot, Resetting the Term, Establishing Lease Payments to the Town of \$8,000 per Month, and Approve a Revenue Budget Adjustment in the Amount of \$48,000 to Reserve the Lease Proceeds in the General Fund Appropriated Reserve that will be Transferred to the Future Downtown Parking Fund to Collect Parking Revenue for Infrastructure Improvements in Downtown.

PAGE 4 OF 4

SUBJECT: Draft Minutes of the Town Council Meeting of February 2, 2021

DATE: February 3, 2021

Other Business Item 7 – continued

Matt Morley, Director of Parks and Public Works, presented the staff report.

Opened public comment.

No one spoke.

Closed public comment.

Council discussed the item.

**MOTION: Motion by Council Member Ristow** to approve a first amendment to a parking agreement with Tesla, Inc. for the installation of eight additional charging stations in the north parking lot, reset the term, establishing lease payments to the Town of \$8,000 per month, and approve a revenue budget adjustment in the amount of \$48,000 to reserve the lease proceeds in the General Fund Appropriated Reserve that will be transferred to the Future Downtown Parking Fund to collect parking revenue for infrastructure improvements in downtown.

**Seconded by Council Member Hudes.**

**VOTE: Motion passed unanimously.**

#### **ADJOURNMENT**

The meeting adjourned at 7:26 p.m.

Respectfully submitted:

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Jenna De Long, Deputy Clerk



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 2/16/2021

ITEM NO: 5

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DATE: February 10, 2021  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Receive the Second Quarter Investment Report (October through December 2020) for Fiscal Year 2020/21.

**RECOMMENDATION:**

Receive the Second Quarter Investment Report (October through December 2020) for Fiscal Year 2020/21.

**DISCUSSION:**

As of December 31, 2020, the Town's weighted portfolio yield was 1.62% which trended above the Local Agency Investment Fund (LAIF) yield of 0.62%. This favorable yield differential was primarily due to the LAIF portfolio's weighted average maturity (WAM) of 169 days and the Town's longer WAM of 579 days. The Town's weighted average rate of return of 1.62% for the second quarter remained relatively stable when compared to the second quarter return of 1.93% in 2020.

In the months prior to the COVID-19 outbreak, staff in consultation with the Town's investment advisor had been extending maturities to capture higher yields associated with longer dated securities. In recent months, the economic fallout associated with the pandemic has led to Treasury yields falling dramatically. For example, on December 31, 2020, ten-year US Treasury notes were yielding 0.92% versus 1.69% on December 31, 2020.

During the second quarter, staff in coordination with the Town's investment advisor started investing most maturing investments into the State Local Agency Investment Fund (LAIF) pool to capture the higher short-term yields. The current LAIF yield of 0.62% is almost double that of the five-year US Treasury yield of 0.36%. The State LAIF pool typically lags the market when current market yields are either increasing or decreasing. However, with LAIF's WAM of 165 days, staff is expecting a continuing steady decline in LAIF portfolio yields until the LAIF portfolio reflects the low short-term investment yields available in the market.

**PREPARED BY:** Stephen Conway  
Finance Director

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

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PAGE 2 OF 2

SUBJECT: Receive the Second Quarter Investment Report (October through December 2021) for Fiscal Year 2021/21

DATE: February 10, 2021

DISCUSSION (continued):

The Federal Reserve (Fed) confirmed no change to its policy until late 2023. The Fed said it is committed to keeping the target range for the federal funds rate at 0% to 0.25% until “labor market conditions have reached levels consistent with the Committee's assessment of maximum employment. The Fed’s quarterly economic forecasts improved slightly with unemployment expected to fall to 5% in 2021 compared to the Fed’s previous estimate of 5.5% and a gross domestic product (GDP) forecast of 4.2%, which if achieved would mean a recovery in GDP beyond the pre-pandemic levels.

CONCLUSION:

Staff recommends that the Town Council receive the Second Quarter Investment Report (October through December 2020) for Fiscal Year 2020/21. This will also be provided to the Finance Commission.

Attachment:

1. Second Quarter Investment Report for FY 2020/21 (October through December 2020)

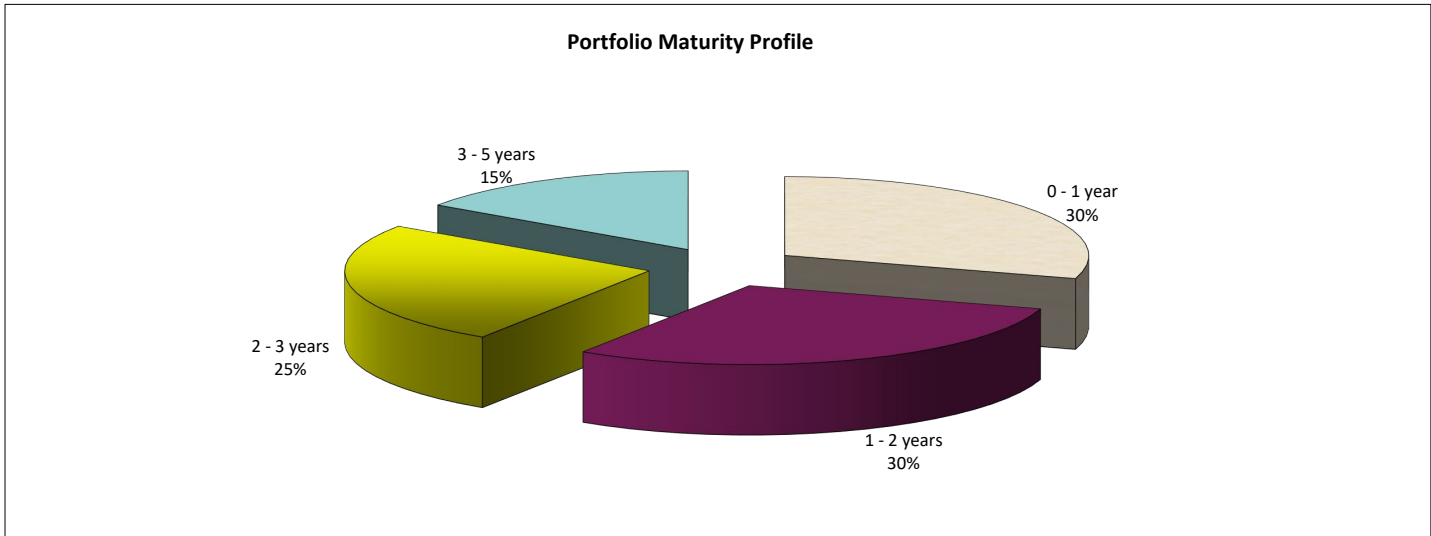
**Town of Los Gatos  
Summary Investment Information  
December 31, 2020**

**Weighted Average YTM Portfolio Yield: 1.62%** **Weighted Average Maturity (days) 579**

	<u>This Month</u>	<u>Last Month</u>	<u>One year ago</u>
<b>Portfolio Balance</b>	\$61,118,129	\$60,767,876	\$63,890,429

**Benchmarks/ References:**

Town's Average Yield	1.62%	1.62%	1.93%
LAIF Yield for month	0.62%	0.62%	2.04%
3 mo. Treasury	0.09%	0.08%	1.55%
6 mo. Treasury	0.09%	0.09%	1.59%
2 yr. Treasury	0.12%	0.15%	1.57%
5 yr. Treasury (most recent)	0.36%	0.36%	1.69%
10 Yr. Treasury	0.92%	0.84%	1.69%



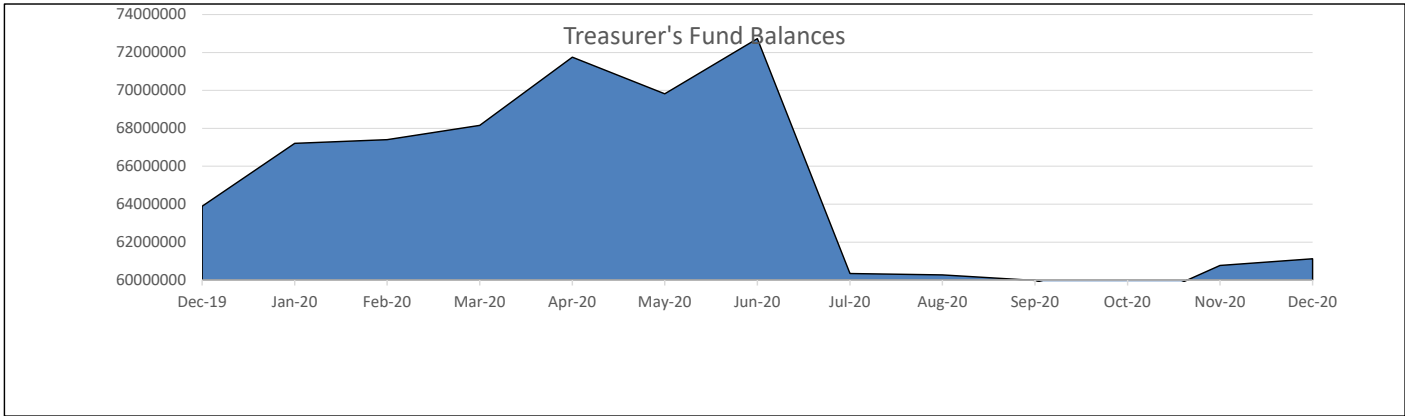
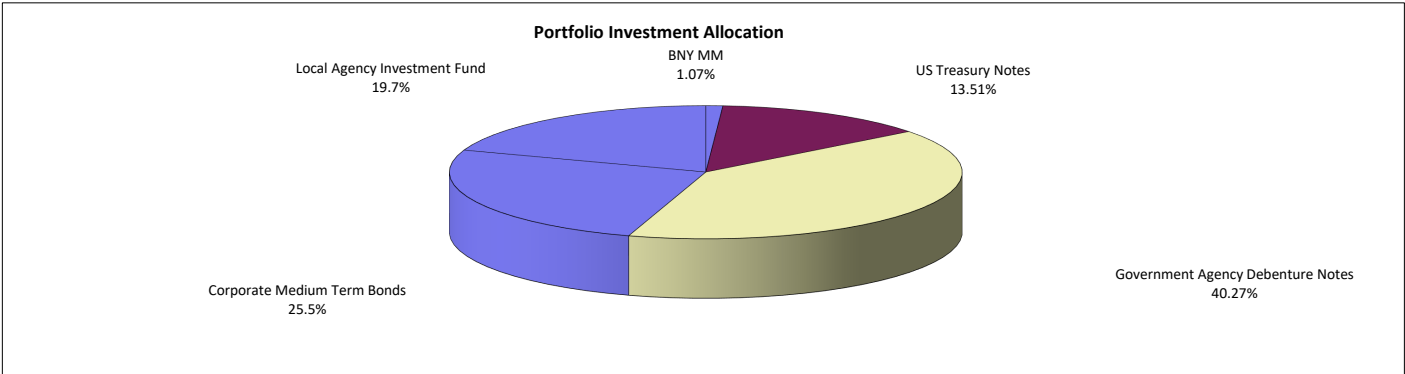
**Compliance:** The Town's investments are in compliance with the Town's investment policy dated November 3, 2020 and also in compliance with the requirements of Section 53601 of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.



**Town of Los Gatos**  
**Portfolio Allocation & Treasurer's Fund Balances**  
**December 31, 2020**

	<u>Month</u>	<u>YTD</u>
Fund Balances - Beginning of Month/Period	\$60,767,876.33	\$72,729,892.43
Receipts	4,443,212.25	23,200,580.25
Disbursements	<u>(4,092,959.13)</u>	<u>(34,812,343.23)</u>
Fund Balances - End of Month/Period	<u>\$61,118,129.45</u>	<u>\$61,118,129.45</u>

<u>Portfolio Allocation:</u>		<u>% of Portfolio</u>	<u>Max. % Or \$ Allowed Per State Law or Policy</u>
BNY MM	\$609,987.61	1.07%	20% of Town Portfolio
US Treasury Notes	\$7,723,416.42	13.51%	No Max. on US Treasuries
Government Agency Debenture Notes	\$23,022,651.75	40.27%	No Max. on Non-Mortgage Backed
Corporate Medium Term Bonds	\$14,578,812.51	25.50%	30% of Town Portfolio
Local Agency Investment Fund	\$11,233,653.52	19.65%	\$75 M per State Law
Subtotal - Investments	57,168,521.81	100.00%	
Reconciled Demand Deposit Balances	<u>3,949,607.64</u>		
 Total Treasurer's Fund	 <u>\$61,118,129.45</u>		



**Town of Los Gatos**  
**Non-Treasury Restricted Fund Balances**  
**December 31, 2020**

	Beginning Balance	DEC 20 Deposits Realized Gain/Adj.	DEC 20 Interest/ Earnings	DEC 20 Withdrawals	Ending Balance	
Non-Treasury Funds:						
Cert. of Participation 2002 Series A Reserve Fund	\$ 686,251.00		\$ 5.70	\$ -	\$ 686,256.70	Note 1
Cert. Of Participation 2010 Ser A Lease Pymt Fund	6.13	0.00	0.00		\$ 6.13	Note 1
Cert. of Participation 2002 Lease Payment Fund	35.41	0.00	0.00		\$ 35.41	Note 1
Cert. of Participation 2010 Series Reserve Fund	1,298,120.67		10.75		1,298,131.42	Note 2
Total Restricted Funds:	<u>\$ 1,984,413.21</u>	<u>\$0.00</u>	<u>\$16.45</u>	<u>\$0.00</u>	<u>\$1,984,429.66</u>	
CEPPT IRS Section 115 Trust	700,431.21	0.00	8,376.12		708,807.33	
Grand Total COP's and CEPPT Trust	<u>\$ 2,684,844.42</u>	<u>\$ -</u>	<u>\$ 8,392.57</u>	<u>\$ -</u>	<u>\$ 2,693,236.99</u>	

These accounts are not part of the Treasurer's fund balances reported elsewhere in this report, as they are for separate and distinct entities.

**Note 1:** The three original funds for the Certificates of Participation 2002 Series A consist of construction funds which will be expended over the next few years, reserve funds which will guarantee the payment of lease payments, and a third fund for the disbursement of lease payments and initial delivery costs.

**Note 2:** The 2010 COP Funds are all for the Library construction, reserves to guarantee lease payments, and a lease payment fund for the life of the COP issue. The COI fund was closed in September 2010.

**Note 3:** The CEPPT Section IRS Section 115 Trust was established as an irrevocable trust dedicated to accumulate resources to fund the Town's unfunded liabilities related to pension and other p

**Town of Los Gatos  
Statement of Interest Earned  
December 31, 2020**

Interest by Month

July 2020	\$78,263.77
August 2020	78,263.76
September 2020	75,077.38
October 2020	71,634.00
November 2020	62,226.39
December 2020	64,300.60
January 2021	
February 2021	
March 2021	
April 2021	
May 2021	
June 2021	
	<hr/>
	<u>\$429,765.90</u>

**Town of Los Gatos Investment Schedule December 2020**

Institution	CUSIP #	Security	Deposit Date	Par Value	Original Cost	Market Value	Purchased Interest	Maturity Date or Call Date	Yield to Maturity or Call	Interest Received to Date	Interest Earned Prior Yrs.	Interest Earned Current FY	Days to Maturity
Treasury	912828WR7	US Treasury Note	4/2/2019	1,000,000.00	995,625.00	1,009,921.88		6/30/2021	2.33%	\$ 37,099.45	\$ 28,917.32	\$ 11,694.04	181
Toyota Motor Credit	89236TDP7	Corporate Bond	05/20/19	1,100,000.00	1,102,596.00	1,125,945.16		1/11/2022	2.50%	\$ 32,651.67	\$ 30,798.33	\$ 13,923.57	376
Toyota Motor Credit	89236TCZ6	Corporate Bond	3/13/2020	500,000.00	504,440.00	502,109.61		4/8/2021	1.06%	\$ 5,409.72	\$ 1,599.24	\$ 2,699.63	98
FFCB	3133EKM1	Gov. Agency Debenture	8/2/2019	1,000,000.00	1,014,400.00	1,061,957.10		2/23/2024	1.90%	\$ 29,175.83	\$ 17,466.66	\$ 9,651.25	1149
FFCB	3133EMBE1	Gov. Agency Debenture	10/8/2020	1,600,000.00	1,598,000.00	1,596,217.89	146.66	3/28/2024	0.34%	\$ (146.66)	\$ -	\$ 1,237.25	1183
FFCB	3133EMCQ3	Gov. Agency Debenture	10/16/2020	2,000,000.00	1,998,000.00	2,000,344.78	46.67	10/13/2024	0.31%	\$ (46.67)	\$ -	\$ 1,270.28	1382
BankAmerica Corp	06051GHC6	Corporate Bond	10/9/2020	1,300,000.00	1,366,287.00	1,368,263.00		12/20/2023	0.66%	\$ 1,731.27	\$ -	\$ 4,165.82	1084
IBM	459200HG9	Corporate Bond	8/8/2019	1,000,000.00	995,010.00	1,027,705.72		8/1/2022	2.05%	\$ 18,385.42	\$ 18,296.32	\$ 10,295.18	578
Oracle	68389XBL8	Corporate Bond	7/8/2019	1,000,000.00	1,008,880.00	1,051,497.87		7/15/2023	2.18%	\$ 28,466.67	\$ 21,374.17	\$ 10,985.61	926
US Treasury	912828R28	US Treasury Note	7/2/2019	500,000.00	497,246.09	517,246.10		4/30/2023	1.77%	\$ 10,796.54	\$ 8,819.78	\$ 4,458.35	850
American Express	0258MOEB1	Corporate Bond	2/11/2020	1,000,000.00	1,007,210.00	1,005,102.95		4/4/2021	1.66%	\$ 16,500.00	\$ 6,215.30	\$ 8,168.69	94
Freddie Mac	31337EAE5	Gov. Agency Debenture	7/19/2019	2,000,000.00	2,072,358.00	2,126,342.52		6/19/2023	1.79%	\$ 77,916.67	\$ 34,741.74	\$ 18,422.13	900
FFCB	3133EKFV0	Gov. Agency Debenture	7/22/2019	1,000,000.00	999,630.00	1,034,672.66		1/17/2023	1.89%	\$ 18,489.58	\$ 17,771.06	\$ 9,505.45	747
Treasury	912828L57	US Treasury Note	7/22/2019	1,200,000.00	1,197,988.40	1,233,890.63		9/30/2022	2.09%	\$ 25,016.39	\$ 20,385.25	\$ 10,903.74	638
Freddie Mac	3137EADB2	Gov. Agency Debenture	1/17/2020	2,100,000.00	2,132,039.70	2,148,552.00		1/13/2022	2.12%	\$ 24,383.34	\$ 15,274.50	\$ 17,033.38	378
US Treasury	912828Y20	US Treasury Note	1/31/2020	1,000,000.00	1,016,601.56	1,013,281.25		7/15/2021	1.47%	\$ 11,971.16	\$ 6,138.62	\$ 7,480.17	196
American Honda	02665WCC2	Corporate Bond	11/27/2019	1,000,000.00	1,012,410.01	1,062,198.39		6/27/2024	2.12%	\$ 24,733.34	\$ 12,601.45	\$ 10,734.57	1274
JP Morgan Chase	46625HJE1	Gov. Agency Debenture	2/11/2020	900,000.00	934,587.00	946,538.96		9/23/2022	1.74%	\$ 18,037.50	\$ 6,148.83	\$ 8,081.32	631
Honeywell Int'l.	438516BW5	Corporate Bond	11/20/2019	1,000,000.00	1,014,660.00	1,065,627.06		7/15/2024	1.64%	\$ 16,483.33	\$ 12,127.88	\$ 10,006.86	1292
Disney	254687CK0	Corporate Bond	3/4/2020	1,000,000.00	1,029,080.00	1,004,666.68		2/15/2021	1.39%	\$ 20,125.00	\$ 4,687.49	\$ 7,309.30	46
FNMA	3135G0V75	Gov. Agency Debenture	10/17/2019	1,100,000.00	1,105,833.30	1,158,202.90		7/2/2024	1.63%	\$ 13,956.25	\$ 12,682.51	\$ 9,080.08	1279
US Bancorp	91159HHV5	Corporate Bond	12/24/2019	1,000,000.00	1,049,040.00	1,088,633.13		1/5/2024	2.12%	\$ 20,718.75	\$ 11,183.73	\$ 10,887.86	1100
FFCB	3133EKC53	Gov. Agency Debenture	3/21/2019	1,400,000.00	1,403,262.00	1,406,555.58		3/11/2021	2.43%	\$ 52,558.33	\$ 43,563.60	\$ 17,164.25	70
FFCB	3133EKQA7	Gov. Agency Debenture	10/21/2019	1,000,000.00	1,019,780.00	1,065,751.87		9/10/2024	1.66%	\$ 18,431.11	\$ 11,615.55	\$ 8,447.67	1349
PNC Financial	693476BN2	Corporate Bond	8/15/2019	1,000,000.00	1,029,280.00	1,032,866.61		2/6/2022	2.12%	\$ 35,108.33	\$ 18,589.78	\$ 10,689.13	402
FHLB	313379Q69	Gov. Agency Debenture	7/22/2019	1,000,000.00	1,006,960.00	1,028,862.21		6/10/2022	1.87%	\$ 29,395.83	\$ 17,755.82	\$ 9,497.30	526
FNMA	3135G0V59	Gov. Agency Debenture	11/27/2019	1,540,000.00	1,562,924.44	1,583,011.72		4/12/2022	1.61%	\$ 30,318.75	\$ 14,793.93	\$ 12,602.23	467
JP Morgan Chase	46625HUT8	Corporate Bond	9/23/2019	1,400,000.00	1,485,414.00	1,540,609.98		2/1/2024	2.39%	\$ 46,413.89	\$ 26,688.85	\$ 17,475.98	1127
American Honda	02665WDH1	Corporate Bond	2/14/2020	600,000.00	603,756.00	622,245.79		5/10/2023	1.75%	\$ 10,595.00	\$ 3,955.80	\$ 5,312.90	860
FHLB	3130AABG2	US Treasury Note	4/15/2019	1,000,000.00	988,250.00	1,015,959.81		11/29/2021	2.34%	\$ 30,416.67	\$ 28,121.02	\$ 11,706.49	333
FNMA	3135G0Q89	Gov. Agency Debenture	2/10/2020	1,000,000.00	998,702.00	1,009,541.20		10/7/2021	1.38%	\$ 9,052.08	\$ 5,614.15	\$ 7,326.27	280
FNMA	3135G0J20	Gov. Agency Debenture	2/10/2020	1,000,000.00	998,882.00	1,001,843.40		2/26/2021	1.48%	\$ 7,486.11	\$ 5,724.31	\$ 7,470.02	57
Treasury	912828M80	US Treasury Note	7/22/2019	1,000,000.00	1,006,175.23	1,035,820.31		11/30/2022	1.81%	\$ 27,158.47	\$ 17,118.04	\$ 9,156.16	699
Treasury	912828U57	US Treasury Note	7/31/2019	1,000,000.00	1,011,875.00	1,057,304.69		11/30/2023	1.84%	\$ 28,333.33	\$ 16,990.40	\$ 9,332.04	1064
Treasury	912828X70	US Treasury Note	12/30/2019	1,000,000.00	1,010,589.29	1,059,921.88		4/30/2024	1.75%	\$ 18,703.30	\$ 9,805.98	\$ 9,859.56	1216
Treasury	912828XT2	US Treasury Note	10/31/2019	1,000,000.00	1,015,667.41	1,061,250.00		5/31/2024	1.64%	\$ 21,639.34	\$ 11,040.77	\$ 8,360.09	1247
Wells Fargo	94988J6A0	Corporate Bond	6/24/2020	1,350,000.00	1,370,749.50	1,365,432.31		9/9/2021	0.80%	\$ 5,357.48	\$ 163.99	\$ 5,028.96	252
FFCB	3133EJ3Q0	Gov. Agency Debenture	8/28/2019	1,500,000.00	1,587,503.75	1,616,413.07		12/21/2023	2.12%	\$ 56,661.46	\$ 19,226.80	\$ 11,523.55	1085
Freddie Mac	3133EKKT2	Gov. Agency Debenture	6/24/2019	1,550,000.00	1,573,188.00	1,617,239.85		2/8/2023	1.82%	\$ 47,856.25	\$ 29,033.70	\$ 14,360.75	769
Subtotal				\$ 44,640,000.00	\$ 45,324,880.68	\$ 46,269,548.52	\$ 193.33			\$ 927,340.28	\$ 567,032.64	\$ 373,307.87	
BNY MM		Money Market			609,987.61	609,987.61			0.00%				1
LAIF		State Investment Pool			11,233,653.52	11,233,653.52			0.62%			29,586.76	1
					<b>\$57,168,521.81</b>	<b>\$58,113,189.65</b>				<b>\$ 927,340.28</b>	<b>\$ 567,032.64</b>	<b>\$ 402,894.63</b>	

<u>Matured Assets</u>													
FNMA	3133EHYM9	Gov. Agency Debenture	9/21/2017	1,300,000.00	1,295,866.00			9/14/2020	1.61%	\$ 58,120.83	\$ 57,964.67	\$ 4,348.78	
FFCB	3133ELVV3	Gov. Agency Debenture	4/8/2020	1,600,000.00	1,600,000.00			10/8/2020	0.93%	\$ 7,600.00	\$ 3,456.44	\$ 4,164.38	
FNMA	3136G0AW1	Gov. Agency Debenture	12/13/2017	2,000,000.00	2,017,900.00			10/16/2020	2.02%	\$ 133,558.33	\$ 103,715.85	\$ 12,044.42	
BankAmerica Corp	06051GGS2	Corporate Bond	4/30/2020	1,300,000.00	1,302,314.00			10/1/2020	1.21%	\$ 12,694.08	\$ 4,141.23	\$ 6,313.69	

Total Investments "Matured"												\$ 26,871.27	
Total Interest FY 20_21 Matured and Current												\$ 429,765.90	

Maturity Profile	Amount
0-1 year	\$22,156,443.19
1-2 years	\$10,967,560.77
2-3 years	\$10,720,723.84
3-5 years	\$ 13,323,794.01
	<b>\$57,168,521.81</b>

**Market to Cost Position Report**

Institution	Amortized Cost
BNY Assets	\$45,324,880.68
BNY MM	609,987.61
LAIF	11,233,653.52
Totals:	<b>\$57,168,521.81</b>

**Town of Los Gatos  
Summary Investment Information  
November 30, 2020**

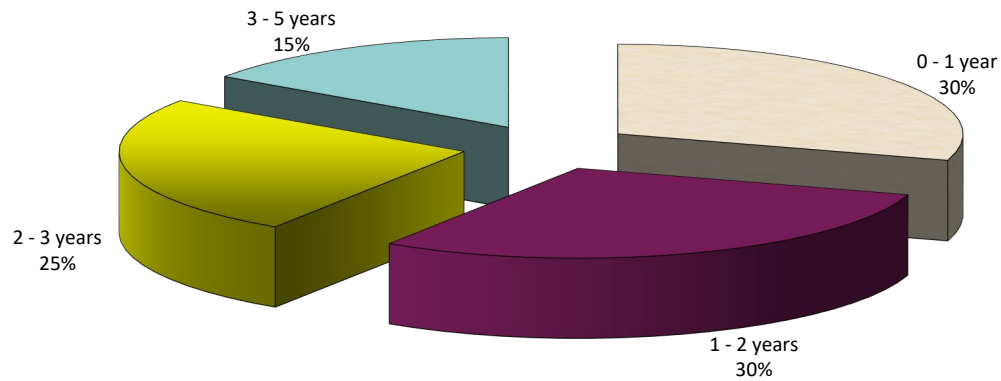
**Weighted Average YTM Portfolio Yield:** **1.62%** **Weighted Average Maturity (days)** **605**

<b>Portfolio Balance</b>	<u><b>This Month</b></u>	<u><b>Last Month</b></u>	<u><b>One year ago</b></u>
	\$60,767,876	\$58,591,198	\$62,538,890

**Benchmarks/ References:**

Town's Average Yield	1.62%	1.63%	1.91%
LAIF Yield for month	0.62%	0.62%	2.14%
3 mo. Treasury	0.08%	0.09%	2.33%
6 mo. Treasury	0.09%	0.10%	2.49%
2 yr. Treasury	0.15%	0.16%	2.87%
5 yr. Treasury (most recent)	0.36%	0.39%	2.98%
10 Yr. Treasury	0.84%	0.88%	3.14%

**Portfolio Maturity Profile**

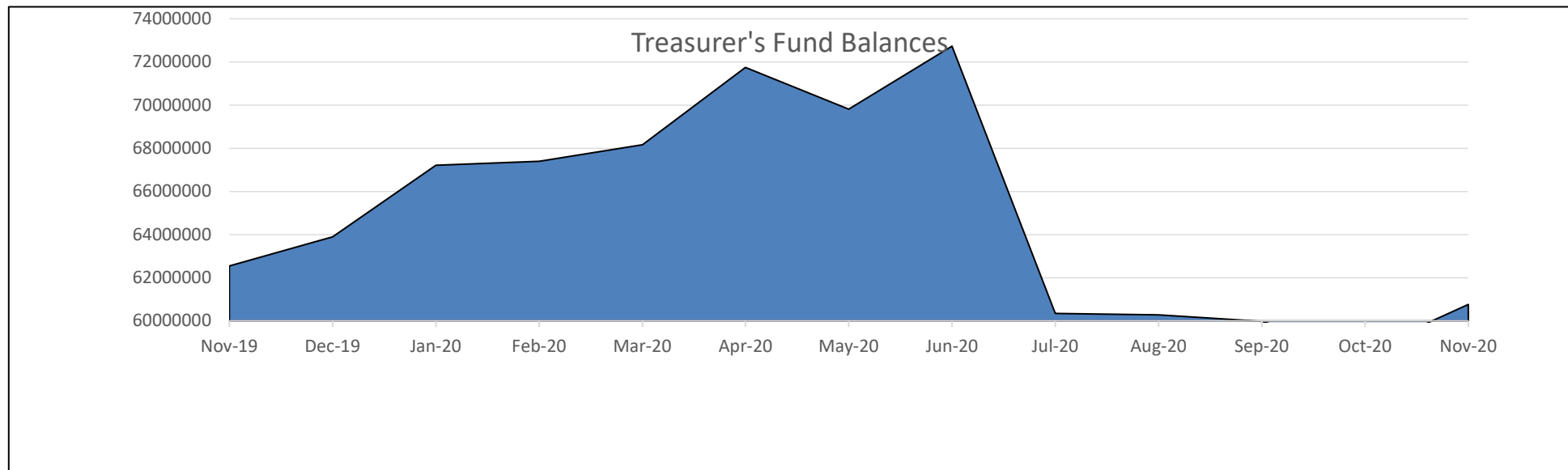
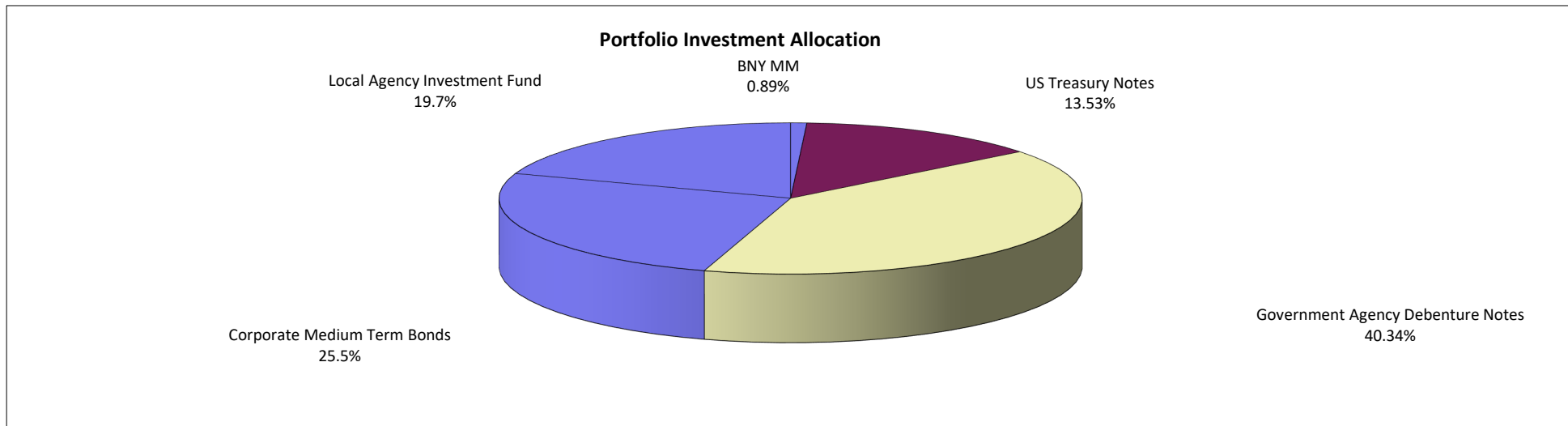


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**Town of Los Gatos**  
**Portfolio Allocation & Treasurer's Fund Balances**  
**November 30, 2020**

	<u>Month</u>	<u>YTD</u>
Fund Balances - Beginning of Month/Period	\$58,591,197.81	\$72,729,892.43
Receipts	4,020,680.37	18,757,368.00
Disbursements	(1,844,001.85)	(30,719,384.10)
Fund Balances - End of Month/Period	<u>\$60,767,876.33</u>	<u>\$60,767,876.33</u>

<u>Portfolio Allocation:</u>	<u>% of Portfolio</u>	<u>Max. % Or \$ Allowed Per State Law or Policy</u>
BNY MM	\$508,142.68	0.89%
US Treasury Notes	\$7,723,416.42	13.53%
Government Agency Debenture Notes	\$23,022,651.75	40.34%
Corporate Medium Term Bonds	\$14,578,812.51	25.55%
Local Agency Investment Fund	\$11,233,653.52	19.69%
Subtotal - Investments	<u>\$57,066,676.88</u>	100.00%
Reconciled Demand Deposit Balances	<u>3,701,199.45</u>	
 Total Treasurer's Fund	 <u>\$60,767,876.33</u>	



**Town of Los Gatos**  
**Non-Treasury Restricted Fund Balances**  
**November 30, 2020**

	Beginning Balance	NOV 20 Deposits Realized Gain/Adj.	NOV 20 Interest/ Earnings	NOV 20 Withdrawals	Ending Balance	
Non-Treasury Funds:						
Cert. of Participation 2002 Series A Reserve Fund	\$ 686,280.07		\$ 5.89	\$ 34.96	\$ 686,251.00	Note 1
Cert. Of Participation 2010 Ser A Lease Pymt Fund	6.13	0.00	0.00		\$ 6.13	Note 1
Cert. of Participation 2002 Lease Payment Fund	0.45	34.96	0.00		\$ 35.41	Note 1
Cert. of Participation 2010 Series Reserve Fund	1,298,109.56		11.11		1,298,120.67	Note 2
Total Restricted Funds:	<u>\$ 1,984,396.21</u>	<u>\$34.96</u>	<u>\$17.00</u>	<u>\$34.96</u>	<u>\$1,984,413.21</u>	
CEPPT IRS Section 115 Trust	676,490.54	0.00	23,940.67		700,431.21	
Grand Total COP's and CEPPT Trust	<u>\$ 2,660,886.75</u>	<u>\$ 34.96</u>	<u>\$ 23,957.67</u>	<u>\$ 34.96</u>	<u>\$ 2,684,844.42</u>	

These accounts are not part of the Treasurer's fund balances reported elsewhere in this report, as they are for separate and distinct entities.

**Note 1:** The three original funds for the Certificates of Participation 2002 Series A consist of construction funds which will be expended over the next few years, reserve funds which will guarantee the payment of lease payments, and a third fund for the disbursement of lease payments and initial delivery costs.

**Note 2:** The 2010 COP Funds are all for the Library construction, reserves to guarantee lease payments, and a lease payment fund for the life of the COP issue. The COI fund was closed in September 2010.

**Note 3:** The CEPPT Section IRS Section 115 Trust was established as an irrevocable trust dedicated to accumulate resources to fund the Town's unfunded liabilities related to pension and other pc



**Town of Los Gatos  
Statement of Interest Earned  
November 30, 2020**

Interest by Month

July 2020	\$78,263.77
August 2020	78,263.76
September 2020	75,077.38
October 2020	71,634.00
November 2020	62,226.39
December 2020	
January 2021	
February 2021	
March 2021	
April 2021	
May 2021	
June 2021	
	<hr/>
	<u>\$365,465.30</u>

**Town of Los Gatos Investment Schedule November 2020**

Institution	CUSIP #	Security	Deposit Date	Par Value	Original Cost	Market Value	Purchased Interest	Maturity Date or Call Date	Yield to Maturity or Call	Interest Received to Date	Interest Earned Prior Yrs.	Interest Earned Current FY	Days to Maturity
Treasury	912828WR7	US Treasury Note	4/2/2019	1,000,000.00	995,625.00	1,011,875.00		6/30/2021	2.33%	\$ 26,474.45	\$ 28,917.32	\$ 9,723.85	212
Toyota Motor Credit	89236TDP7	Corporate Bond	05/20/19	1,100,000.00	1,102,596.00	1,127,599.00		1/11/2022	2.50%	\$ 32,651.67	\$ 30,798.33	\$ 11,577.75	407
Toyota Motor Credit	89236TCZ6	Corporate Bond	3/13/2020	500,000.00	504,440.00	502,860.50		4/8/2021	1.06%	\$ 5,409.72	\$ 1,599.24	\$ 2,244.80	129
FFCB	3133EKM1	Gov. Agency Debenture	8/2/2019	1,000,000.00	1,014,400.00	1,063,663.51		2/23/2024	1.90%	\$ 29,175.83	\$ 17,466.66	\$ 8,025.22	1180
FFCB	3133EMBE1	Gov. Agency Debenture	10/8/2020	1,600,000.00	1,598,000.00	1,595,356.80	146.66	3/28/2024	0.34%	\$ (146.66)	\$ -	\$ 780.65	1214
FFCB	3133EMCQ3	Gov. Agency Debenture	10/16/2020	2,000,000.00	1,998,000.00	2,000,037.30	46.67	10/13/2024	0.31%	\$ (46.67)	\$ -	\$ 752.14	1413
BankAmerica Corp	06051GHC6	Corporate Bond	10/9/2020	1,300,000.00	1,366,287.00	1,365,104.00	11,824.08	12/20/2023	0.66%	\$ (11,824.08)	\$ -	\$ 2,609.91	1115
IBM	459200HG9	Corporate Bond	8/8/2019	1,000,000.00	995,010.00	1,026,656.91		8/1/2022	2.05%	\$ 18,385.42	\$ 18,296.32	\$ 8,560.66	609
Oracle	68389XBL8	Corporate Bond	7/8/2019	1,000,000.00	1,008,880.00	1,051,908.18		7/15/2023	2.18%	\$ 28,466.67	\$ 21,374.17	\$ 9,134.77	957
US Treasury	912828R28	US Treasury Note	7/2/2019	500,000.00	497,246.09	517,617.19		4/30/2023	1.77%	\$ 10,796.54	\$ 8,819.78	\$ 3,707.22	881
American Express	0258M0EB1	Corporate Bond	2/11/2020	1,000,000.00	1,007,210.00	1,006,966.87		4/4/2021	1.66%	\$ 16,500.00	\$ 6,215.30	\$ 6,792.44	125
Freddie Mac	3137EAEN5	Gov. Agency Debenture	7/19/2019	2,000,000.00	2,072,358.00	2,128,782.88		6/19/2023	1.79%	\$ 50,416.67	\$ 34,741.74	\$ 15,318.40	931
FFCB	3133EKVF0	Gov. Agency Debenture	7/22/2019	1,000,000.00	999,630.00	1,036,140.99		1/17/2023	1.89%	\$ 18,489.58	\$ 17,771.06	\$ 7,903.99	778
Treasury	912828L57	US Treasury Note	7/22/2019	1,200,000.00	1,197,988.40	1,235,343.74		9/30/2022	2.09%	\$ 25,016.39	\$ 20,385.25	\$ 9,066.70	669
Freddie Mac	3137EADB2	Gov. Agency Debenture	1/17/2020	2,100,000.00	2,132,039.70	2,152,877.24		1/13/2022	2.12%	\$ 24,383.34	\$ 15,274.50	\$ 14,163.63	409
US Treasury	912828Y20	Gov. Agency Debenture	1/31/2020	1,000,000.00	1,016,601.56	1,015,820.31		7/15/2021	1.47%	\$ 11,971.16	\$ 6,138.62	\$ 6,219.92	227
American Honda	02665WCZ2	Corporate Bond	11/27/2019	1,000,000.00	1,012,410.01	1,063,666.03		6/27/2024	2.12%	\$ 24,733.34	\$ 12,601.45	\$ 8,926.03	1305
JP Morgan Chase	46625HJE1	Gov. Agency Debenture	2/11/2020	900,000.00	934,587.00	947,405.74		9/23/2022	1.74%	\$ 18,037.50	\$ 6,148.83	\$ 6,719.80	662
Honeywell Int'l.	438516BW5	Corporate Bond	11/20/2019	1,000,000.00	1,014,660.00	1,066,436.31		7/15/2024	1.64%	\$ 16,483.33	\$ 12,127.88	\$ 8,320.92	1323
Disney	254687CK0	Corporate Bond	3/4/2020	1,000,000.00	1,029,080.00	1,008,436.83		2/15/2021	1.39%	\$ 20,125.00	\$ 4,687.49	\$ 6,077.84	77
FNMA	3135G0V75	Gov. Agency Debenture	10/17/2019	1,100,000.00	1,105,833.30	1,157,666.53		7/2/2024	1.63%	\$ 13,956.25	\$ 12,682.51	\$ 7,550.29	1310
US Bancorp	91159HHV5	Corporate Bond	12/24/2019	1,000,000.00	1,049,040.00	1,084,369.49		1/5/2024	2.12%	\$ 20,718.75	\$ 11,183.73	\$ 9,053.49	1131
FFCB	3133EKCS3	Gov. Agency Debenture	3/21/2019	1,400,000.00	1,403,262.00	1,409,345.53		3/11/2021	2.43%	\$ 52,558.33	\$ 43,563.60	\$ 14,272.44	101
FFCB	3133EKQA7	Gov. Agency Debenture	10/21/2019	1,000,000.00	1,019,780.00	1,066,935.10		9/10/2024	1.66%	\$ 18,431.11	\$ 11,615.55	\$ 7,024.42	1380
PNC Financial	693476BN2	Corporate Bond	8/15/2019	1,000,000.00	1,029,280.00	1,034,626.29		2/6/2022	2.12%	\$ 35,108.33	\$ 18,589.78	\$ 8,888.24	433
FHLB	313379Q69	Gov. Agency Debenture	7/22/2019	1,000,000.00	1,006,960.00	1,029,811.49		6/10/2022	1.87%	\$ 18,770.83	\$ 17,755.82	\$ 7,897.21	557
FNMA	3135G0V59	Gov. Agency Debenture	11/27/2019	1,540,000.00	1,562,924.44	1,585,056.17		4/12/2022	1.61%	\$ 30,318.75	\$ 14,793.93	\$ 10,479.03	498
JP Morgan Chase	46625HJT8	Corporate Bond	9/23/2019	1,400,000.00	1,485,414.00	1,542,295.12		2/1/2024	2.39%	\$ 46,413.89	\$ 26,688.85	\$ 14,531.65	1158
American Honda	02665WDH1	Corporate Bond	2/14/2020	600,000.00	603,756.00	622,433.76		5/10/2023	1.75%	\$ 10,595.00	\$ 3,955.80	\$ 4,417.79	891
FHLB	3130AABG2	US Treasury Note	4/15/2019	1,000,000.00	988,250.00	1,017,394.66		11/29/2021	2.34%	\$ 30,416.67	\$ 28,121.02	\$ 9,734.20	364
FNMA	3135G0Q89	Gov. Agency Debenture	2/10/2020	1,000,000.00	998,702.00	1,010,730.00		10/7/2021	1.38%	\$ 9,052.08	\$ 5,614.15	\$ 6,091.95	311
FNMA	3135G0J20	Gov. Agency Debenture	2/10/2020	1,000,000.00	998,882.00	1,003,028.00		2/26/2021	1.48%	\$ 7,486.11	\$ 5,724.31	\$ 6,211.48	88
Treasury	912828M80	US Treasury Note	7/22/2019	1,000,000.00	1,006,175.23	1,036,757.81		11/30/2022	1.81%	\$ 27,158.47	\$ 17,118.04	\$ 7,613.55	730
Treasury	912828U57	US Treasury Note	7/31/2019	1,000,000.00	1,011,875.00	1,058,085.94		11/30/2023	1.84%	\$ 28,333.33	\$ 16,990.40	\$ 7,759.79	1095
Treasury	912828X70	US Treasury Note	12/30/2019	1,000,000.00	1,010,589.29	1,060,468.75		4/30/2024	1.75%	\$ 18,703.30	\$ 9,805.98	\$ 8,198.44	1247
Treasury	912828XT2	US Treasury Note	10/31/2019	1,000,000.00	1,015,667.41	1,061,757.81		5/31/2024	1.64%	\$ 21,639.34	\$ 11,040.77	\$ 6,951.59	1278
Wells Fargo	94988J6A0	Corporate Bond	6/24/2020	1,350,000.00	1,370,749.50	1,367,577.00		9/9/2021	0.80%	\$ 5,357.48	\$ 163.99	\$ 4,181.69	283
FFCB	3133EJ3Q0	Gov. Agency Debenture	8/28/2019	1,500,000.00	1,587,503.75	1,620,323.93		12/21/2023	2.12%	\$ 35,098.96	\$ 19,226.80	\$ 9,582.08	1116
Freddie Mac	3133EKKT2	Gov. Agency Debenture	6/24/2019	1,550,000.00	1,573,188.00	1,620,238.13		2/8/2023	1.82%	\$ 47,856.25	\$ 29,033.70	\$ 11,941.28	800
Subtotal				\$ 44,640,000.00	\$ 45,324,880.68	\$ 46,313,272.84	\$ 12,017.41			\$ 843,472.43	\$ 567,032.64	\$ 309,007.27	
BNY MM		Money Market			508,142.68	508,142.68			0.00%				1
LAIF		State Investment Pool			11,233,653.52	11,233,653.52			0.62%			29,586.76	1
					<b>\$57,066,676.88</b>	<b>\$58,055,069.04</b>				\$ 843,472.43	\$ 567,032.64	\$ 338,594.03	

<u>Matured Assets</u>													
FNMA	3133EHYM9	Gov. Agency Debenture	9/21/2017	1,300,000.00	1,295,866.00			9/14/2020	1.61%	\$ 58,120.83	\$ 57,964.67	\$ 4,348.78	
FFCB	3133ELVV3	Gov. Agency Debenture	4/8/2020	1,600,000.00	1,600,000.00			10/8/2020	0.93%	\$ 7,600.00	\$ 3,456.44	\$ 4,164.38	
FNMA	3136G0AW1	Gov. Agency Debenture	12/13/2017	2,000,000.00	2,017,900.00			10/16/2020	2.02%	\$ 133,558.33	\$ 103,715.85	\$ 12,044.42	
BankAmerica Corp	06051GGS2	Corporate Bond	4/30/2020	1,300,000.00	1,302,314.00			10/1/2020	1.21%	\$ 12,694.08	\$ 4,141.23	\$ 6,313.69	
Total Investments "Matured"												\$ 26,871.27	
Total Interest FY 20_21 Matured and Current												\$ 365,465.30	

<u>Maturity Profile</u>		Amount
0-1 year		\$22,054,598.26
1-2 years		\$9,961,385.54
2-3 years		\$8,773,108.32
3-5 years		\$ 16,277,584.76
		<u>\$57,066,676.88</u>

**Market to Cost Position Report**

Institution	Amortized Cost
BNY Assets	\$45,324,880.68
BNY MM	508,142.68
LAIF	11,233,653.52
Totals:	<u>\$57,066,676.88</u>

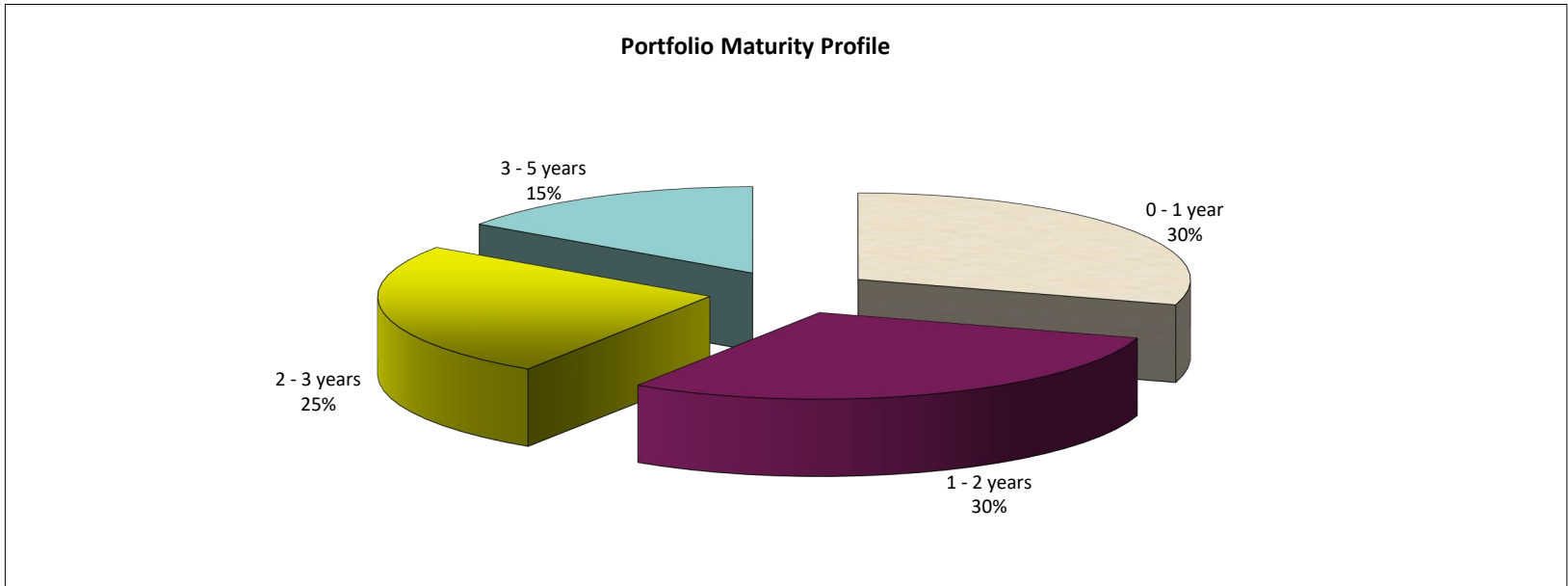
**Town of Los Gatos  
Summary Investment Information  
October 31, 2020**

**Weighted Average YTM Portfolio Yield:** **1.63%** **Weighted Average Maturity (days)** **629**

<b>Portfolio Balance</b>	<u><b>This Month</b></u>	<u><b>Last Month</b></u>	<u><b>One year ago</b></u>
	\$58,591,198	\$59,981,525	\$61,880,644

**Benchmarks/ References:**

Town's Average Yield	1.63%	1.63%	1.96%
LAIF Yield for month	0.62%	0.69%	2.19%
3 mo. Treasury	0.09%	0.11%	1.55%
6 mo. Treasury	0.10%	0.10%	1.56%
2 yr. Treasury	0.16%	0.13%	1.53%
5 yr. Treasury (most recent)	0.39%	0.28%	1.55%
10 Yr. Treasury	0.88%	0.69%	1.52%

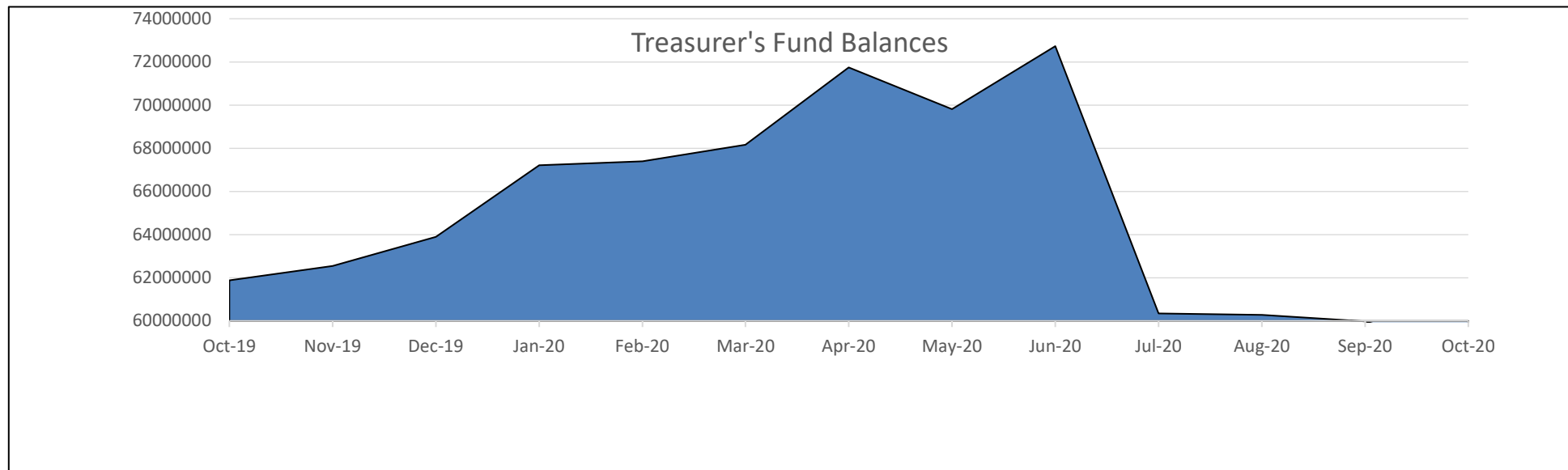
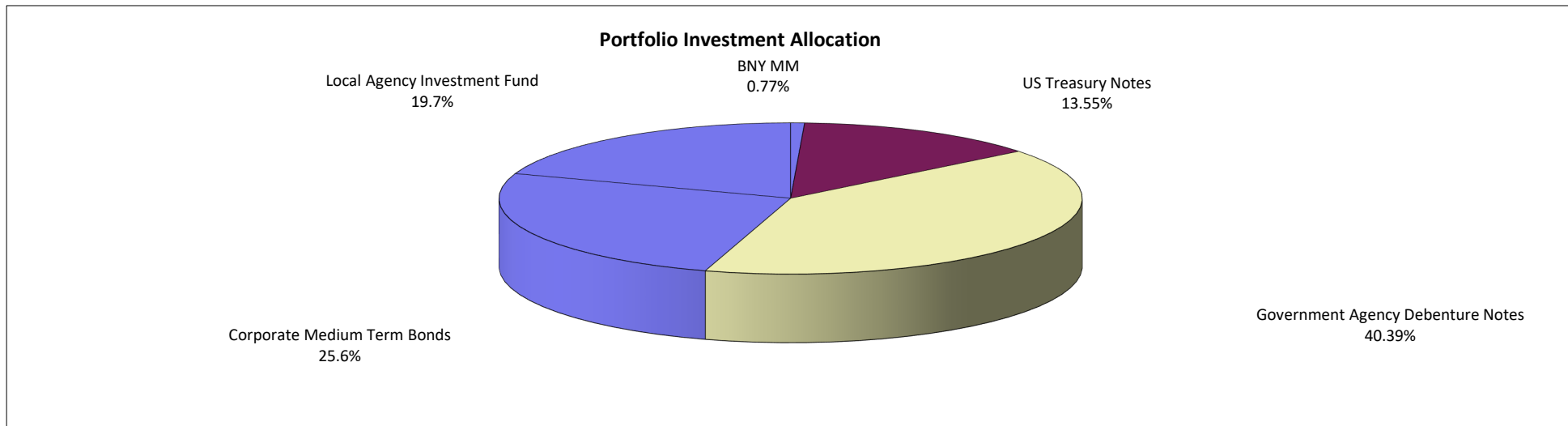


**Compliance:** The Town's investments are in compliance with the Town's investment policy dated November 3, 2020 and also in compliance with the requirements of Section 53601 of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

**Town of Los Gatos**  
**Portfolio Allocation & Treasurer's Fund Balances**  
**October 31, 2020**

	<u>Month</u>	<u>YTD</u>
Fund Balances - Beginning of Month/Period	\$59,981,524.66	\$72,729,892.43
Receipts	2,910,961.68	14,736,687.63
Disbursements	<u>(4,301,288.53)</u>	<u>(28,875,382.25)</u>
Fund Balances - End of Month/Period	<u>\$58,591,197.81</u>	<u>\$58,591,197.81</u>

<u>Portfolio Allocation:</u>		<u>% of Portfolio</u>	<u>Max. % Or \$ Allowed Per State Law or Policy</u>
BNY MM	\$436,970.58	0.77%	20% of Town Portfolio
US Treasury Notes	\$7,723,416.42	13.55%	No Max. on US Treasuries
Government Agency Debenture Notes	\$23,022,651.75	40.39%	No Max. on Non-Mortgage Backed
Corporate Medium Term Bonds	\$14,578,812.51	25.58%	30% of Town Portfolio
Local Agency Investment Fund	\$11,233,653.52	19.71%	\$75 M per State Law
Subtotal - Investments	56,995,504.78	100.00%	
Reconciled Demand Deposit Balances	<u>1,595,693.03</u>		
 Total Treasurer's Fund	 <u>\$58,591,197.81</u>		



**Town of Los Gatos**  
**Non-Treasury Restricted Fund Balances**  
**October 31, 2020**

	Beginning Balance	OCT 20 Deposits Realized Gain/Adj.	OCT 20 Interest/ Earnings	OCT 20 Withdrawals	Ending Balance	
Non-Treasury Funds:						
Cert. of Participation 2002 Series A Reserve Fund	\$ 686,274.37		\$ 5.70	\$ -	\$ 686,280.07	Note 1
Cert. Of Participation 2010 Ser A Lease Pymt Fund	6.13	0.00	0.00		\$ 6.13	Note 1
Cert. of Participation 2002 Lease Payment Fund	0.45	0.00	0.00		\$ 0.45	Note 1
Cert. of Participation 2010 Series Reserve Fund	1,298,098.81		10.75		1,298,109.56	Note 2
Total Restricted Funds:	<u>\$ 1,984,379.76</u>	<u>\$0.00</u>	<u>\$16.45</u>	<u>\$0.00</u>	<u>\$1,984,396.21</u>	
CEPPT IRS Section 115 Trust	682,844.62	0.00	(6,354.08)		676,490.54	
Grand Total COP's and CEPPT Trust	<u>\$ 2,667,224.38</u>	<u>\$ -</u>	<u>\$ (6,337.63)</u>	<u>\$ -</u>	<u>\$ 2,660,886.75</u>	

These accounts are not part of the Treasurer's fund balances reported elsewhere in this report, as they are for separate and distinct entities.

**Note 1:** The three original funds for the Certificates of Participation 2002 Series A consist of construction funds which will be expended over the next few years, reserve funds which will guarantee the payment of lease payments, and a third fund for the disbursement of lease payments and initial delivery costs.

**Note 2:** The 2010 COP Funds are all for the Library construction, reserves to guarantee lease payments, and a lease payment fund for the life of the COP issue. The COI fund was closed in September 2010.

**Note 3:** The CEPPT Section IRS Section 115 Trust was established as an irrevocable trust dedicated to accumulate resources to fund the Town's unfunded liabilities related to pension and other pc

**Town of Los Gatos**  
**Statement of Interest Earned**  
**October 31, 2020**

Interest by Month

July 2020	\$78,263.77
August 2020	78,263.76
September 2020	75,077.38
October 2020	71,634.00
November 2020	
December 2020	
January 2021	
February 2021	
March 2021	
April 2021	
May 2021	
June 2021	
	<hr/>
	<u>\$303,238.91</u>

**Town of Los Gatos Investment Schedule October  
2020**

Institution	CUSIP #	Security	Deposit Date	Par Value	Original Cost	Market Value	Purchased Interest	Maturity Date or Call Date	Yield to Maturity or Call	Interest Received to Date	Interest Earned Prior Yrs.	Interest Earned Current FY	Days to Maturity
Treasury	912828WR7	US Treasury Note	4/2/2019	1,000,000.00	995,625.00	1,013,203.12		6/30/2021	2.33%	\$ 26,474.45	\$ 28,917.32	\$ 7,817.21	242
Toyota Motor Credit	89236TDP7	Corporate Bond	05/20/19	1,100,000.00	1,102,596.00	1,128,792.75		1/11/2022	2.50%	\$ 32,651.67	\$ 30,798.33	\$ 9,307.60	437
Toyota Motor Credit	89236TCZ6	Corporate Bond	3/13/2020	500,000.00	504,440.00	503,525.00		4/8/2021	1.06%	\$ 5,409.72	\$ 1,599.24	\$ 1,804.64	159
FFCB	3133EKM1	Gov. Agency Debenture	8/2/2019	1,000,000.00	1,014,400.00	1,064,387.91		2/23/2024	1.90%	\$ 29,175.83	\$ 17,466.66	\$ 6,451.65	1210
FFCB	3133EMBE1	Gov. Agency Debenture	10/8/2020	1,600,000.00	1,598,000.00	1,595,648.75	146.66	3/28/2024	0.34%	\$ (146.66)	\$ -	\$ 338.77	1244
FFCB	3133EMCQ3	Gov. Agency Debenture	10/16/2020	2,000,000.00	1,998,000.00	1,999,253.40	46.67	10/13/2024	0.31%	\$ (46.67)	\$ -	\$ 250.71	1443
BankAmerica Corp	06051GHC6	Corporate Bond	10/9/2020	1,300,000.00	1,366,287.00	1,362,827.67	11,824.08	12/20/2023	0.66%	\$ (11,824.08)	\$ -	\$ 1,104.19	1145
IBM	459200HG9	Corporate Bond	8/8/2019	1,000,000.00	995,010.00	1,028,987.86		8/1/2022	2.05%	\$ 18,385.42	\$ 18,296.32	\$ 6,882.10	639
Oracle	68389XBL8	Corporate Bond	7/8/2019	1,000,000.00	1,008,880.00	1,052,035.93		7/15/2023	2.18%	\$ 28,466.67	\$ 21,374.17	\$ 7,343.64	987
US Treasury	912828R28	US Treasury Note	7/2/2019	500,000.00	497,246.09	518,066.41		4/30/2023	1.77%	\$ 10,796.54	\$ 8,819.78	\$ 2,980.31	911
American Express	0258M0EB1	Corporate Bond	2/11/2020	1,000,000.00	1,007,210.00	1,008,326.43		4/4/2021	1.66%	\$ 5,250.00	\$ 6,215.30	\$ 5,460.59	155
Freddie Mac	3137EAEN5	Gov. Agency Debenture	7/19/2019	2,000,000.00	2,072,358.00	2,132,223.58		6/19/2023	1.79%	\$ 50,416.67	\$ 34,741.74	\$ 12,314.80	961
FFCB	3133EKVF0	Gov. Agency Debenture	7/22/2019	1,000,000.00	999,630.00	1,037,076.26		1/17/2023	1.89%	\$ 18,489.58	\$ 17,771.06	\$ 6,354.19	808
Treasury	912828L57	US Treasury Note	7/22/2019	1,200,000.00	1,197,988.40	1,236,515.63		9/30/2022	2.09%	\$ 25,016.39	\$ 20,385.25	\$ 7,288.91	699
Freddie Mac	3137EADB2	Gov. Agency Debenture	1/17/2020	2,100,000.00	2,132,039.70	2,155,598.07		1/13/2022	2.12%	\$ 24,383.34	\$ 15,274.50	\$ 11,386.44	439
US Treasury	912828Y20	Gov. Agency Debenture	1/31/2020	1,000,000.00	1,016,601.56	1,017,460.94		7/15/2021	1.47%	\$ 11,971.16	\$ 6,138.62	\$ 5,000.33	257
American Honda	02665WCZ2	Corporate Bond	11/27/2019	1,000,000.00	1,012,410.01	1,057,354.15		6/27/2024	2.12%	\$ 24,733.34	\$ 12,601.45	\$ 7,175.82	1335
JP Morgan Chase	46625HJE1	Gov. Agency Debenture	2/11/2020	900,000.00	934,587.00	949,464.00		9/23/2022	1.74%	\$ 18,037.50	\$ 6,148.83	\$ 5,402.19	692
Honeywell Int'l.	438516BW5	Corporate Bond	11/20/2019	1,000,000.00	1,014,660.00	1,062,772.39		7/15/2024	1.64%	\$ 16,483.33	\$ 12,127.88	\$ 6,689.37	1353
Disney	254687CK0	Corporate Bond	3/4/2020	1,000,000.00	1,029,080.00	1,011,910.00		2/15/2021	1.39%	\$ 20,125.00	\$ 4,687.49	\$ 4,886.11	107
FNMA	3135G0V75	Gov. Agency Debenture	10/17/2019	1,100,000.00	1,105,833.30	1,159,254.46		7/2/2024	1.63%	\$ 13,956.25	\$ 12,682.51	\$ 6,069.84	1340
US Bancorp	91159HHV5	Corporate Bond	12/24/2019	1,000,000.00	1,049,040.00	1,085,670.33		1/5/2024	2.12%	\$ 20,718.75	\$ 11,183.73	\$ 7,278.30	1161
FFCB	3133EKCS3	Gov. Agency Debenture	3/21/2019	1,400,000.00	1,403,262.00	1,412,479.73		3/11/2021	2.43%	\$ 52,558.33	\$ 43,563.60	\$ 11,473.93	131
FFCB	3133EKQA7	Gov. Agency Debenture	10/21/2019	1,000,000.00	1,019,780.00	1,067,308.50		9/10/2024	1.66%	\$ 18,431.11	\$ 11,615.55	\$ 5,647.09	1410
PNC Financial	693476BN2	Corporate Bond	8/15/2019	1,000,000.00	1,029,280.00	1,036,967.29		2/6/2022	2.12%	\$ 35,108.33	\$ 18,589.78	\$ 7,145.45	463
FHLB	313379Q69	Gov. Agency Debenture	7/22/2019	1,000,000.00	1,006,960.00	1,031,226.49		6/10/2022	1.87%	\$ 18,770.83	\$ 17,755.82	\$ 6,348.74	587
FNMA	3135G0V59	Gov. Agency Debenture	11/27/2019	1,540,000.00	1,562,924.44	1,586,883.73		4/12/2022	1.61%	\$ 30,318.75	\$ 14,793.93	\$ 8,424.32	528
JP Morgan Chase	46625HJT8	Corporate Bond	9/23/2019	1,400,000.00	1,485,414.00	1,545,503.08		2/1/2024	2.39%	\$ 46,413.89	\$ 26,688.85	\$ 11,682.31	1188
American Honda	02665WDH1	Corporate Bond	2/14/2020	600,000.00	603,756.00	621,110.62		5/10/2023	1.75%	\$ 4,745.00	\$ 3,955.80	\$ 3,551.56	921
FHLB	3130AABG2	US Treasury Note	4/15/2019	1,000,000.00	988,250.00	1,018,455.90		11/29/2021	2.34%	\$ 21,041.67	\$ 28,121.02	\$ 7,825.53	394
FNMA	3135G0Q89	Gov. Agency Debenture	2/10/2020	1,000,000.00	998,702.00	1,011,465.32		10/7/2021	1.38%	\$ 9,052.08	\$ 5,614.15	\$ 4,897.45	341
FNMA	3135G0J20	Gov. Agency Debenture	2/10/2020	1,000,000.00	998,882.00	1,003,988.08		2/26/2021	1.48%	\$ 7,486.11	\$ 5,724.31	\$ 4,993.55	118
Treasury	912828M80	US Treasury Note	7/22/2019	1,000,000.00	1,006,175.23	1,038,125.00		11/30/2022	1.81%	\$ 17,158.47	\$ 17,118.04	\$ 6,120.69	760
Treasury	912828U57	US Treasury Note	7/31/2019	1,000,000.00	1,011,875.00	1,059,062.50		11/30/2023	1.84%	\$ 17,708.33	\$ 16,990.40	\$ 6,238.26	1125
Treasury	912828X70	US Treasury Note	12/30/2019	1,000,000.00	1,010,589.29	1,061,132.81		4/30/2024	1.75%	\$ 18,703.30	\$ 9,805.98	\$ 6,590.90	1277
Treasury	912828XT2	US Treasury Note	10/31/2019	1,000,000.00	1,015,667.41	1,062,265.62		5/31/2024	1.64%	\$ 11,639.34	\$ 11,040.77	\$ 5,588.54	1308
Wells Fargo	94988J6A0	Corporate Bond	6/24/2020	1,350,000.00	1,370,749.50	1,368,896.21		9/9/2021	0.80%	\$ 5,357.48	\$ 163.99	\$ 3,361.75	313
FFCB	3133EJ3Q0	Gov. Agency Debenture	8/28/2019	1,500,000.00	1,587,503.75	1,622,403.63		12/21/2023	2.12%	\$ 35,098.96	\$ 19,226.80	\$ 7,703.24	1146
Freddie Mac	3133EKKT2	Gov. Agency Debenture	6/24/2019	1,550,000.00	1,573,188.00	1,622,105.09		2/8/2023	1.82%	\$ 47,856.25	\$ 29,033.70	\$ 9,599.85	830

Subtotal				\$ 44,640,000.00	\$ 45,324,880.68	\$ 46,349,734.64	\$ 12,017.41			\$ 786,372.43	\$ 567,032.64	\$ 246,780.88	
BNY MM		Money Market			436,970.58	436,970.58			0.00%				1
LAIF		State Investment Pool			11,233,653.52	11,233,653.52			0.62%			29,586.76	1
					<b>\$56,995,504.78</b>	<b>\$58,020,358.74</b>				<b>\$ 786,372.43</b>	<b>\$ 567,032.64</b>	<b>\$ 276,367.64</b>	

<u>Matured Assets</u>													
FNMA	3133EHYM9	Gov. Agency Debenture	9/21/2017	1,300,000.00	1,295,866.00			9/14/2020	1.61%	\$ 58,120.83	\$ 57,964.67	\$ 4,348.78	
FFCB	3133ELVV3	Gov. Agency Debenture	4/8/2020	1,600,000.00	1,600,000.00			10/8/2020	0.93%	\$ 7,600.00	\$ 3,456.44	\$ 4,164.38	
FNMA	3136G0AW1	Gov. Agency Debenture	12/13/2017	2,000,000.00	2,017,900.00			10/16/2020	2.02%	\$ 133,558.33	\$ 103,715.85	\$ 12,044.42	
BankAmerica Corp	06051GGS2	Corporate Bond	4/30/2020	1,300,000.00	1,302,314.00			10/1/2020	1.21%	\$ 12,694.08	\$ 4,141.23	\$ 6,313.69	

Total Investments "Matured"												\$ 26,871.27	
Total Interest FY 20_21 Matured and Current												\$ 303,238.91	

Maturity Profile		Amount
0-1 year		\$20,995,176.16
1-2 years		\$10,949,635.54
2-3 years		\$7,761,233.32
3-5 years		\$ 17,289,459.76
		<u>\$56,995,504.78</u>

**Market to Cost Position Report**

Institution	Amortized Cost
BNY Assets	\$45,324,880.68
BNY MM	436,970.58
LAIF	11,233,653.52
Totals:	<u>\$56,995,504.78</u>



## Town of Los Gatos

### Insight ESG Ratings as of December 31, 2020

Security Description	Maturity Date	Par/Shares	Moody Rating	S&P Rating	Insight ESG Rating	Environment	Social	Governance
HONEYWELL INTERNATIONAL 2.3% 15AUG2024 (CALLABLE 15JUL24)	8/15/2024	\$ 1,000,000	A2	A	4	3	5	3
AMERICAN EXPRESS CREDIT 2.25% 05MAY2021 (CALLABLE 04APR21)	5/5/2021	\$ 1,000,000	A2	A-	1	1	2	3
AMERICAN HONDA FINANCE 2.4% 27JUN2024	6/27/2024	\$ 1,000,000	A3	A-	3	1	4	3
ORACLE CORP 2.4% 15SEP2023 (CALLABLE 15JUL23)	9/15/2023	\$ 1,000,000	A3	A	3	1	3	4
TOYOTA MOTOR CREDIT CORP 2.6% 11JAN2022	1/11/2022	\$ 1,100,000	A1	A+	3	1	4	3
WALT DISNEY COMPANY/THE 4.5% 15FEB2021	2/15/2021	\$ 1,000,000	A2	BBB+	3	3	3	3
WELLS FARGO BANK NA 2.082% 09SEP2022 (CALLABLE 09SEP21)	9/9/2022	\$ 1,350,000	Aa2	A+	4	1	4	5
TOYOTA MOTOR CREDIT CORP 1.9% 08APR2021	4/8/2021	\$ 500,000	A1	A+	3	1	4	3
JPMORGAN CHASE & CO 3.25% 23SEP2022	9/23/2022	\$ 900,000	A2	A-	3	1	3	5
US BANCORP 3.375% 05FEB2024 (CALLABLE 05JAN24)	2/5/2024	\$ 1,000,000	A1	A+	3	1	4	3
PNC FINANCIAL SERVICES 3.3% 08MAR2022 (CALLABLE 06FEB22)	3/8/2022	\$ 1,000,000	A3	A-	2	3	3	2
IBM CORP 1.875% 01AUG2022	8/1/2022	\$ 1,000,000	A2	A	3	2	3	4
BANK OF AMERICA CORP 3.004% 20DEC2023 (CALLABLE 20DEC22)	12/20/2023	\$ 1,300,000	A2	A-	3	1	4	4
JPMORGAN CHASE & CO 3.875% 01FEB2024	2/1/2024	\$ 1,400,000	A2	A-	3	1	3	5
AMERICAN HONDA FINANCE 1.95% 10MAY2023	5/10/2023	\$ 600,000	A3	A-	3	1	4	3
<b>Total/Average</b>		<b>\$ 15,150,000</b>			<b>2.9</b>	<b>1.5</b>	<b>3.5</b>	<b>3.5</b>

\*ESG ratings are from 1 to 5, with 1 as the highest rating and 5 as the lowest. All ratings are weighted by industry rankings, based on the importance of the category within the individual industry.



**TOWN OF LOS GATOS  
COUNCIL POLICY COMMITTEE REPORT**

MEETING DATE: 02/16/2021

ITEM NO: 6

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DATE: February 11, 2021  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Guardrail Replacement Project (CIP No. 812-0120):  
a. Approve the Project Plans and Specifications;  
b. Authorize Advertising the Project for Bid;  
c. Authorize the Town Manager to Award and Execute a Construction Agreement in an Amount not to Exceed \$800,000, Including Contingencies and Change Orders; and  
d. Authorize Staff to Execute Future Change Orders in an Amount Not to Exceed Ten Percent of the Contract Award Amount.

**RECOMMENDATION:**

Staff recommends that the Town Council authorize the following actions for the Guardrail Replacement Project (CIP No. 812-0120):

- a. Approve the project Plans and Specifications;
- b. Authorize advertising the project for bid;
- c. Authorize the Town Manager to award and execute a construction agreement in an amount not to exceed \$800,000, Including contingencies and change orders; and
- d. Authorize staff to execute future change orders in an amount not to exceed ten percent of the contract award amount.

**BACKGROUND:**

The adopted Fiscal Year (FY) 2020/21-2024/25 Capital Improvement Program (CIP) Budget designates funding for the Guardrail Replacement Project (CIP No. 812-0120). Guardrails are safety features on roadways to reduce the severity of a crash by preventing a motorist from

**PREPARED BY:** WooJae Kim  
Town Engineer

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Reviewed by: Town Manager, Assistant Town Manager, Town Attorney, Finance Director, and Parks and Public Works Director

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BACKGROUND (continued):

reaching a more hazardous fixed object or terrain, including sudden slope or grade drop-offs. Staff identified locations in the Town where guardrails have exceeded their useful design life and require upgrades to current standards.

In 2018, the Town secured the Highway Safety Improvement Program (HSIP) grant in the amount of \$980,100 from the Federal Highway Administration (FHWA) for the design, construction, and project delivery for replacing approximately a half-mile of Town guardrails located on Blossom Hill Road, Cleland Avenue, Los Gatos Boulevard, Miles Avenue, More Avenue, Reservoir Road, and three segments on Santa Rosa Drive. The goal of the HSIP grant program is to reduce fatalities and serious injuries on public roads.

Through the Request for Proposals (RFP) procurement process, the Town selected Ruggeri-Jensen-Azar (RJA) as the consultant for the professional engineer design services. On March 17, 2020, the Town Council authorized the award of a consultant services agreement to RJA for the design of the project.

DISCUSSION:

RJA started the design services in April 2020. The project Plans and Specifications were completed by December 2020. As a recipient of federal highway funds, the Town must comply with federal regulations in administering the design and construction of the project. While the technical design is based on local and state standards, the Town's contract documents must incorporate necessary federal regulations and provisions for the process of advertising for bid, including participation in Disadvantaged Business Enterprises (DBE) Program, "Buy America" requirements for steel, non-discrimination certifications, federal Davis Bacon wage rates, contractor payments, and other requirements. The primary objective of the DBE Program is to provide fair opportunity for "small businesses owned and controlled by socially and economically disadvantaged individuals" to compete and participate in federally funded transportation projects.

Prior to advertising this project for construction bid, the Town must receive an Authorization to Proceed from the FHWA, who has delegated this authority to the California Department of Transportation (Caltrans). Staff has submitted a request for the authorization and received initial technical approval of the contract documents from Caltrans on January 21, 2021. Caltrans is now processing the necessary FHWA documentations that allows the reimbursable construction work to begin. Staff anticipates the final Authorization to Proceed from Caltrans by the end of February 2021.

The project Plans and Specifications with federal regulations and provisions are available for review on the Parks and Public Works capital improvement webpage at [www.losgatosca.gov/108/Capital-Improvement-Program](http://www.losgatosca.gov/108/Capital-Improvement-Program).

DISCUSSION (continued):

With approvals from the Town Council and Caltrans, the project would be able to start construction in April 2021 with completion anticipated by September 2021.

Prior to construction, staff will conduct project outreach via social media platforms and distribute project notifications to inform the affected communities of the project and potential impacts to roadways.

CONCLUSION:

Approval of the recommendations will allow this project to move forward for bidding and award of the Guardrail Replacement Project.

COORDINATION:

This project has been coordinated with the Finance Department.

FISCAL IMPACT:

The FY 2020/21 – 2024/25 CIP Budget designated sufficient funds for the Guardrail Replacement Project (CIP No. 812-0120).

Guardrail Replacement Project (CIP No. 812-0120)		
Project 812-0120		
Description	Budget	Costs
GFAR	\$93,015	
HSIP Grant	\$980,100	
<b>Total Budget</b>	<b>\$1,073,115</b>	
Engineering Consultant		\$130,000
Staff Costs – Design Phase (temporary)		\$23,115
Construction Estimate (Including 10% Contingency)		\$800,000
Project Delivery (15% of Construction)		\$120,000
<b>Project Costs</b>		<b>\$1,073,115</b>
<b>Remaining Balance</b>		<b>\$0</b>

PAGE 4 OF 4

SUBJECT: Guardrail Replacement Project (CIP No. 812-0120)

DATE: February 11, 2021

FISCAL IMPACT (continued):

Staff costs are tracked for all projects. Tracking of staff costs allows for accountability in the costs of projects, recovery of costs from grant funded projects, and identification of future staffing needs. This project utilizes a combination of full-time budgeted staff and temporary staff that support fluctuating workloads. The Town will seek reimbursement for qualifying staff charges from HSIP grant funds.

ENVIRONMENTAL ASSESSMENT:

This is a project defined under CEQA as being Categorical Exempt [Section 15301(c) Existing streets, sidewalks, trails and similar facilities]. A Notice of Exemption has been filed.

The Air Quality Conformity Task Force of the Metropolitan Transportation Commission, a project sponsor for the federal grant, has completed the project-level conformity analyses (PM2.5) and determined that the project is exempt per the National Environmental Policy Act (NEPA).



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/16/2021

ITEM NO: 7

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**DATE:** February 11, 2021  
**TO:** Mayor and Town Council  
**FROM:** Laurel Prevetti, Town Manager  
**SUBJECT:** Authorize the Town Manager to Negotiate and Execute a Vendor Agreement with Econolite Systems, Inc. in an Amount Not to Exceed \$352,494, Including Contingency, for the Automated Traffic Signal Performance Measures and Virtual Bike Detection/Bike Signal Priority Project (CIP No. 813-0227 Traffic Signal Modernization)

**RECOMMENDATION:**

Staff recommends that the Town Council authorize the Town Manager to negotiate and execute a vendor agreement with Econolite Systems, Inc. in an amount not to exceed \$352,494, including contingency, for the Automated Traffic Signal Performance Measures (ATSPM) and Virtual Bike Detection/Bike Signal Priority (VBD/BSP) Project (CIP No. 813-0227 Traffic Signal Modernization).

**BACKGROUND:**

Town staff began the Traffic Signal Modernization Project in 2018, also referred to as the Smart Signals Project. The project involves several traffic signal related technology improvements that would upgrade the Town owned and operated traffic signals and enhance the signal systems with state-of-the-art adaptive technologies. The project is funded by the Town's Traffic Mitigation Fee program and grants from the Santa Clara Valley Transportation Authority (VTA) and Metropolitan Transportation Commission (MTC), including the Innovative Deployments to Enhance Arterials (IDEA) grant, for a total project budget of approximately \$2.9 million.

The goals of the Smart Signals Project are to improve multimodal safety and traffic operations; improve travel time for vehicles, bicycles, and pedestrians; improve the ability to plan for and respond to variable traffic volumes and patterns; test new technologies for bicycle detection and priorities; and help address traffic congestion issues on Los Gatos Boulevard.

**PREPARED BY:** WooJae Kim  
Town Engineer

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Reviewed by: Town Manager, Assistant Town Manager, Town Attorney, Finance Director, and Parks and Public Works Director

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SUBJECT: Automated Traffic Signal Performance Measures and Virtual Bike Detection/Bike Signal Priority Project (CIP No. 813-0227 Traffic Signal Modernization)

DATE: February 11, 2021

BACKGROUND (continued):

The primary components of the project include the implementation of the Advanced Traffic Management System (ATMS) and Adaptive Traffic Signal Control System (ATCS); Smart Signals Field Improvements; and ATSPM and VBD/BSP. At the December 17, 2019 meeting, the Town Council authorized the Town Manager to proceed with a multi-step procurement process for the project.

On June 2, 2020, the Town Council awarded the consultant services agreement for the implementation of the ATMS and ATCS portions of the project to Econolite Systems, Inc. The scope of the ATMS is to replace the outdated traffic signal controller units with equipment and platform that can provide a robust monitoring of real-time status information, ability to update controller programming, maintenance alerts, system security, and recordkeeping of traffic signal operations at 18 of the 31 Town signals. Through the ATCS project, the remaining 13 traffic signals along and adjacent to Los Gatos Boulevard will be equipped with an adaptive traffic control system. The 13 include nine existing traffic signals along Los Gatos Boulevard, three adjacent traffic signals on Blossom Hill Road, and one on Los Gatos-Saratoga Road at Alberto Way. Each of these will be upgraded to handle real-time changes to the signal timing parameters in response to changes in the traffic conditions. The purpose of providing an adaptive control along this corridor is to better manage recurring and unexpected congestion and traffic delays due to periodic traffic volume fluctuations and complex traffic patterns.

On May 19, 2020, the Town Council awarded the consultant services agreements for the design of the Smart Signals Field Improvements to Iteris, Inc. The field improvements would improve the Town traffic signals infrastructure and network connectivity required to operate the ATMS and ATCS (also ATSPM and VVBD/BSP) technologies to better coordinate signals along the arterials, enable data collection, and allow centralized signal operations and monitoring from the Town's new Traffic Management Center in real-time. This project would install fiber optic cable and equipment to connect Town traffic signals to a high-speed communications network and cellular wireless connectivity for an interconnected network. The design for the field improvements has been completed, and the Smart Signals Field Improvements was authorized to be advertised for bid by Council at the January 19, 2021 meeting.

DISCUSSION:

The ATSPM and VBD/BSP applications are the final components of the Smart Signals Project as required by the IDEA grant program. The ATSPM application must be fully integrated with the ATMS/ATCS and collect real-time data from various detection sources at signalized intersections for the purpose of delivering graphical information and feedback on the traffic signal performance measures. The information will be used to improve signal coordination that can allow for a fully adaptive system along Los Gatos Boulevard. The vendor selected for the implementation of ATSPM system is expected to provide systems and staff support, monitoring

DISCUSSION (continued):

and reporting of data, assistance in operations and maintenance, quality control, and Town staff training.

Bicycle detection (VBD/BSP) would also be integrated with the ATMS/ATCS and utilize smart phone applications, Global Positioning System (GPS), and video detection at the nine traffic signaled intersections along Los Gatos Boulevard to detect bicyclists and prioritize a green traffic light when applicable. The following are the nine intersections proposed for VBD/BSP along Los Gatos Boulevard:

1. Los Gatos - Saratoga Road
2. Kennedy Road - Caldwell Avenue
3. Nino Avenue
4. Roberts Road-Shannon Road
5. Blossom Hill Road
6. Los Gatos Almaden Road – Chirco Drive
7. Village Square Driveway
8. Gateway Drive – Garden Lane
9. Lark Avenue

The Town will work with the Los Gatos-Monte Sereno Safe Routes to School (SR2S) organization to introduce and roll out the smartphone application for the VBD/BSP to appropriate student groups. The SR2S organization will assist with the outreach and education related to the bike detection and signal prioritization at the nine Los Gatos Boulevard intersections and bring students onboard with using the smart phone application and promote active transportation means to commute to schools.

**RFP Process**

The Town first released the RFP for ATSPM and VBD/BSP on September 8, 2020. The RFP was posted on the Town’s website and sent to potential consultants. The RFP scope for the ATSPM had to be reissued on November 9, 2020, due to proposers not being able to meet mandatory system requirements. Requirements were modified to allow proposers to qualify. Below is a summary of proposals received for the ATSPM and VBD/BPS RFP’s by the due date of December 4, 2020:

	Parsons	Traffop	Miovision	Econolite Systems	Sensys Networks	Traffic Patterns
ATSPM	X	X	X	X		
VBD/BSP	X			X	X	X

“X” denotes proposals received.



SUBJECT: Automated Traffic Signal Performance Measures and Virtual Bike Detection/Bike Signal Priority Project (CIP No. 813-0227 Traffic Signal Modernization)

DATE: February 11, 2021

DISCUSSION (continued):

The evaluation committee, consisting of Town staff and representatives from grantor agencies VTA and MTC, evaluated the proposals and shortlisted consultants for oral interviews. On December 14, 15, and 16, the committee interviewed Parsons, Econolite Systems, and Traffop for the ATSPM; and Sensys Networks, Parsons, and Econolite Systems for the VPS/BSP portion. After a thorough review, the committee selected Econolite Systems as the most qualified firm to provide consultant services for the implementation of both ATSPM and VBD/BSP applications.

Econolite Systems proposed to deliver a fully integrated ATSPM system with all 31 Town traffic signals, as required in the RFP scope. In addition, the user interface of the smartphone application proposed for the VBD/BSP component was determined to be the most ideal for students and other bicyclists. Econolite Systems will also provide one year of operational support to assist the Town staff to monitor and operate the system, including making recommendations on signal coordination changes as required. The scope of services proposed by Econolite Systems is included as Attachment 1.

The implementation of the ATSPM and VBD/BSP will be funded through the IDEA federal grant. As a recipient of the federal grant, the Town needs to comply with federal regulations in administering the project as reflected in the draft vendor agreement included as Attachment 2.

CONCLUSION:

Approval of the recommendation will allow this project to move forward with the award and implementation of the ATSPM and VBD/BSP to finalize the Smart Signals Project.

COORDINATION:

This report was coordinated with MTC staff, the Town Attorney, and the Finance Department.

FISCAL IMPACT:

Traffic Signal Modernization (CIP No. 813-0227) in the FY 2020/21 – 2024/25 CIP Budget has sufficient funds for the contract.

SUBJECT: Automated Traffic Signal Performance Measures and Virtual Bike Detection/Bike Signal Priority Project (CIP No. 813-0227 Traffic Signal Modernization)

DATE: February 11, 2021

FISCAL IMPACT (continued):

<b>Traffic Signal Modernization</b>		
<b>CIP No. 813-0227</b>		
	<b>Budget</b>	<b>Costs</b>
Grant Fund	\$1,826,400	
Traffic Mitigation	\$1,103,289	
<b>Total Project Budget</b>	<b>\$2,929,689</b>	
Proposed ATSPM and VBD/BSP		\$352,494
ATCS-ATMS Vendor (Econolite)		\$581,649
Design of Field Elements (Iteris)		\$135,390
Field Construction		\$750,000
Project Management (W-Trans)		\$200,000
Staff Costs		\$129,280
Misc. Prior Year Expenditures		\$76,523
<b>Project Costs Committed</b>		<b>\$2,225,336</b>
<b>Available Balance</b>		<b>\$704,353</b>

Staff costs are tracked for all projects. Tracking of staff costs allows for accountability in the costs of projects, recovery of costs from grant funded projects, and identification of future staffing needs. This project utilizes a combination of full-time budgeted staff and temporary staff that support fluctuating workloads. The Town will seek reimbursement for qualifying staff charges from grant funds.

ENVIRONMENTAL ASSESSMENT:

As this portion of the Smart Signals program is software implementation, it is not a project for CEQA purposes. The construction portion of the Smart Signals project is Categorical Exempt (15301(c) Existing Facilities). As required for federally funded projects, staff will work with Metropolitan Transportation Commission, the project sponsor, to determine project exemption under the National Environmental Policy Act.

PAGE 6 OF 6

SUBJECT: Automated Traffic Signal Performance Measures and Virtual Bike Detection/Bike  
Signal Priority Project (CIP No. 813-0227 Traffic Signal Modernization)

DATE: February 11, 2021

ATTACHMENTS:

1. Proposed Scope of Services from Econolite Systems
2. Draft Vendor Agreement with Econolite Systems

February 9, 2021

Mr. WooJae Kim, P.E.  
Town Engineer  
Town of Los Gatos  
41 Miles Avenue  
Los Gatos, California 95030

**Subject: Scope of Services to Provide Automated Traffic Signal Performance Measures and Virtual Bike Detection/Bike Priority System for the Los Gatos Smart Signal Project**

Mr. Kim:

Econolite Systems, Inc. (Econolite) is pleased to submit this Scope of Services to the Town of Los Gatos to procure an Automated Traffic Signal Performance Measurement (ATSPM) system, and a Virtual Bicycle Detection/Bicycle Signal Prioritization (VBD/BPS) system. These systems would be used collectively to improve traffic operations, travel time, and safety for vehicles, bicycles, and pedestrians.

In response to the RFP, and to meet the Town's goals, we are proposing the most technologically advanced, and industry-leading signal performance measures software in the market today, Econolite's Centracs® Signal Performance Measures (SPM), in conjunction with Applied Information's Glance and TravelSafely VBD/BPS system. This integrated solution is highly compliant with the Town's requirements and will immediately provide the Town's traveling public with benefits today and into the Smart City future.


Econolite has assembled a robust team to accomplish this important project, and with this team, we are committed to ensuring adequate resources to meet the Town's quality and schedule expectations:

- **Applied Information** (AI) and their local distributor **JAM Services** will be responsible for supply and integration of the VBD/BPS system.
- **TJKM Transportation Consultants** (TJKM), a certified DBE, will provide field inventory, intersection data mapping, and QA/QC services.

This is the same team (with the addition of AI) currently assigned to Project 1 (ATMS/ATCS) and will provide continuity between the two projects. In addition, since we are deploying the Econolite Adaptive Traffic Control System, Edaptive, in Project 1, SPM functionality is already included in the cost for those intersections. This equates to an immediate reduction in costs (both set up and service) to the Town and taxpayers for this project.

The system requirements as submitted with our VBD/BPS proposal submitted on October 12, 2020 and ATSPM proposal submitted on December 4, 2020 are incorporated by reference. Please feel free to contact me at 310-418-1663 / [mporter@econolite.com](mailto:mporter@econolite.com), or our proposed Project Manager Mark Case 657-274-4036 / [mcase@econolite.com](mailto:mcase@econolite.com), with any questions regarding our proposal. Sincerely,

Econolite Systems, Inc.



Marc A. Porter  
Vice President

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### 5. Scope of Services

#### 5.1 Proposed Solution

To meet the needs of the Town of Los Gatos, we are proposing a solution based on Econolite's industry-leading Centrac's Mobility SPM (Signal Performance Measures) for the ATSPM element, with AI's Glance and TravelSafely app providing the VBD/BPS element. Given Econolite's extensive experience deploying traffic signal management systems, there could be no better team to help the Town manage the challenges of its Smart Signals project. A detailed description of our solution is presented in the following sections.

##### 5.1.1 ATSPM Element

Centrac's Mobility is a powerful, easy-to-use, cloud-based solution that provides state-of-the-art analytic tools enabling transportation agencies, planning organizations, and other transportation stakeholders to have a more efficient and cost-effective view of signal performance. At the top level (Figure 1), users can quickly identify potential problem areas and quickly drill down into the details (Figure 2) to identify root cause and target actions to resolve (Figure 3).

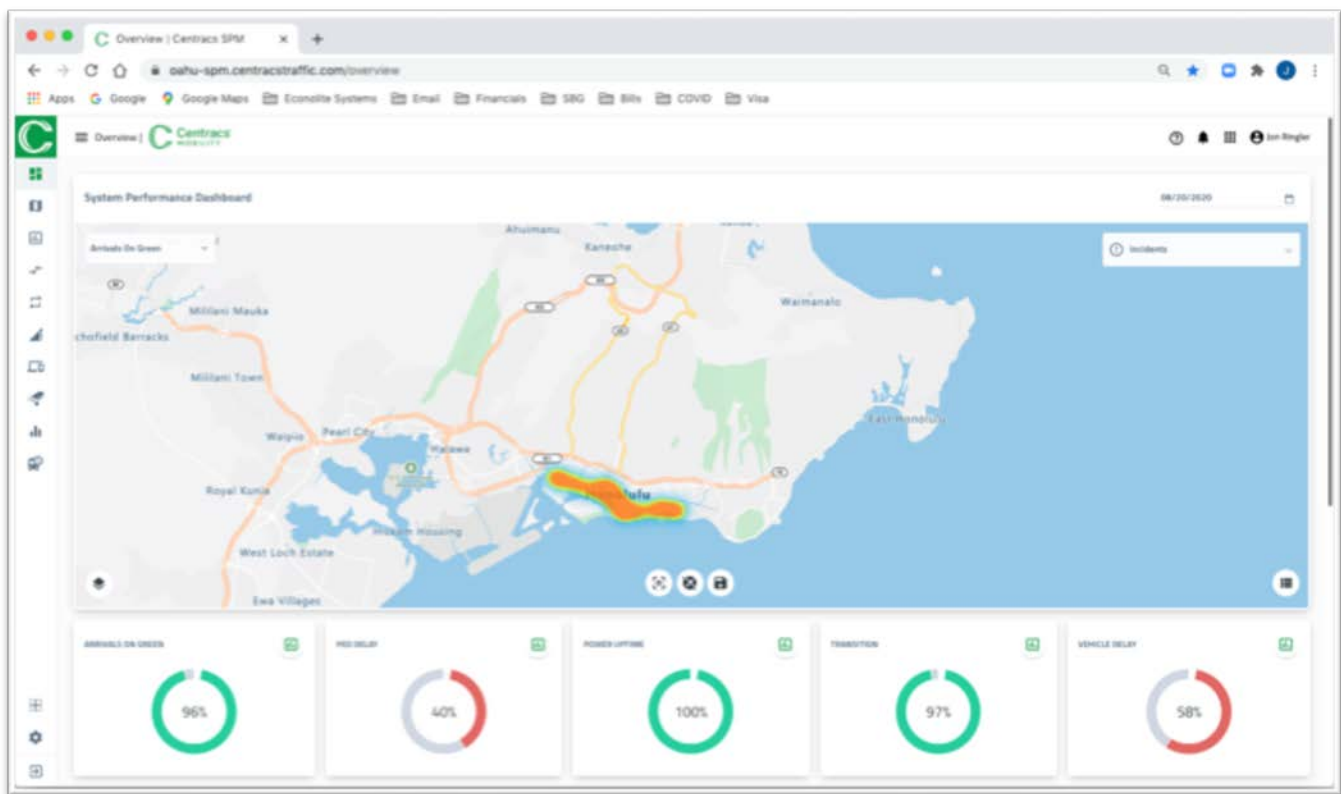


Figure 1 - High Level System Dashboard

# Scope of Work

## ATSPM & VBD/BPS for the Los Gatos Smart Signals Project Town of Los Gatos, California

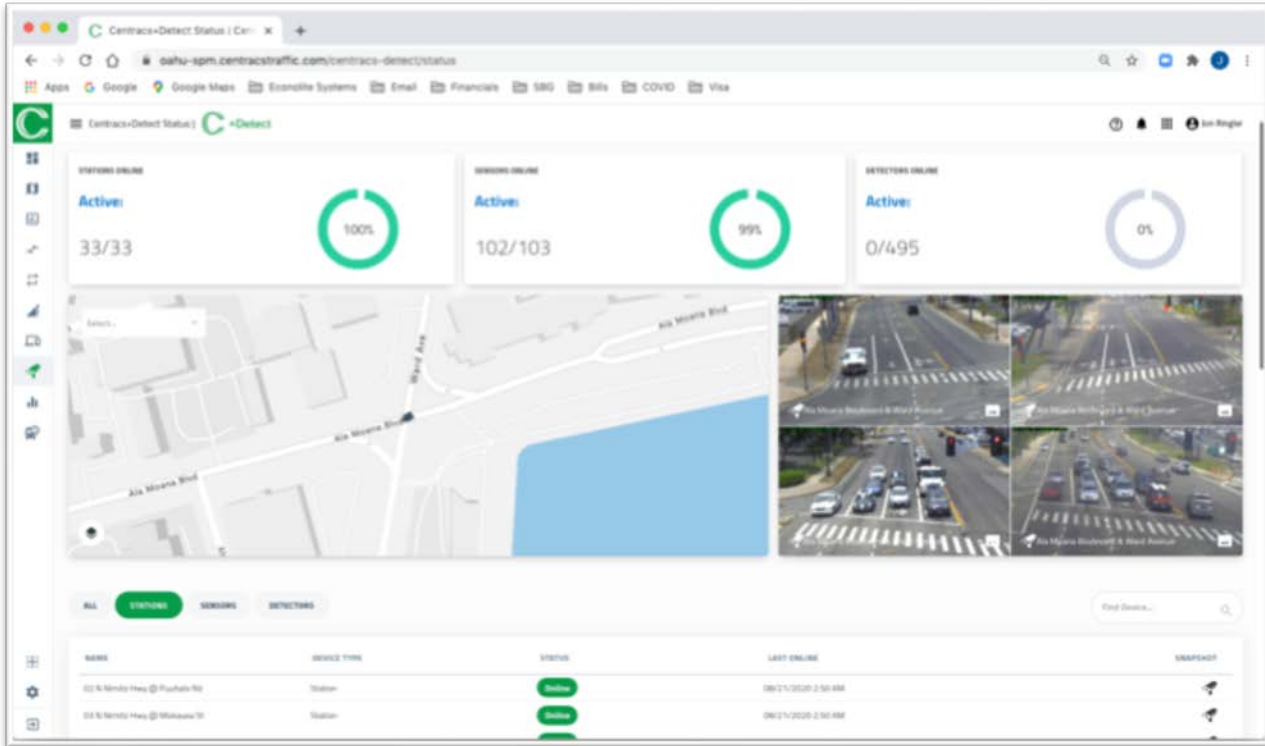


Figure 2 - Detailed View

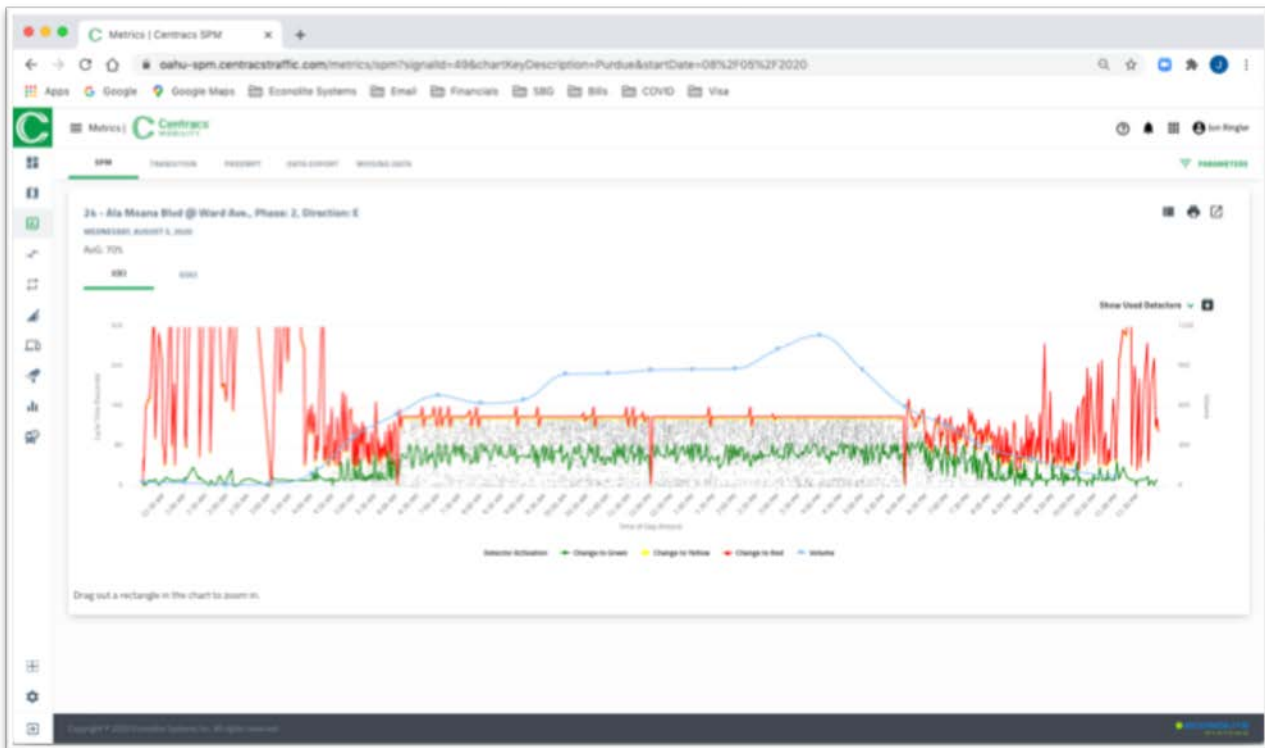


Figure 3 - Root Causes and Target Actions



# Scope of Work

## ATSPM & VBD/BPS for the Los Gatos Smart Signals Project Town of Los Gatos, California



Additionally, based on initial research performed by Purdue University and the Indiana Department of Transportation under the National Cooperative Highway Research Program (NCHRP) project 3-79a, Automated Traffic Signal Performance Measure (ATSPM) data has been extended to provide tool sets that leverage the high resolution data to create new background optimized signal timings with a human in the loop via Mobility's SPM service. Moreover, because the system is measuring data in real time, the system tells the engineer how the system is currently performing, how the system might perform based on the most recent optimization run, and, should the engineer "Apply" the new timings, the system will then report how it actually performed as a result of the new timing parameters. In this way, the system elevates the role of the engineer, who is able to hold themselves accountable to measurable improvements in traffic, and dramatically lowers the cost of optimization.

Figure 4 provides an example of how the user views the current measured travel times (before conditions), predicted improvements, and finally actual performance. Actual timing changes are shown in Figure 5, representing the actual timing changes and how the green band overlays on top of the platoon profile.

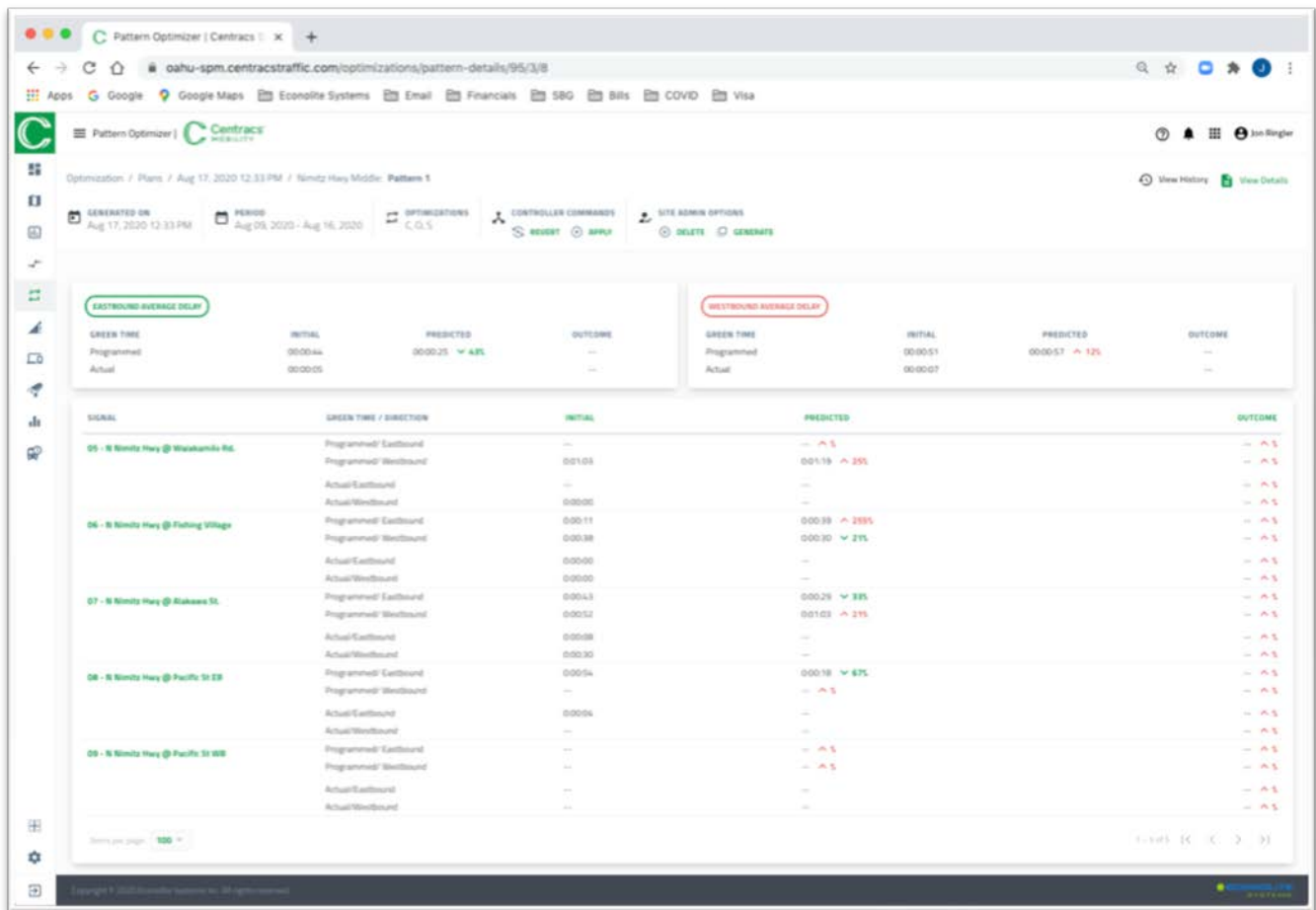


Figure 4 – Before Conditions



# Scope of Work

## ATSPM & VBD/BPS for the Los Gatos Smart Signals Project Town of Los Gatos, California

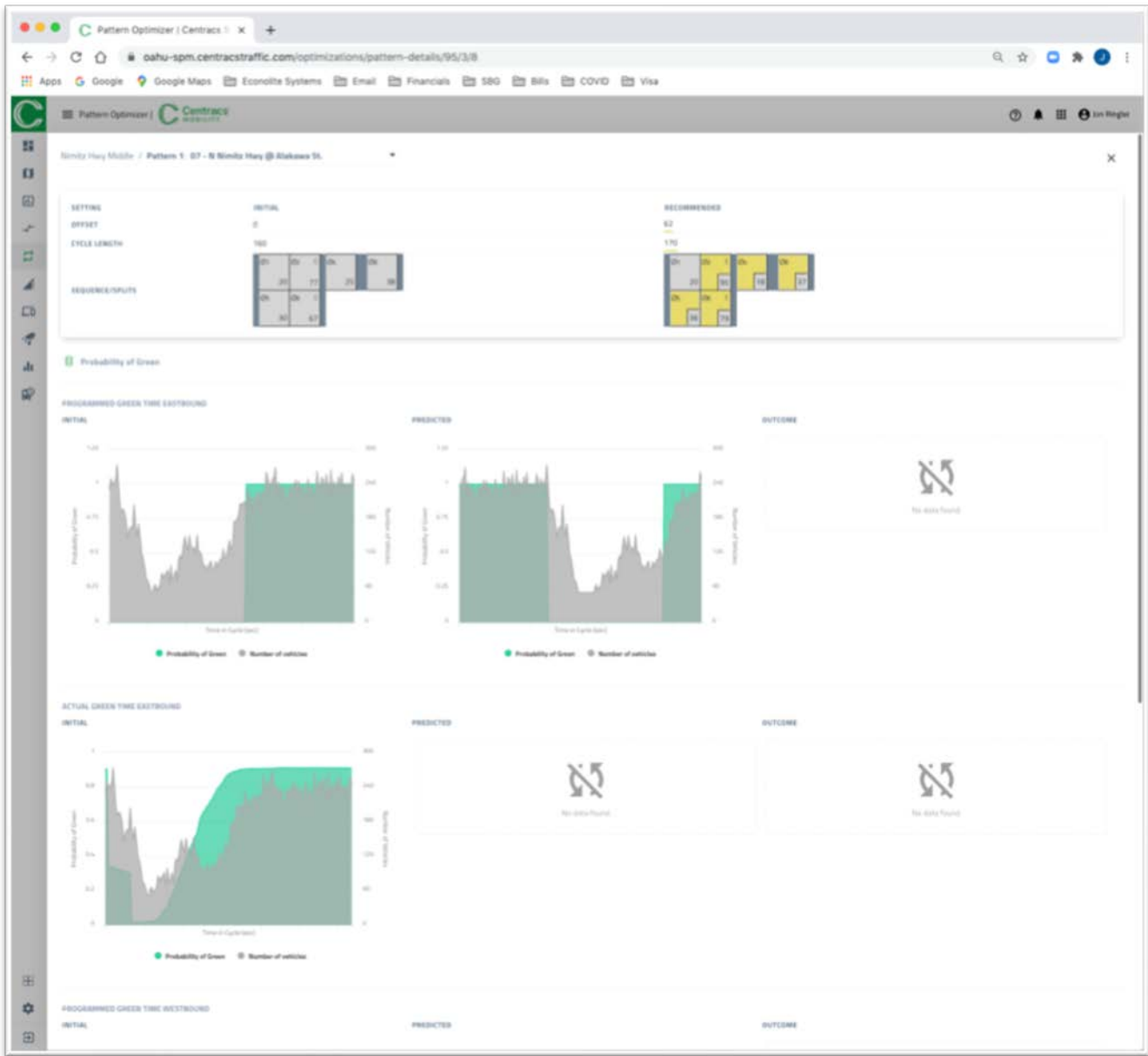


Figure 5 – Actual Timing Changes

Agencies can also make the most out of existing detection. With advanced algorithms, stop bar detectors are used to drive split optimization and set cycle length, while advanced detection is necessary to derive offsets.

### 5.1.2 VBD/BPS Element

Applied Information has developed a Smart City solution which provides Virtual Bicycle Detection / Bicycle Signal Priority, with the aim of increasing bicycle user safety, while simultaneously providing convenience for cyclists at signalized intersections.

This solution enables bicycle detection at signalized intersections, where cyclists are able to place a priority call to the traffic signal to request service or maintain a request for service. What this means is that, dependent on the number of cyclists detected, a priority call will either request a green light (if the light is red), or maintain a green light (if the light is already green) allowing sufficient time for the cyclist to pass through the intersection safely. Please view an overview at <https://youtu.be/LIjX1LPiXOQ>.



### System Overview

Applied Information's VBD/BPS system works as illustrated in the following figure:

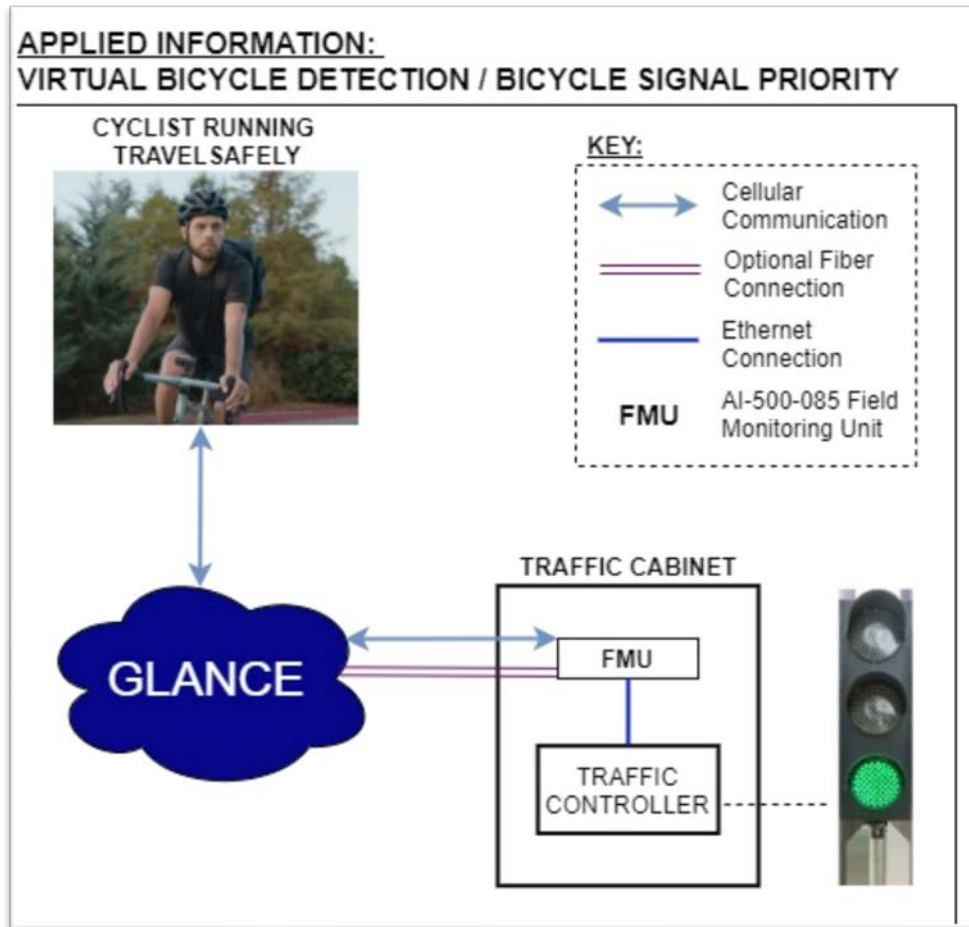


Figure 6 - The VBD/BPS System

Applied Information's smartphone application, TravelSafely sends the detector call through Glance (Applied Information's cloud-based application) to the in-field hardware, the AI Field Monitoring Unit (FMU). The FMU is installed in the intersection cabinet and is connected to the traffic intersection signal controller via an Ethernet connection. Priority calls received by the FMU are sent via the Ethernet connection using the NTCIP1211 standard, to the signal controller. With this setup, it is possible to place or hold a bicycle signal priority request. Additional detail on each system element is provided in the following sections.

### In-Field Hardware – Field Monitoring Unit

Intersections are equipped with the AI FMU. The FMU works in conjunction with the already existing traffic controllers, monitors all aspects of the traffic signal cabinet, and provides a number of connected vehicle applications. Each unit is equipped with a built-in cellular modem and GPS for self-locating. The cellular modem allows for cellular communication to the Glance platform and TravelSafely smartphone application.

All hardware is proven, off-the-shelf hardware and is easily deployable and maintainable. The 1U 19" Rack Mountable units are readily available and are retrofitted into existing traffic intersection cabinets. The FMUs provide connectivity, security, and "over-the-air" software update capability. Additional features and improvements can therefore be deployed to solve problems that are only identified once in practice. All communication between vehicles, and infrastructure, is routed over the cellular network, meaning that full functionality and testing can be carried out from day one.

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The operation of the cabinet unit is separate to the make/model of the traffic signal controller, which makes the FMU hardware compatible with all major traffic signal controller suppliers, including Los Gatos' Econolite Cobalt controllers. All units come with multiple digital and analog IO as well as 8 relay contacts to trigger preemption/priority commands to the traffic signal controller.



Figure 7 - The AI-500-085-02 FMU

### Smartphone App - TravelSafely

TravelSafely is an easy-to-use smartphone application, designed to provide a connected vehicle V2X (vehicle-to-everything) platform. The application is capable of connecting citizens to infrastructure and to one another, offering a number of connected vehicle applications to drivers and other road users. Through the purchase and installation of the aforementioned in-field hardware, the TravelSafely application will be accessible to road users in the Town of Los Gatos, along the designated nine-intersection project corridor. The app is available on both Android and iOS operating systems and can be downloaded for free from the respective App Stores. This means that comprehensive V2X capabilities can be implemented and utilized en masse, at no cost to the everyday citizen.

The application can be used as a detector device for Virtual Bicycle Detection/Bicycle Signal Priority and eliminates the need to purchase expensive new hardware. TravelSafely provides advanced detection utilizing the ubiquitous smartphone (running TravelSafely) as the detector.

The application works in conjunction with the Glance cloud-based application, and the field monitoring unit. All communication for TravelSafely are routed over the cellular network. For communications with the in-field infrastructure and other persons using TravelSafely, information is sent using the standard SAE J2735 format.

TravelSafely is used as a platform for a number of connected vehicle applications, including:

- Virtual Advanced Detection
- Bicycle Signal Priority
- SPaT (Signal Phase and Timing) and MAP information
  - With "Get Ready for Green" alert
- Red light running warning
- Bus/transit priority
- Intelligent school beacons
- Where is the emergency vehicle coming from?

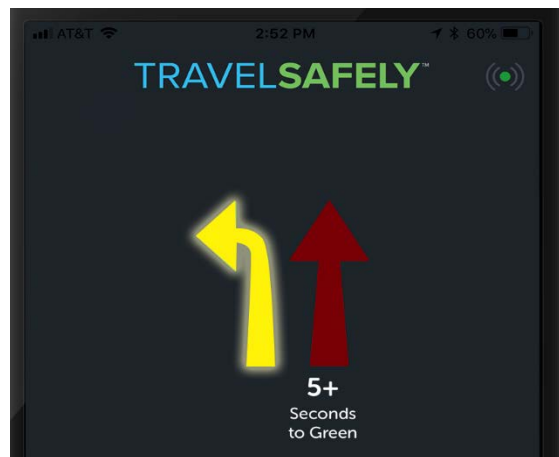
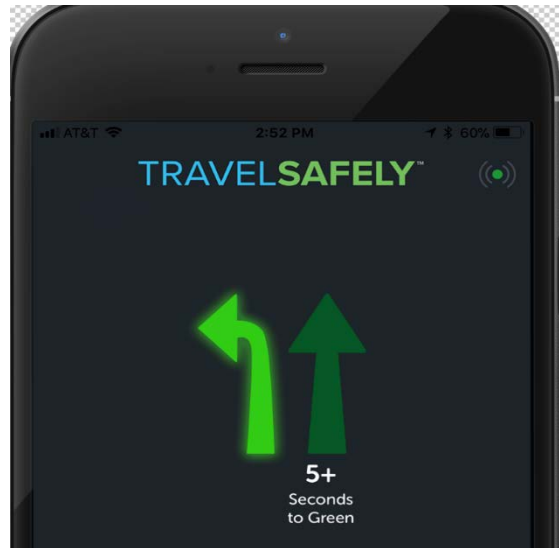


Figure 8 - The TravelSafely App

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- Motorist – Cyclist communication
- Motorist – Pedestrian communication
- Work Zone warnings
- Curve warning/reduce speed
- Rear-end collision warning
- Virtual/advance traffic detectors to make signals work better

The connected vehicle message flow for the TravelSafely smartphone application is shown in the following figure.

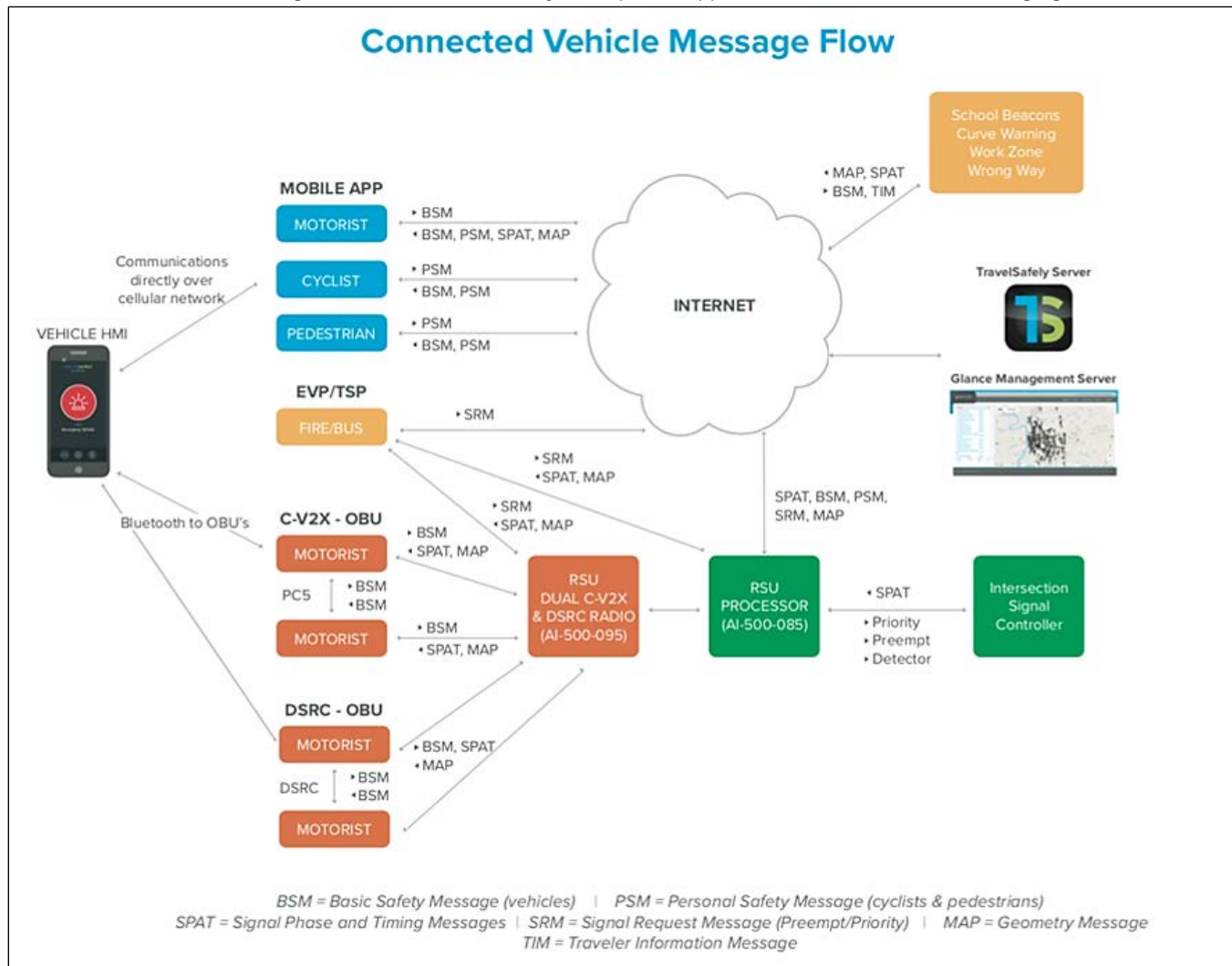


Figure 9 - Connected Vehicle Message Flow

### Software - Glance

Glance is a cloud-based application that all of Applied Information's in-field hardware is connected to. The platform will connect the FMUs installed along the IDEA project corridor into a single, easy-to-use application. This will allow for complete connection, control and remote monitoring of the system by the Town of Los Gatos. All communication between the in-field devices and the Glance platform is routed over the cellular network. Each device sends/receives data to/from Glance via the existing 4G LTE cellular network.

This supervisory system will allow the Town of Los Gatos to manage their ITS assets under one web-based application. With the system being a cloud-hosted software solution, operators will be able to log in to Glance via any internet connected device.





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Glance provides the user with remote viewing of the overview of each installed device and is able to monitor, collect and store data. This data is stored and readily available for view, analysis and complete system evaluation. The Glance Smart City Supervisory System makes for easy managing of traffic systems and includes many innovative features such as:



- Cloud and web-based software
- No servers needed, and no special software required, only a browser
- No maintenance costs. One-time license fee



- Devices self-locate themselves by Utilizing build in GPS & Cell Modem
- Always know where faults are as devices always report position
- Time Synch with GPS time for traffic controllers



- Automatic configuration of IP address (no static IP's needed)
- Synchronization with Glance server
- "Over-The-Air" OTA software updates



- Automated Alerts via Text and Email when cabinet faults are detected
- AC failure, Battery failure, Flash, Red Monitor, etc.



- Control and Configure devices remotely utilizing build in Cell modem
- Know the problem before the technician leaves



- Key Performance Indicator (KPI) reports showcasing device uptime
- Automated weekly and monthly reports

An example of the Glance home screen that can be accessed from any browser platform can be seen in the following figure.

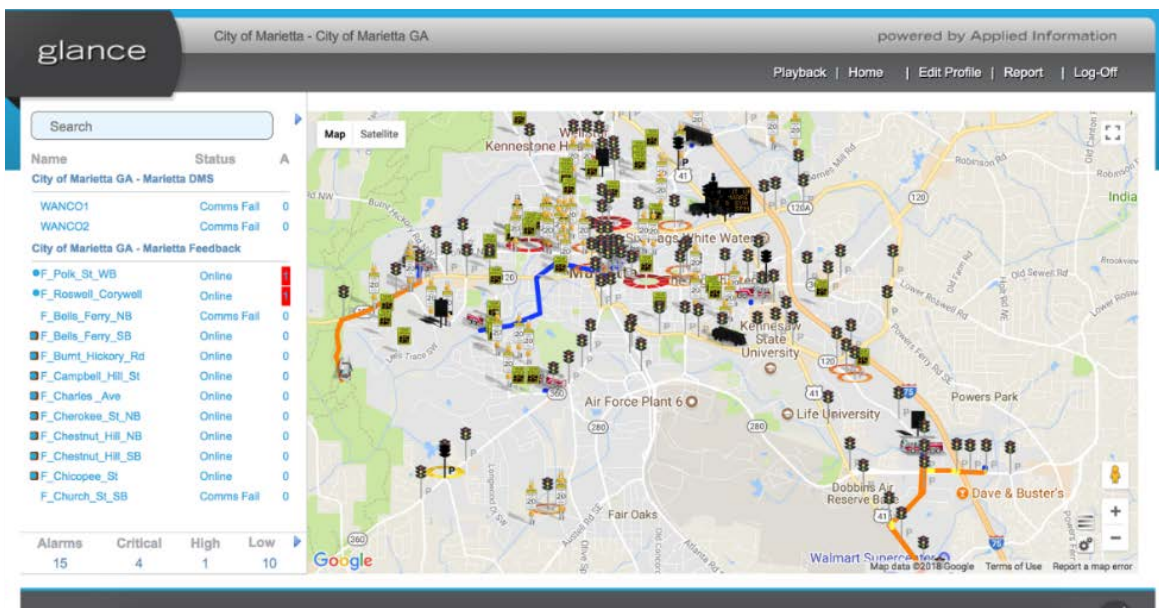


Figure 10 - The Glance Home Screen



### How a VBD/BPS Priority Call is Placed

TravelSafely is used as the platform for virtual bicycle detection and bicycle signal priority. After having downloaded and registered to use TravelSafely, all the cyclist will need to do is ride with their smartphone. The phone can be clipped to the handlebars of the bike (where the screen is visible) or kept in the rider's pocket or backpack. TravelSafely is mainly used as a background application, where no user input is required. The app will automatically detect whether the user is a pedestrian, cyclist, or motorist. As soon as the TravelSafely user (detected as being a cyclist) approaches an intersection equipped with the AI-500-085-02 device and configured with VBD/BPS capability, a priority call will be sent via TravelSafely to the Glance cloud (Figure 11).



Figure 11 - The TravelSafely App as a Detector

Detection zones for bicycle signal preemption are configured using the Glance platform. Using the configuration utility, detection zones can be drawn a few hundred feet ahead of the of the intersection. When a cyclist using the TravelSafely smartphone application enters the detection zone, the app will place a wireless message to the Glance cloud-based application, where the priority call will be registered. This call is then communicated to the AI-500-085-02 FMU which is situated in the traffic signal cabinet. The FMU passes this request to the traffic signal controller via an Ethernet connection using a NTCIP 1211 priority call.

Detection is GPS-based, using the location services of the smartphone, and uses the cyclist's real-time position to track whether or not they have entered a pre-defined detection zone for bicycle signal priority. All communication is based over the 4G LTE cellular network, allowing for completely wireless communication via TravelSafely, Glance, and the FMU. Each of the intersections equipped with the FMU will be configured such that VBD / BPS can be provided to cyclists using the TravelSafely app. There is no limit to the number of intersections that can be equipped with this technology.

Video of VBD/BPS system in action, using the TravelSafely smartphone application can be seen in the following video: <https://youtu.be/nczvMcAtbEY>.

### Working with GPS Inaccuracies

TravelSafely has been designed to work with current smartphone inaccuracies. The GPS on smartphones are generally not the most accurate, which is why the app has been designed to work within the bounds of these smartphone GPS inaccuracies. With the latest generation of smartphones using dual GNSS GPS, the inaccuracies have been found to be less than 3ft.





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TravelSafely's latency has been determined to be between 250-400ms for communication, and GPS polling occurs every second. TravelSafely communicates the GPS position of the smartphone device to the Glance servers every second, so that real-time communication is received. In addition to this, Applied Information has implemented various methods for both mobile phone battery optimization and the latest GPS accuracy in smartphones (including dual GNSS GPS technology).

The TravelSafely application has 16 different applications that utilize MAP / SPaT and TIMS messages, all of which rely on this real-time communication. Through prior experience and feedback from TravelSafely users, it has been established that latency and GPS polling frequency is not an issue. This can be seen from many demonstrations using the smartphone application and information received from TravelSafely users. An example of the TravelSafely smartphone application in use, which showcases a number of the TravelSafely applications, can be seen by visiting the following link: <https://youtu.be/WxEnX11qATs>.

### Detection Zones

Both a preemption/ priority configuration tool and TravelSafely Mapping tool are used to draw and define the preempt zones and the lanes defined for SPaT and MAP data used for the TravelSafely smartphone application.

The zones designed around the intersections identify the direction and approach of the TravelSafely user (for example a cyclist). An example of the zones configured for preemption/priority can be seen in Figure 12.

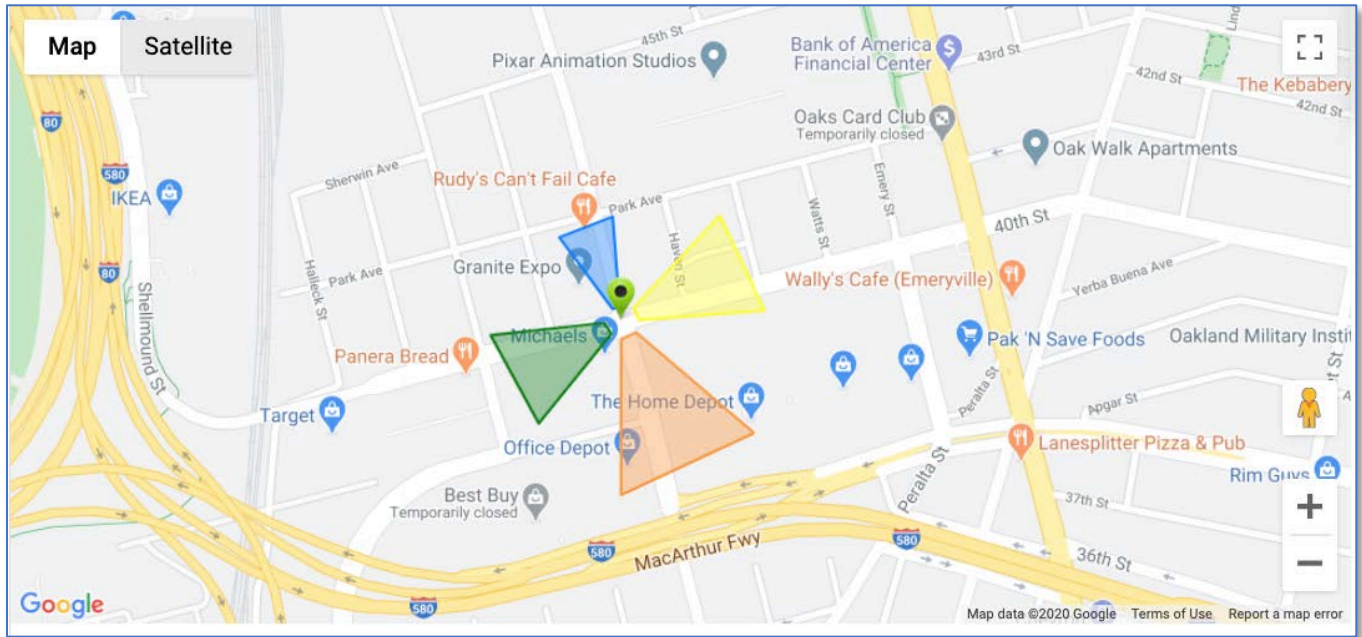


Figure 12 – Priority Detection Zones

The TravelSafely configuration tool is used to define the various lanes and the geometry of the roadway. Figure 13 shows further details on the available configuration tool.

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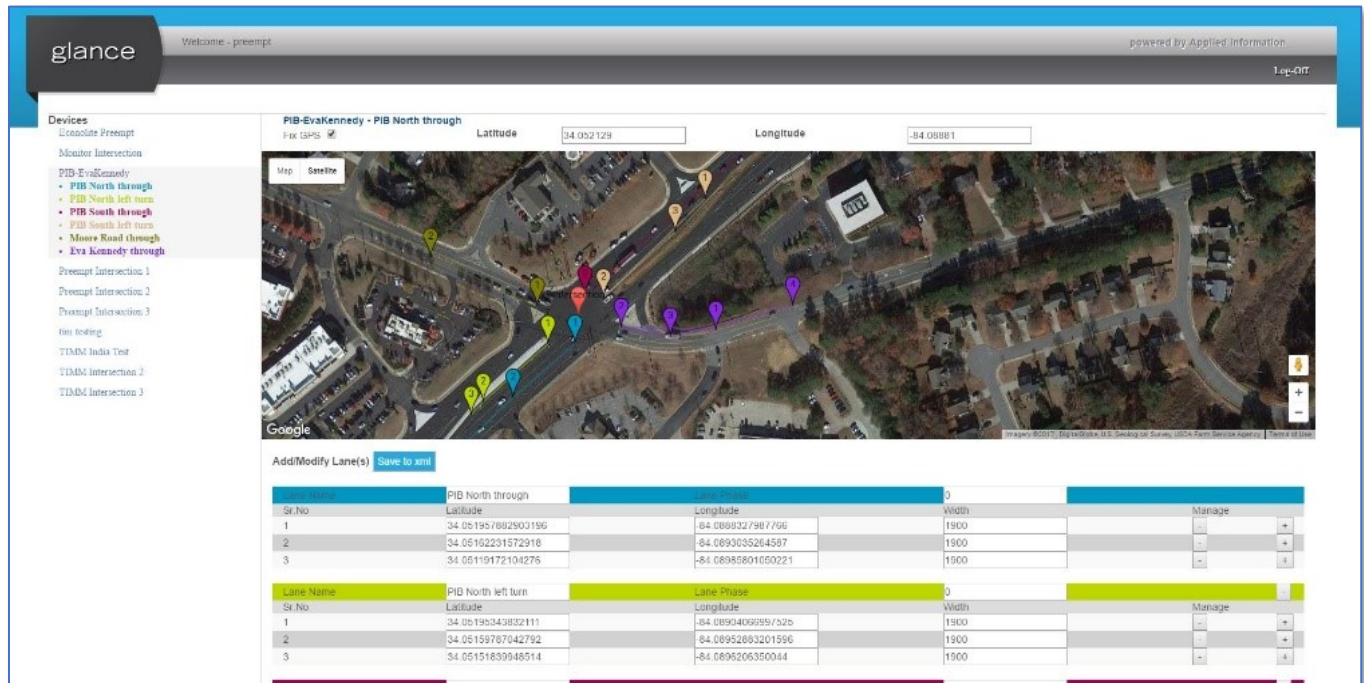


Figure 13 - Zone Configuration

### Differentiating between a Bicyclist in the Bike Lane and Same Direction Left Turn Lane

The TravelSafely MAP files configured in the configuration tool (as seen above) have specific lanes drawn / defined for straight or left turns. The smartphone running the TravelSafely app will determine whether or not the bicycle is in a bike lane, straight lane, or left turn lane. Bicycle detection or priority for straight or turn lanes will be dependent on the given geometry of the roadway.

### Detecting Single or Multiple Cyclists

The VBD / BPS system is able to detect whether one or more cyclists have entered the defined area. For single-user cases, the application provides virtual detection. Alternatively, for groups of cyclists (2+), a priority call can be sent to the traffic signal controller. For each instance, the times at which priority for bicyclists is available can be configured in Glance. For example, bicyclists may be given greater priority between x and y hours of the day and priority can be given when a certain amount of cyclists approach the intersection.

As an optional extra, Applied Information is able to provide priority calls at the intersection, using NTCIP1202 standard communication. Use cases for this may include when cyclist groups are travelling along the corridor (i.e. 6+ cyclists). The Town would be able to set the time and days in which preemption calls could take place, for example on the weekends during a specific time period where cyclist groups/clubs may be travelling along the corridor.

### User Anonymity

Glance TravelSafely system anonymizes each user with a different ID each time they log in. This ensures that no one can be tracked and provides a safe and secure environment for each user. Every 15 minutes the app re-anonymizes the ID to ensure no one can be tracked from one location to another.

### Differentiating between a Bicyclist and Slow-Moving Vehicles

TravelSafely utilizes the smartphone application to determine whether or not the user is in a vehicle. Having multiple means of detection improves accuracy of the system. This is done by looking at the Bluetooth connections of the phone and the speed it is detected to be travelling at.





For example, if the application detects that the speed of the user is above a certain threshold, it will automatically determine that the user is in a vehicle. Should the vehicle slow down to a walking / cycling speed (for example – stuck in traffic or at a red light) – the app will not automatically categorize the user as a pedestrian or cyclist. The travel mode will only change should the device move at a slow speed for a specific, extended period of time.

In addition, the user has the ability to manually select the mode of transport as a motorist, bicyclist or pedestrian. This mode then remains active for the duration of the trip.

### **VBD/BPS in Los Gatos**

Applied Information will be providing the Virtual Bicyclist Detection / Bicycle Signal Priority element of the IDEA project. The VBD/BPS system will be installed at 9 locations along the dedicated corridor in the Town of Los Gatos. Applied Information, with the assistance of their local distributor, JAM Services, will be responsible for furnishing, installing, configuring, implementing, testing, maintaining, supporting, and providing training documentation for the proposed VBD/BPS system.

Following deployment of the VBD / BPS capability, the Town will experience the condition where cyclists using the instrumented roadway maybe unaware of the TravelSafely app. This condition will diminish as the Town's awareness campaign builds. Further, there will be a proportion of cyclists who decline to download and activate TravelSafely. In both of these cases, the Econolite Team's solution can continue to provide value to the Town. First, intersections instrumented with Iteris Vantage Edge 2 detection and SmartCycle will be able to detect and differentiate cyclists approaching the signal. The detection will then send the appropriate output to the Cobalt controller. In turn, the Econolite controller can respond in several ways. For example, the controller can invoke the Bike Min Green at the start of the green interval for the called phase. The detection and ATC controller can be configured with separate extension timers (Extend2) for configured bike detectors. Thus, the Econolite solution achieves the project's objectives not only for cyclists equipped with the smart phone app, but also provides value for ALL cyclists using the roadway.

## **5.2 Detailed Scope of Services**

### **5.2.1 Task 1 - Project Management**

Project management is a critical part of the deployment of any technology project. To emphasize its importance, we propose a dedicated project management task to ensure that the Econolite Team and the Town share common goals and expectations of the project, manage changes needed throughout the course of the project, and execute the project to meet those goals and expectations. The Econolite Team will perform proactive project management throughout the course of the project and provide periodic invoices and progress reports to summarize the project status.

We are proposing a highly experienced Project Manager for this project, Mr. Marc Case. Resume has been sent to the Town.

A key to the Econolite Team's Project Management approach is to develop a Project Plan as detailed below.

#### **Project Plan**

The Project Plan will document the following elements:

- **Project Scope** – This document and any modifications that may be required over the term of the contract.
- **Major Deliverables** – This document and any modifications that may be required over the term of the contract.
- **Risk Assessment** – Identifies major risk elements and mitigation actions.
- **Resource Requirements** – Includes team organization and responsibilities of stakeholders.
- **Project Schedule** – Gantt chart periodically updated to reflect project progress.

#### **Project Kickoff Meeting**

Upon notice to proceed, Econolite will conduct a project kickoff meeting that will include the following agenda:

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- Introduce Econolite's implementation team.
- Review project schedule and deliverables, including Town review periods.
- Develop consensus on the overall project approach.
- Clarify areas of responsibilities of Econolite and Town for the implementation.
- Identify implementation risks and propose mitigation factors.
- Discuss change control procedures.

### Quality Control/Quality Assurance Plan

During the kickoff meeting, Econolite's Project Manager will provide the Town with a quality control/quality assurance plan in-line with our Software Maintenance Agreement (SMA), detailing our product quality process during the course of the project. This will include continuous technical support to the staff on the use, configuration, management, and troubleshooting of Centracs SPM as well as providing software upgrades addressing defects and/or enhancements and new features. To ensure that product quality assurance will be carried out in every step of the project, we have included Mr. Studer as the lead for the project Support Team. Mr. Studer is managing Econolite Systems QA/QC team at the Colorado Springs' office, and is responsible for the development, implementation and coordination of product assurance program.

### Project Schedule

Our proposed schedule, including major milestones and deliverables, is included in **Section 6**. Econolite's Project Manager will provide an updated and detailed version of the schedule at the project kickoff meeting.

### Bi-Weekly Progress Meetings

The Econolite Team will establish bi-weekly project meetings via teleconference to keep the Town informed of project progress and upcoming activities. These meetings are structured as "status only" and are intended to last not more than 30-minutes. This time frame ensures regular stakeholder attendance and insists that more in-depth discussion to be taken offline. The agenda for these meetings will form two purposes: to guide the discussion and function as a Status Report. These meetings will be limited to the following discussion points:

- Estimates of progress
- Work performed during the prior period
- Work anticipated for the current/following period
- Any deviations from the project plan along with their current issues, status, and how they are to be remedied

For each bi-weekly progress meeting, the Econolite Team will provide the meeting agenda and notes. The notes will include a "rolling" Action Item list that identifies and summarizes the Action Item (what needs to be done), Responsible Parties (who needs to do it), Resolution Dates (when will it get done), and End Result (how was it accomplished).

Weekly scheduled discussions between the Econolite Team and Town project managers will be held to work through any schedule or task needs and to keep each informed of any changes or modifications that may be needed.

### Assumptions:

- The Econolite Team will participate in the bi-weekly progress meetings either in person or via teleconference.

### Deliverables:

- Kick-Off Meeting
- Project Plan
- QA/QC Plan
- Bi-Weekly Progress Meetings
- Periodic Invoices



### 5.2.2 Task 2 – Furnish & Install ATSPM and VBD/BPS Software and Hardware

#### ATSPM

The Econolite Team will expand the Town's cloud-based Centrac's SPM and configure remaining intersections so that all thirty-one (31) intersections are providing high-resolution SPM data. The following steps will be required for the successful deployment and operation of the system.

- Provide the Town with detection zone configuration diagrams to assist the Town in setting up its Iiteris video detection systems to provide the best possible SPM inputs.
- Acquire as-built detector layouts from the Town (Task 2).
- Review existing intersection and detector layouts, taking notes on what detector is assigned to what input in the controller, the location of the detector on the street, and what function the detector is serving (e.g., stop bar, advance, departure, left turn).
- Site setup & configuration.
- Configure Intersection Data Maps (IDMs) for each intersection based on detection and controller configuration information.
  - Phase assignments and detector assignments are mandatory.
  - Speed limits are required. It is also useful to have volume estimates to better establish a saturation flow rate value that is more accurate and localized than the standard 1800-1900 vehicles per hour per lane (vphp).
  - Perform Quality Assurance/Quality Control on all IDMs.
- Setup corridors in SPM, including grouping and defining corridors and operational parameters in consultation with the Town Project Manager.
- Run SPM for two weeks to ensure SPM graph data is valid. Review data and modify settings as necessary.

#### VBD/BPS

As a first step, the Econolite Team will install, demonstrate and test the VBD/BPS System at one signalized intersection. Once installed, Applied Information will work with the Town to compile testing procedures and prepare a technical memorandum documenting the testing details and observed results. Upon acceptance of the initial testing results, Econolite team member Applied Information (with the assistance of JAM Services) will install, configure and integrate the VBS/BPS System into the remaining 8 project intersections, as per the final system requirements followed by acceptance testing of all VBS/BPS locations.

Once the system is performing to the Town's expectations, the Econolite Team will coordinate with the Los Gatos-Monte Sereno Safe Routes to School program and the Town to provide outreach and education on the new system, and facilitate distribution of the TravelSafely smartphone application to students at the Fisher Middle School. Currently we show this outreach upon system implementation. These dates are flexible, and the Econolite Team proposes to work with the Town and determine the most appropriate time to conduct this task.

All real-time monitoring is done using Applied Information's Glance platform. This is a browser-based platform and accessible via any modern browser (such as Firefox, Safari, Chrome, etc.). No storage device or special servers are required. Applied Information will supply information on their security information/protocols for the VBD/BPS system, upon request by the Town.

Applied Information will configure five administrative user accounts in Glance once the system is installed, configured and ready to hand over to the Town. Customized user privileges will be given to each account holder, as desired by the Town

Applied Information will work with Econolite and Town staff in integrating the VBD/BPS system into the Town's ATMS and ATCS solutions. Applied Information uses recognized standards, including NTCIP1211, for the bicycle priority calls. All data is identified by individual approach and can be mapped to a traffic signal controller input.



### Assumptions:

- The Town will provide current phase diagrams and timing/coordination sheets for the thirty-one (31) ATSPM intersections.
- The Town will provide all detection necessary for proper SPM operation.
- System will be deployed with intersections equipped with Econolite Cobalt traffic signal controllers.
- The Town will provide technical staff available for assistance during installation.
- The Town will assist in development and compilation of test procedures and test results.
- Testing of the VBD/BPS will be done using smartphones equipped with latest versions of iOS or Android operating systems.

### Deliverables:

- Los Gatos Centracs SPM website
- SPM operational with thirty-one (31) intersections
- Proof of Concept for VBD/BPS system at one intersection
- Outreach activities with the Los Gatos-Monte Sereno Safe Routes to School program and Fisher Middle School.
- Testing procedures for the VBD/BPS system
- Technical memorandum documenting testing details and observed results
- Required Hardware for VBD/BPS system (per intersection):
  - AI-500-085-02 Field Monitoring Unit (and associated cabling)
- TravelSafely smartphone application
- 5 administrator accounts for Glance users
- Documentation of security protocols
- Completely integrated VBD/BPS system at 9 project intersections

## 5.2.3 Task 3 – System Verification, Testing, and Acceptance

### Acceptance Testing

Once all thirty-one (31) controllers are brought online in the ATSPM, the System Acceptance Test will be conducted in accordance with the Verification and Acceptance Test Procedures (“Test Plan”). The Test Plan will be based on Econolite’s existing Standard Centracs SPM Test Procedures modified to incorporate the Town’s requirements contained in the RFP. The Test Plan will include details on test setup, test scripts, test oversight and witnessing, test reports, pass/fail criteria, and test dependencies.

Econolite will provide a Draft Test Plan to the Town for approval 30-days before the acceptance test is to begin. The Town shall review the Draft Test Plan and provide review comments within 14-days. The Test Plan will not be final until accepted by the Town.

This initial phase of testing includes a step-by-step walk-through of every procedure documented in the Test Plan. This phase of testing ensures that the Standard Centracs Test Procedures and the specific additional functional and performance requirements of the Town are observed and proven to successfully function.

If, during performance of the System Acceptance Test, an item is marked as “failed,” Econolite and Town staff will agree to a course of action.

This test is incredibly thorough and painstakingly detailed. Econolite will conduct, document, and record all test results. The Town’s Project Manager (or their designee) will witness all tests and sign-off on each procedure as it is completed. At the conclusion of the System Test, Econolite will prepare a test report summarizing the results of the test, documenting any areas of the test that need to be corrected. As necessary, Econolite will resolve any issues that were identified during the System Test, demonstrate the proper operation to Town personnel, and document the corrections.



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Similarly, Applied Information will provide the Town with the Acceptance Test Procedures 30 days prior to the proposed acceptance testing start-date. Applied Information will then set up a testing version of TravelSafely, which will be available for user groups to test the application

Applied Information will document and record all information via the Glance cloud-based application, which will automatically collate data into useable reports. Should the VBD/BPS system not meet a specific functional requirement, Applied Information will prepare a variance report with recommended actions to take in order to rectify the problem(s).

Applied Information will address feedback/problems that arise during citizen and Town staff testing

### Burn-in and Acceptance

Upon successful completion of the System Acceptance Test, as well as 30-days of error free operation during the subsequent burn-in period, the Town will grant "System Acceptance" and the Warranty period will commence.

### Assumptions:

- The Town will communicate intended start dates providing sufficient time for the Verification and Acceptance Test Procedures to be compiled.
- The Town will be responsible for setting up citizen user-groups to test the TravelSafely smartphone application.
- Each TravelSafely user will have a smartphone running the latest versions of Android or iOS operating systems.
- Town will review the Draft Test Plan & provide review comments within 14-days.
- System Acceptance Test will be performed over a 1-day period and the Town's designated representative will be available to witness/participate.

### Deliverables:

- Verification and Acceptance Test Procedures (Draft and Final)
- TravelSafely smartphone application for public testing
- Final Acceptance Testing
- Documented record of test results
- Variance reports, as/when required
- Successful completion of 30-day burn-in period

## 5.2.4 Task 4 – Training and Documentation

### Training

Econolite will provide all training necessary for the Town to successfully operate and manage the ATSPM and VBD/BPS systems. Our proposed training will be detailed in a Training Plan that identifies the lesson plan for each course, along with the literature, standard operating procedures, manuals, and test materials that will be used. The training plan will describe the Econolite Team's roles and responsibilities for each course and will include a training schedule listing each period of instruction and the time required for each period. The Econolite Team will submit the Training Plan to the Town for review and approval 30-days prior to the scheduled start of any training.

The Econolite Team will provide training as detailed in the following table:

Table 1 - Proposed Trainings

Training Session	Expected Duration
1. ATSPM System Operations (two sessions)	Up to 8-hours
2. ATSPM System Administration and Maintenance (one session)	Up to 8-hours
3. VBD/BPS Operations (two sessions)	Up to 8-hours
4. VBD/BPS Administration and Maintenance (one session)	Up to 8-hours



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The Econolite Team will provide all training materials, and each training will be designed for up to five (5) people. Training will include both classroom-style instruction on system functionality and use as well as “hands-on” training and will be suitable for both traffic systems engineers and traffic signal technician staff. We understand that some areas may require more in-depth training than others and will adjust the curriculum according to the Town’s needs. Training will be conducted either remotely or at Town facilities with access to the system for optimal understanding of the system.

In addition to formal, on-site training, we are also able to provide at no cost to the Town On-Demand training via the Econolite Learning Center (<http://learn.econolite.com/>).

### Documentation

Econolite will provide the Town with a complete systems documentation package that includes the following:

- User/operator manuals
- Software programming manuals & procedures

The documentation package will address all software and hardware provided under this contract and will be subject to review and approval by the Town before final system acceptance. Econolite will submit all documentation for review and approval by the Town.

### Assumptions:

- A majority of the training will be remote/web-based using virtual meeting platforms, such as Zoom, dependent upon COVID-19 regulations and company/state travel and meeting restrictions.
- The Town will provide a suitable training location, should there be in-person training.

### Deliverables:

- Detailed training plan for each training course
- Up to six (6) days of training for up to five (5) Town staff members
- Training manuals and system documentation (2 copies)

## 5.2.5 Task 5 – System License, Warranty, and Support

### ATSPM

#### Licensing

In addition to the 13 intersections with Centrac’s SPM service provided under the Town’s ATSC project, Centrac’s SPM service will be provided for 18 additional intersections. Service will be provided to all thirty-one (31) intersections for a period of three (3) years from system acceptance, and subject to the Econolite Cloud Services Agreement contained in the *Appendix*.

#### Warranty & Support Terms

Econolite will provide a 3-year warranty following successful completion of the System Acceptance Test. The warranty covers all defects and bugs in the central system software and entitles the Town to free software updates. Third party hardware and software warranties will be transferred to the Town.

In addition, we provide unlimited remote technical support via phone and Internet and, of course, our local support team is nearby to answer any questions, solve virtually any problem, and provide assistance to help the Town get the most productivity out of its new Centrac’s system.

Regular support is available during normal business hours, from 8am to 5pm Mountain Time. For emergencies, Econolite also has a toll-free 24x7 maintenance hotline that can log trouble tickets and generate appropriate responses after hours.

For issues requiring a deeper level of technical support, Econolite has a dedicated staff of maintenance professionals and support group to supplement the local team. These professionals together make a team unmatched in the industry, dedicated

# Scope of Work

## ATSPM & VBD/BPS for the Los Gatos Smart Signals Project Town of Los Gatos, California



exclusively to supporting deployed Centrac systems. Our Centrac system support engineers provide a managed process that responds quickly to any customer questions and problems as they arise.

To facilitate access by these individuals, we propose utilizing a VPN connection to remotely access the system and assist in diagnostics and troubleshooting. This is a very effective approach that enhances efficiency and reduces Town staff time for troubleshooting. In addition, software updates can also be loaded remotely through this connection. We will work with the Town's IT group to establish access which is compatible with the Town's IT policy.

In addition to the 3-year Warranty/System Service, our proposal includes additional years of System Service and support coverage under our Basic Software Maintenance Agreement (SMA). A copy of this agreement has been included in the *Appendix*. During the warranty and any subsequent support period, Econolite will provide the following support services:

- **Technical Support** – Assist Town staff with routine questions about the use, configuration, management, and troubleshooting of Centrac.
- **Software Upgrades** – Econolite will provide all released upgrades to the Town. Software upgrades include those to address errors, defects, security flaws, etc. and those that provide enhancements, new features, new functions, etc. Centrac will retain all system, user configuration, and preferences when applying software upgrades. If requested by the Town, Econolite will provide technical support to install software upgrades.

So long as the system is under warranty or SMA, all Centrac updates are available at no additional charge. New feature releases are also included in the support and we typically release one upgrade per year, further assuring the Town will remain on the leading edge of technology well into the future.

### Assumptions:

- Per the resultant contract, the Town does not perform any acts that void the Warranty.
- The Town will provide VPN access that allows Econolite to remote into Centrac so that we can provide support, warranty, and maintenance services from our Colorado Springs Technical Center.

### Deliverables:

- Centrac SPM – 3-Years of Warranty/System Service for 31 intersections, from final system acceptance.
- Centrac SPM – Optional future System Service/Basic Software Maintenance Agreement coverage following the Warranty.

### VBD/BPS

Applied Information will provide the Town with all the necessary software licenses for the VBD/BPS system. A three-year warranty will be provided for all hardware and software. Technical support will be provided to the Town throughout the period of warranty.

The connectivity and support plan for in-field hardware includes:

- **Cellular Connectivity** - All devices are equipped with a built-in cellular modem, allowing for cellular communication between the in-field device, Glance, and TravelSafely.
- **Upgrade of Cellular Modem** - Currently all in-field devices operate on the 4G LTE network. If/when this is no longer supported, AI will upgrade the cellular modems.
- **Telephone and Email Support** - AI is able to provide support via telephone and email: 678.830.2170, support@appinfoinc.com.
- **No Cellular Overage Charges** - With this connectivity plan in place, there will be no overage charges regardless of the amount of data used.
- **Extended Warranty of Hardware** - For the period of the implemented Connectivity and Service Plan, an extended warranty on the hardware is provided with a "no questions asked" policy.
- **Over-The-Air Software Updates** - All in-field hardware supports over-the-air software updates. Software updates are sent to the cabinet unit or mobile device via the cellular network. Devices can consistently be kept up-to-date with the new releases/versions of software.

# Scope of Work

## ATSPM & VBD/BPS for the Los Gatos Smart Signals Project Town of Los Gatos, California



- **Over-The-Air Security Updates** - All in-field hardware supports over-the-air security updates. Software updates are sent to the cabinet unit or mobile device via the cellular network. Devices can consistently be kept up-to-date with the latest security available.
- **Future Connected Vehicle Service** - This is included as standard for all units installed. There is an extensive list of additional features offered by the AI-500-085-02 FMU, which the Town of Los Gatos will have access to once these units are installed.

### Warranty Information

For as long as the AI-500-085-02 FMU Applied Information branded equipment is part of an active connectivity and support plan, the system components are fully covered for warranty repair, software and firmware updates, and telephone support at no additional cost. The period of warranty and purchased connectivity and support plan begins from the date of purchase from Applied Information or its authorized distributor. In the event of a need for repair, Applied Information will repair or replace the product and return it to the customer free of charge (excl. shipping fees). This includes all material causes whether it be severe weather damage, impact from a vehicle, or in the rare event of defective materials used in the unit construction or faulty workmanship. Repairs to damaged or faulty units occur at Applied Information's manufacturing office in Suwanee, Georgia. There is a short turnaround time for repairs, but repair time may depend on the number of units which are sent in for repair.

### Assumptions:

- Warranty period of three years

### Deliverables:

- Glance license (per device)
- Connectivity and support plan (per device)
- Three-year system warranty (per device)
- Technical support for contract period

## 5.2.6 Task 6 – Support Services (Signals as a Service)

### Signals as a Service

Currently, the Town has approximately 31 signalized intersections town-wide on an existing IP-based communications network. Econolite Signals as a Service® described herein will monitor the Town's Centrac's ATMS and Centrac's SPM remotely from Econolite Headquarters' TMC in Anaheim. Monitoring the Town's Centrac's® ATMS will require credentials to the Town's VPN to ensure secure access. Econolite assumes the Town will update and provide login information to Econolite for Centrac's ATMS and Centrac's SPM, should anything change.



# Scope of Work

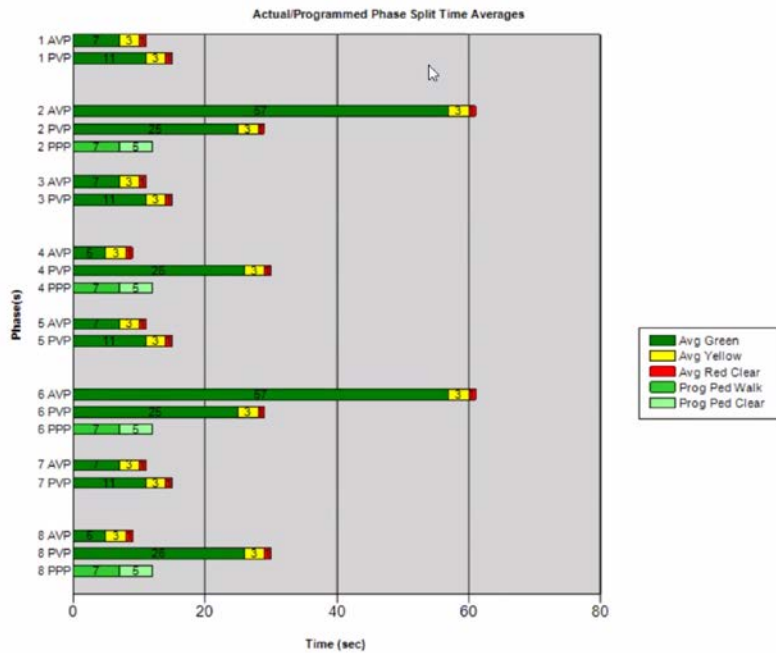
## ATSPM & VBD/BPS for the Los Gatos Smart Signals Project Town of Los Gatos, California



### Daily Tasks

#### Split Monitoring

Signals as a Service Operator will run a Split Monitor report from the last 24 hours to show the programmed split time as compared to the actual average split time to summarize the average run time for each phase movement.



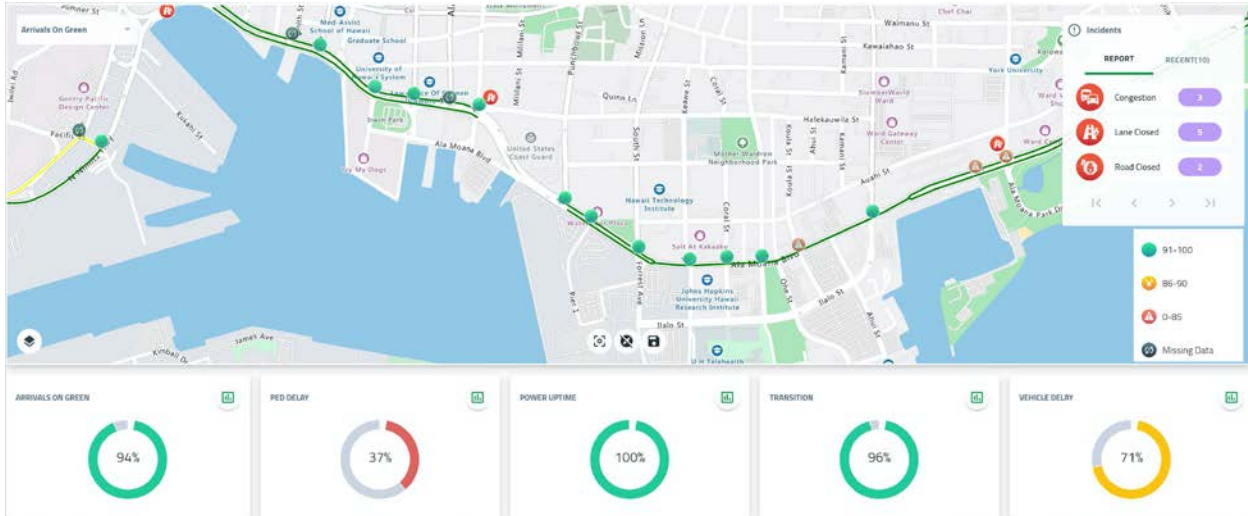


# Scope of Work

## ATSPM & VBD/BPS for the Los Gatos Smart Signals Project Town of Los Gatos, California

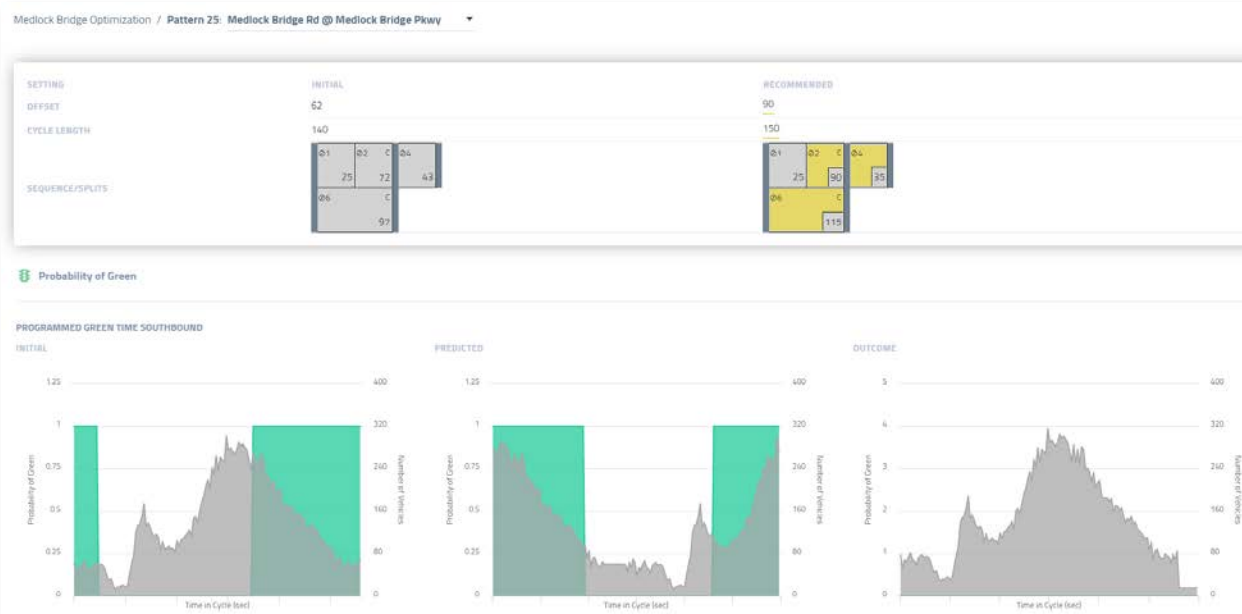
### SPM Monitoring

Signals as a Service operator will provide a report of the last 24 hours for selected Signal Performance Measures and provide high-level detail of performance for each day of the week.



### Edaptive Refinement

Signals as a Service operator will provide a before and after detail for Edaptive refinement. The operator will recommend adjustments to the Town Engineer and will apply adjustments upon approval from the Town Engineer.

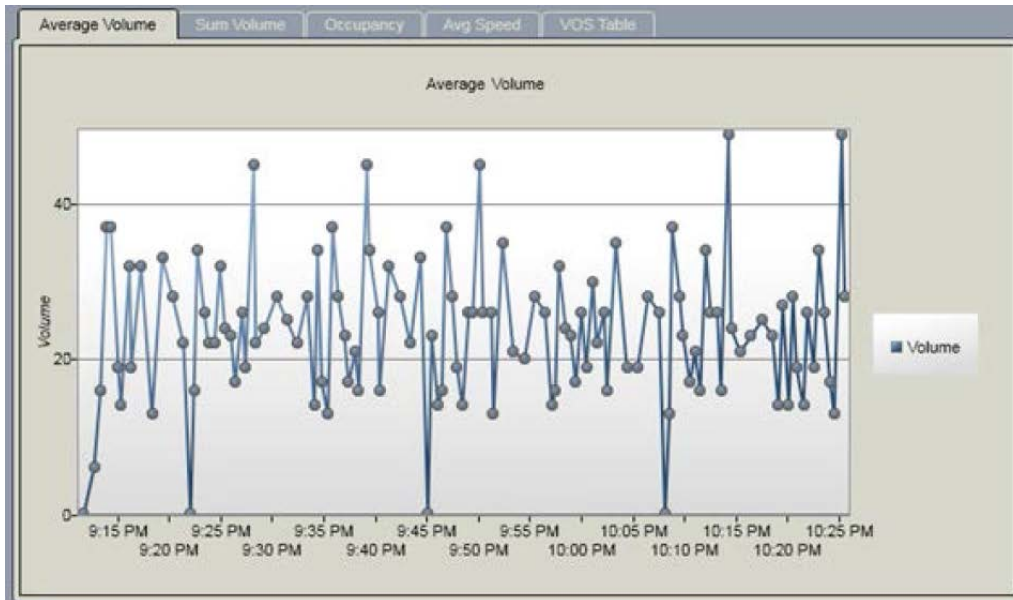


### Detection Monitoring

Signals as Service Operator will review Detector Faults in Centrac and report detector malfunctions to the Town's designated representatives.

# Scope of Work

## ATSPM & VBD/BPS for the Los Gatos Smart Signals Project Town of Los Gatos, California



### Bi-Weekly, Monthly, Yearly Comprehensive Reports

The comprehensive reports provide a summary of the status and health of the Town's ATMS and SPM systems. The reports will include the following information:

- High-level summary of system health and traffic operations
- Details of tasks completed by the system Operator (Bi-Weekly Reports).
- Copies of reports to include: Summary of daily task reports
- Monthly and yearly reports to include summary of benefits to recommendations for Edpative
- Detail and status of notifications sent to the Town's designated representative

Each of these reports will be sent electronically via Email or, at the Town's request, a hardcopy will be mailed.

Task	Delivered
Bi-Weekly Comprehensive Report	Every other Monday 9am (Excluding Holidays)
Monthly Comprehensive Report	1st Monday of the Month (Excluding Holidays)
Yearly Comprehensive Report	1st Monday of the Year (Excluding Holidays)

### Monitoring Hours

#### IDEA Intersections (13)

Up to 800 hours per year to monitor the Town's 13 IDEA intersections.

#### Town Intersections (18)

Up to 200 hours per year to monitor the Town's remaining 18 intersections.

### Response Time

Econolite will respond to Town questions and/or directives within 2 hours during normal business hours and within 8 hours outside of normal business hours. Directives would apply to the tasks defined as part of the daily tasks list. The Town can reach Econolite Signals as a Service® Operations staff by email [Support@econolite.com](mailto:Support@econolite.com), or phone 714.630.3700.



### System Coordination

Econolite requires that signalized intersections be online in Centrac® ATMS and Centrac SPM to perform Daily Tasks. If a signalized intersection loses communication, Econolite will notify the designated Town representative for Field Maintenance.

Econolite will monitor the Town's Centrac® ATMS for alarms and notify the Town and parties designated by the Town of any occurrence. Econolite will provide notification within 2 hours during normal business hours and within 8 hours outside of normal business hours. Town staff and appropriate parties will be notified by telephone call or text message, followed by a confirming email of alarms from both the Centrac® ATMS and Signalized Intersections. Town staff will communicate to Econolite staff which issues require notification, such as:

- Signal in Flash
- Comm Failure
- Detector Failure
- Server Performance

### Weekly Status Meetings

Econolite will conduct a weekly status meeting via Zoom with Town staff at 9am every Monday. The purpose of this meeting is to coordinate with Town staff to ensure the Town and Econolite Operators are aware of any issues and operations for the upcoming week.

### Options

Should the Town require operational assistance outside of designated AM/PM Peak hours, Econolite can provide these services at an additional cost.

## 5.3 Cost Controls & Budgeting

Econolite's approach to cost control and budgeting for all of our projects involves the following four processes:

1. Plan Cost Management
2. Estimate Costs
3. Determine Budget
4. Control Costs

We describe each of these processes in the following sections.

### 5.3.1 Plan Cost Management

Plan cost management is the initial process of project cost management where we define how the costs of the project are estimated, budgeted, managed, monitored, and controlled. We typically use WBS (Work Breakdown Structures) or historical data for similar projects to define the cost resource requirements, which include time, material, labor, equipment, etc. This process gives a rough outline of the number of resources involved and shows the optimum path to manage the project costs throughout the project lifecycle.

### 5.3.2 Estimate Costs

The second step in our project cost management planning helps in estimating the cost of the resources required for project completion. Since cost is an important variable that ensures project success, we are very careful while producing the estimated amount of the total project cost. Throughout the project lifecycle, this process is performed at periodical intervals. Our Project Manager uses various methods to estimate costs depending on the amount of information available.

### 5.3.3 Determine Budget



Determining the budget is the third step in our cost management process where the estimated cost of individual activities or tasks is summed up to draw the cost baseline. The cost baseline of the budget includes all authorized funds that are essential for project execution. This budget includes various reserves of contingency while keeping the management reserves far at the bay. Cost baseline is an authorized time-phased budget that is used as the initial point for monitoring and calculating the project performance and progress. This process is executed at specific points in a project which are generally predefined.

### 5.3.4 Control Costs

Controlling costs is the final step in our project cost management process, on that is primarily concerned with the measurement of variances of the actual costs from the proposed baseline. Various methods and procedures are implemented here to track the project performance and expenses against its progress rate. Meanwhile, all these variances are recorded and compared with the actual cost baseline. The control costs process is responsible for explaining the reason for a variance and further assists our Project Manager in taking corrective actions to incur minimal costs and control the entire project's expenses to close it within the agreed budget.

### 5.4 Minimizing Cost & Schedule

The Econolite Team's approach to ATSPM deployment is based on expanding the Town's Centracs Edaptive ATCS, currently being deployed by Econolite via the current ATMS/ATCS project. Centracs Edaptive builds on Centracs SPM, and as such, thirteen of the Town's thirty-one intersections will already have Centracs SPM operational at that the time when this project commences. As such, bringing the remaining eighteen intersections on-line in Centracs SPM as part of this project will be a straightforward process, with all of the front-end setup and configuration work for the base Centracs SPM already completed. The Town's ATSPM element project, as a result, will benefit both from a cost and schedule perspective.

### 5.5 Potential System Deployment Issues

Although we do not foresee any issues preventing a successful project completion, it behooves us to mention the risk in not receiving all the information needed for intersection device configuration up front. This would include all the information about the intersections, and importantly the Signal Phasing and Timing of each project intersection. In order to mitigate this risk, a clear timeline of what is expected (from whom and when) will be created, in order to avoid confusion or delay in the project timeline. This technique is currently being used on the project previously described in *Section 3.2.1*, where Econolite and Applied Information have partnered to provide a connected corridor in Honolulu, HI.

## 6. Schedule of Work

The Econolite Team's project schedule is contained on the following page and shows the expected Notice-to-Proceed date of March 1, 2021. Econolite expects to be complete with both the ATSPM and VBD/BPS project elements within 5 ½ months. However, this is predicated on a couple elements. First, the communications system is designed, constructed, and operational. Second, that Centracs traffic signal control system is installed, and operational, as Cobalt controller installation are a part of that project.



ID	Task Name	Duration	Start	Finish	March 2021	April 2021	May 2021	June 2021	July 2021	August 2021	September 2021	October 2021
1	<b>ATSPM and Virtual Bike Detection/Bike Priority System</b>											
2	<b>TASK 1: PROJECT MANAGEMENT</b>	<b>141 days</b>	<b>Mon 3/1/21</b>	<b>Tue 9/14/21</b>	[Gantt bar for Task 1: PROJECT MANAGEMENT]							
3	Kick-Off Meeting	0 days	Mon 3/1/21	Mon 3/1/21	[Gantt bar for Kick-Off Meeting]							
4	<b>Bi-Weekly Meetings</b>	<b>140 days</b>	<b>Tue 3/2/21</b>	<b>Tue 9/14/21</b>	[Gantt bar for Bi-Weekly Meetings]							
20	<b>TASK A2.0 Furnish &amp; Install ATSPM</b>	<b>130 days</b>	<b>Mon 2/1/21</b>	<b>Fri 7/30/21</b>	[Gantt bar for Task A2.0 Furnish & Install ATSPM]							
21	2.1 Detection zone configuration diagrams to City	3 days	Tue 3/2/21	Thu 3/4/21	[Gantt bar for 2.1]							
22	2.2: Acquire As-Built Detector Layouts	6 days	Tue 3/2/21	Tue 3/9/21	[Gantt bar for 2.2]							
23	2.3 Review detector layouts	5 days	Wed 3/10/21	Tue 3/16/21	[Gantt bar for 2.3]							
24	2.4 Site setup and configuration	3 days	Wed 3/17/21	Fri 3/19/21	[Gantt bar for 2.4]							
25	2.5 Configure IDM	30 days	Mon 3/22/21	Fri 4/30/21	[Gantt bar for 2.5]							
26	2.6 Setup corridors in SPM	18 days	Mon 5/3/21	Wed 5/26/21	[Gantt bar for 2.6]							
27	2.7 Review SPM Settings	5 days	Thu 5/27/21	Wed 6/2/21	[Gantt bar for 2.7]							
28	TMC Construction (by others)	66 days	Mon 2/1/21	Sat 5/1/21	[Gantt bar for TMC Construction]							
29	Install Servers at TMC (by others)	22 days	Mon 6/14/21	Tue 7/13/21	[Gantt bar for Install Servers at TMC]							
30	Construction (by others)	115 days	Mon 2/22/21	Fri 7/30/21	[Gantt bar for Construction]							
31	<b>TASK B2.0 Furnish &amp; Install VBD/BSP Software/Hardware</b>	<b>80 days</b>	<b>Mon 3/22/21</b>	<b>Fri 7/9/21</b>	[Gantt bar for Task B2.0 Furnish & Install VBD/BSP Software/Hardware]							
32	2.1 Set up test intersection	10 days	Mon 3/22/21	Fri 4/2/21	[Gantt bar for 2.1]							
33	2.2 Acquire phase diagrams and signal timing.	5 days	Mon 3/22/21	Fri 3/26/21	[Gantt bar for 2.2]							
34	2.3 Furnish and install VBD/BSP software/hardware	30 days	Mon 4/5/21	Fri 5/14/21	[Gantt bar for 2.3]							
35	2.4 Outreach	15 days	Mon 6/21/21	Fri 7/9/21	[Gantt bar for 2.4]							
36	<b>TASK 3: Verification, Testing Acceptance</b>	<b>123 days</b>	<b>Mon 4/5/21</b>	<b>Wed 9/22/21</b>	[Gantt bar for Task 3: Verification, Testing Acceptance]							
37	3.1 Develop Test Plan - ATSPM	8 days	Mon 4/5/21	Wed 4/14/21	[Gantt bar for 3.1]							
38	3.2 Develop Test Plan - VBD/BSP	8 days	Mon 4/12/21	Wed 4/21/21	[Gantt bar for 3.2]							
39	3.3 Acceptance Test - ATSPM	15 days	Mon 8/2/21	Fri 8/20/21	[Gantt bar for 3.3]							
40	3.4 ATSPM 30-day burn-in	23 days	Mon 8/23/21	Wed 9/22/21	[Gantt bar for 3.4]							
41	3.5 Acceptance Test - VBD/BSP	2 days	Mon 8/9/21	Tue 8/10/21	[Gantt bar for 3.5]							
42	3.6 VBD/BSP 30-day burn-in	23 days	Wed 8/11/21	Fri 9/10/21	[Gantt bar for 3.6]							
43	<b>TASK 4: Training</b>	<b>81 days</b>	<b>Mon 6/7/21</b>	<b>Mon 9/27/21</b>	[Gantt bar for Task 4: Training]							
44	4.1 Develop Training Plans	10 days	Mon 6/7/21	Fri 6/18/21	[Gantt bar for 4.1]							
45	4.2 ATSPM operations training	2 days	Thu 9/23/21	Fri 9/24/21	[Gantt bar for 4.2]							
46	4.3 ATSPM admin & maintenance training	1 day	Mon 9/27/21	Mon 9/27/21	[Gantt bar for 4.3]							
47	4.4 VBD/BSP operations training	2 days	Mon 9/13/21	Tue 9/14/21	[Gantt bar for 4.4]							
48	4.5 VBD/BSP admin & maintenance training	1 day	Wed 9/15/21	Wed 9/15/21	[Gantt bar for 4.5]							
49	<b>TASK 5: Warranty and Support</b>	<b>1053 days</b>	<b>Mon 9/13/21</b>	<b>Wed 9/24/25</b>	[Gantt bar for Task 5: Warranty and Support]							
50	5.1 ATSPM Year 1-3	784 days	Thu 9/23/21	Tue 9/24/24	[Gantt bar for 5.1 ATSPM Year 1-3]							
51	5.1 ATSPM Year 4+ (optional)	261 days	Wed 9/25/24	Wed 9/24/25	[Gantt bar for 5.1 ATSPM Year 4+ (optional)]							
52	5.2 VBD/BSP Year 1-3	784 days	Mon 9/13/21	Thu 9/12/24	[Gantt bar for 5.2 VBD/BSP Year 1-3]							
53	<b>Task 6: Software as a Service</b>	<b>261 days</b>	<b>Thu 9/23/21</b>	<b>Thu 9/22/22</b>	[Gantt bar for Task 6: Software as a Service]							
54	6.1 IDEA Intersection (13) Monitoring	261 days	Thu 9/23/21	Thu 9/22/22	[Gantt bar for 6.1 IDEA Intersection (13) Monitoring]							
55	6.2 Town Intersection (18) Monitoring	261 days	Thu 9/23/21	Thu 9/22/22	[Gantt bar for 6.2 Town Intersection (18) Monitoring]							



### 7. Conflict of Interest Statement

Econolite Systems, Inc. certifies the following:

- Econolite Systems does not have any financial, business or other relationship with the Town of Los Gatos that may have an impact upon the outcome of the contract resulting from this RFP. While Econolite Systems is the current system vendor for the Town's ATMS/ATCS, the Town has determined that this involvement does not constitute a conflict of interest for the ATSPM or VBD/BPS project elements.
- Econolite Systems does not have any current clients who may have a financial interest in the outcome of this contract or the construction project that will follow.

### 8. Litigation

Econolite Systems has not been involved in any litigation in connection with prior, similar projects within the last five years.

### 9. Contract Agreement

Econolite affirms that the terms contained in our proposal shall remain in effect for one-hundred twenty (120) days following the date proposal submittals are due (December 4, 2020).

Econolite is not requesting any changes to the Town's agreement contained in Attachment 4 of the RFP.

### 10. Federal-Aid Provisions

Federal-aid provision forms are provided on the following pages.

Attachment 5 – Required Local Assistance Procedures Manual Exhibits

**Signature Page**

The signature below certifies the Proposer understands the Federal Requirements for this project and that the following Caltrans Local Assistance Procedures Manual Exhibits have been completed as required and included in the proposal or will be completed and submitted with the agreement as required:

Exhibit 10-I: Notice to Proposers DBE Information

Exhibit 10-O1: Consultant Proposal DBE Commitment

Exhibit 10-O2: Consultant Contract DBE Commitment (to be completed after award)

Exhibit 10-Q: Disclosure of Lobbying Activities

Exhibit 15-H: Proposer/Contractor DBE Information —Good Faith Efforts

Statement Signature:  \_\_\_\_\_

Title: Vice President

Firm Name: Econolite Systems, Inc.

Date: December 2, 2020

The above exhibits are attached and the proposers should use the up-to-date exhibits provided on the Caltrans Local Assistance Procedures Manual:


<http://www.dot.ca.gov/hq/LocalPrograms/lam/lapm.htm>



Reset Form

**EXHIBIT 10-01 CONSULTANT PROPOSAL DBE COMMITMENT**

1. Local Agency: Town of Los Gatos 2. Contract DBE Goal: 3%  
 3. Project Description: AUTOMATED TRAFFIC SIGNAL PERFORMANCE MEASURES ELEMENT  
 4. Project Location: Los Gatos, California  
 5. Consultant's Name: Econolite Systems, Inc. 6. Prime Certified DBE:

7. Description of Work, Service, or Materials Supplied	8. DBE Certification Number	9. DBE Contact Information	10. DBE %
Detection inventory, QA/QC, Data Mapping	DBE#40772	TJKM Consultants, Nayan Amin, 925-463-0611	3%
<b>Local Agency to Complete this Section</b>			11. TOTAL CLAIMED DBE PARTICIPATION  3 %
17. Local Agency Contract Number: _____ 18. Federal-Aid Project Number: _____ 19. Proposed Contract Execution Date: _____ 20. Consultant's Ranking after Evaluation: _____	IMPORTANT: Identify all DBE firms being claimed for credit, regardless of tier. Written confirmation of each listed DBE is required.   12. Preparer's Signature _____ 13. Date <u>12/2/20</u> Marc A. Porter _____ 15. Phone <u>310-418-1663</u> 14. Preparer's Name _____ Vice President _____ 16. Preparer's Title _____		
Local Agency certifies that all DBE certifications are valid and information on this form is complete and accurate.  _____ _____ _____			

DISTRIBUTION: Original – Included with consultant's proposal to local agency.

ADA Notice: For individuals with sensory disabilities, this document is available in alternate formats. For information call (916) 654-6410 or TDD (916) 654-3880 or write Records and Forms Management, 1120 N Street, MS-89, Sacramento, CA 95814.

**EXHIBIT 10-01 CONSULTANT PROPOSAL DBE COMMITMENT**

1. Local Agency: Town of Los Gatos 2. Contract DBE Goal: 2%  
 3. Project Description: VIRTUAL BICYCLE DETECTION/BICYCLE PRIORITY SYSTEM ELEMENT  
 4. Project Location: Los Gatos, California  
 5. Consultant's Name: Econolite Systems, Inc. 6. Prime Certified DBE:

7. Description of Work, Service, or Materials Supplied	8. DBE Certification Number	9. DBE Contact Information	10. DBE %
Detection inventory, QA/QC, Data Mapping	DBE#40772	TJKM Consultants, Nayan Amin, 925-463-0611	2%
<b>Local Agency to Complete this Section</b>			11. TOTAL CLAIMED DBE PARTICIPATION  2 %
17. Local Agency Contract Number: _____ 18. Federal-Aid Project Number: _____ 19. Proposed Contract Execution Date: _____ 20. Consultant's Ranking after Evaluation: _____	IMPORTANT: Identify all DBE firms being claimed for credit, regardless of tier. Written confirmation of each listed DBE is required.		
Local Agency certifies that all DBE certifications are valid and information on this form is complete and accurate.  _____ _____ _____			_____ 12/2/20 12. Preparer's Signature 13. Date Marc A. Porter 310-418-1663 14. Preparer's Name 15. Phone Vice President 16. Preparer's Title


DISTRIBUTION: Original – Included with consultant's proposal to local agency.

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EXHIBIT 10-Q DISCLOSURE OF LOBBYING ACTIVITIES

COMPLETE THIS FORM TO DISCLOSE LOBBYING ACTIVITIES PURSUANT TO 31 U.S.C. 1352

<b>1. Type of Federal Action:</b>		<b>2. Status of Federal Action:</b>		<b>3. Report Type:</b>	
<input type="checkbox"/> a. contract	<input type="checkbox"/> b. grant	<input type="checkbox"/> c. cooperative agreement	<input type="checkbox"/> d. loan	<input type="checkbox"/> e. loan guarantee	<input type="checkbox"/> f. loan insurance
<input type="checkbox"/> a. bid/offer/application	<input type="checkbox"/> b. initial award	<input type="checkbox"/> c. post-award		<input type="checkbox"/> a. initial	
			<input type="checkbox"/> b. material change		
			<b>For Material Change Only:</b>		
			year _____ quarter _____		
			date of last report _____		
<b>4. Name and Address of Reporting Entity</b>			<b>5. If Reporting Entity in No. 4 is Subawardee, Enter Name and Address of Prime:</b>		
<input type="checkbox"/> Prime	<input type="checkbox"/> Subawardee		Tier _____, if known		
Congressional District, if known _____			Congressional District, if known _____		
<b>6. Federal Department/Agency:</b>			<b>7. Federal Program Name/Description:</b>		
			CFDA Number, if applicable _____		
<b>8. Federal Action Number, if known:</b>			<b>9. Award Amount, if known:</b>		
<b>10. Name and Address of Lobby Entity</b> (If individual, last name, first name, MI)			<b>11. Individuals Performing Services</b> (including address if different from No. 10) (last name, first name, MI)		
(attach Continuation Sheet(s) if necessary)					
<b>12. Amount of Payment (check all that apply)</b>			<b>14. Type of Payment (check all that apply)</b>		
\$ _____	<input type="checkbox"/> actual	<input type="checkbox"/> planned	<input type="checkbox"/>	a. retainer	
			<input type="checkbox"/>	b. one-time fee	
			<input type="checkbox"/>	c. commission	
			<input type="checkbox"/>	d. contingent fee	
			<input type="checkbox"/>	e. deferred	
			<input type="checkbox"/>	f. other, specify _____	
<b>13. Form of Payment (check all that apply):</b>					
<input type="checkbox"/>	a. cash				
<input type="checkbox"/>	b. in-kind; specify: nature _____				
Value _____					
<b>15. Brief Description of Services Performed or to be performed and Date(s) of Service, including officer(s), employee(s), or member(s) contacted, for Payment Indicated in Item 12:</b>					
(attach Continuation Sheet(s) if necessary)					
<b>NOT APPLICABLE</b>					
<b>16. Continuation Sheet(s) attached:</b>			Yes <input type="checkbox"/> No <input type="checkbox"/>		
<b>17. Information requested through this form is authorized by Title 31 U.S.C. Section 1352. This disclosure of lobbying reliance was placed by the tier above when his transaction was made or entered into. This disclosure is required pursuant to 31 U.S.C. 1352. This information will be reported to Congress semiannually and will be available for public inspection. Any person who fails to file the required disclosure shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure.</b>			Signature: 		
			Print Name: <u>Peter Ashley</u>		
			Title: <u>VP Business Development</u>		
			Telephone No.: <u>678-276-6952</u> Date: <u>9/29/2020</u>		
Authorized for Local Reproduction					
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<b>Federal Use Only:</b>					

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EXHIBIT 10-Q DISCLOSURE OF LOBBYING ACTIVITIES

COMPLETE THIS FORM TO DISCLOSE LOBBYING ACTIVITIES PURSUANT TO 31 U.S.C. 1352

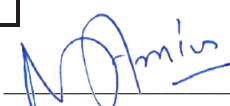
<b>1. Type of Federal Action:</b> <input type="checkbox"/> a. contract <input type="checkbox"/> b. grant <input type="checkbox"/> c. cooperative agreement <input type="checkbox"/> d. loan <input type="checkbox"/> e. loan guarantee <input type="checkbox"/> f. loan insurance	<b>2. Status of Federal Action:</b> <input type="checkbox"/> a. bid/offer/application <input type="checkbox"/> b. initial award <input type="checkbox"/> c. post-award	<b>3. Report Type:</b> <input type="checkbox"/> a. initial <input type="checkbox"/> b. material change  <b>For Material Change Only:</b> year _____ quarter _____ date of last report _____
<b>4. Name and Address of Reporting Entity</b>  <input type="checkbox"/> Prime <input type="checkbox"/> Subawardee Tier _____, if known  Congressional District, if known _____	<b>5. If Reporting Entity in No. 4 is Subawardee, Enter Name and Address of Prime:</b>  Congressional District, if known _____	
<b>6. Federal Department/Agency:</b> _____	<b>7. Federal Program Name/Description:</b> CFDA Number, if applicable _____	
<b>8. Federal Action Number, if known:</b> _____	<b>9. Award Amount, if known:</b> _____	
<b>10. Name and Address of Lobby Entity</b> (If individual, last name, first name, MI) _____	<b>11. Individuals Performing Services</b> (including address if different from No. 10) (last name, first name, MI) _____	
(attach Continuation Sheet(s) if necessary)		
<b>12. Amount of Payment (check all that apply)</b> \$ _____ <input type="checkbox"/> actual <input type="checkbox"/> planned	<b>14. Type of Payment (check all that apply)</b> <input type="checkbox"/> a. retainer <input type="checkbox"/> b. one-time fee <input type="checkbox"/> c. commission <input type="checkbox"/> d. contingent fee <input type="checkbox"/> e. deferred <input type="checkbox"/> f. other, specify _____	
<b>13. Form of Payment (check all that apply):</b> <input checked="" type="checkbox"/> a. cash <input type="checkbox"/> b. in-kind; specify: nature _____ Value _____		
<b>15. Brief Description of Services Performed or to be performed and Date(s) of Service, including officer(s), employee(s), or member(s) contacted, for Payment Indicated in Item 12:</b> (attach Continuation Sheet(s) if necessary)		
<b>16. Continuation Sheet(s) attached:</b> Yes <input type="checkbox"/> No <input type="checkbox"/>		
<b>17. Information requested through this form is authorized by Title 31 U.S.C. Section 1352. This disclosure of lobbying reliance was placed by the tier above when his transaction was made or entered into. This disclosure is required pursuant to 31 U.S.C. 1352. This information will be reported to Congress semiannually and will be available for public inspection. Any person who fails to file the required disclosure shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure.</b>		
Signature: _____ Print Name: <u>Jason Mamahay</u> Title: <u>Estimator</u> Telephone No.: <u>(975) 455-5267</u> Date: <u>9/30/20</u>		<p style="font-size: 2em; font-weight: bold; transform: rotate(-15deg);">NOT APPLICABLE</p>
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EXHIBIT 10-Q DISCLOSURE OF LOBBYING ACTIVITIES

COMPLETE THIS FORM TO DISCLOSE LOBBYING ACTIVITIES PURSUANT TO 31 U.S.C. 1352

<p><b>1. Type of Federal Action:</b></p> <p><input type="checkbox"/> a. contract  <input type="checkbox"/> b. grant  <input type="checkbox"/> c. cooperative agreement  <input type="checkbox"/> d. loan  <input type="checkbox"/> e. loan guarantee  <input type="checkbox"/> f. loan insurance</p>	<p><b>2. Status of Federal Action:</b></p> <p><input type="checkbox"/> a. bid/offer/application  <input type="checkbox"/> b. initial award  <input type="checkbox"/> c. post-award</p>	<p><b>3. Report Type:</b></p> <p><input type="checkbox"/> a. initial  <input type="checkbox"/> b. material change</p> <p><b>For Material Change Only:</b>  year _____ quarter _____  date of last report _____</p>
<p><b>4. Name and Address of Reporting Entity</b></p> <p><input type="checkbox"/> Prime                      <input type="checkbox"/> Subawardee  Tier _____, if known</p> <p>Congressional District, if known _____</p>	<p><b>5. If Reporting Entity in No. 4 is Subawardee, Enter Name and Address of Prime:</b></p> <p>Congressional District, if known _____</p>	
<p><b>6. Federal Department/Agency:</b></p>	<p><b>7. Federal Program Name/Description:</b></p> <p>CFDA Number, if applicable _____</p>	
<p><b>8. Federal Action Number, if known:</b></p>	<p><b>9. Award Amount, if known:</b></p>	
<p><b>10. Name and Address of Lobby Entity</b>  (If individual, last name, first name, MI)</p> <p>(attach Continuation Sheet(s) if necessary)</p>	<p><b>11. Individuals Performing Services</b>  (including address if different from No. 10)  (last name, first name, MI)</p>	
<p><b>12. Amount of Payment (check all that apply)</b></p> <p>\$ _____ <input type="checkbox"/> actual    <input type="checkbox"/> planned</p>	<p><b>14. Type of Payment (check all that apply)</b></p> <p><input type="checkbox"/> a. retainer  <input type="checkbox"/> b. one-time fee  <input type="checkbox"/> c. commission  <input type="checkbox"/> d. contingent fee  <input type="checkbox"/> e. deferred  <input type="checkbox"/> f. other, specify _____</p>	
<p><b>13. Form of Payment (check all that apply):</b></p> <p><input type="checkbox"/> a. cash  <input type="checkbox"/> b. in-kind; specify: nature _____  Value _____</p>		
<p><b>15. Brief Description of Services Performed or to be performed and Date(s) of Service, including officer(s), employee(s), or member(s) contacted, for Payment Indicated in Item 12:</b></p> <p>(attach Continuation Sheet(s) if necessary)    <b>NOT APPLICABLE</b></p>		
<p><b>16. Continuation Sheet(s) attached:</b>    Yes <input type="checkbox"/>    No <input type="checkbox"/></p>		
<p><b>17. Information requested through this form is authorized by Title 31 U.S.C. Section 1352. This disclosure of lobbying reliance was placed by the tier above when his transaction was made or entered into. This disclosure is required pursuant to 31 U.S.C. 1352. This information will be reported to Congress semiannually and will be available for public inspection. Any person who fails to file the required disclosure shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure.</b></p>		
	<p>Signature: <u></u></p> <p>Print Name: <u>Nayan Amin</u></p> <p>Title: <u>President</u></p> <p>Telephone No.: <u>925.463.0611</u>    Date: <u>10/10/2020</u></p>	
<p><b>Federal Use Only:</b></p> <p style="text-align: right;">Authorized for Local Reproduction Standard Form - LLL</p>		

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# Scope of Work

## ATSPM & VBD/BPS for the Los Gatos Smart Signals Project Town of Los Gatos, California



### 11. Cost Proposal

Town of Los Gatos					
ATSPM and VBD/BPS					
Federal Number: STPLN1 6084(227)					
PRICE PROPOSAL FORM					
Task	Description	Quantity	Unit <sup>3</sup>	Unit Price	Row Price
Automated Traffic Signal Performance Measures					
	Project Mobilization (up to 5% of project total.)	1	LS	\$3,830	\$3,830
SPM 2.0	Furnish and Install ATSPM software and hardware	1	LS		\$55,520
SPM 3.0	Verification and Acceptance Test Procedures <sup>1</sup>	1	LS	\$5,544	
SPM 3.0	Fully configured, tested and verified ATSPM system	1	LS	\$30,049	
SPM 3.0	Verification and Acceptance Test Report	1	LS	\$11,437	
SPM 4.0	Training Program	1	LS	\$8,490	
SPM 5.0	Maintenance and Support Services (years 1-3)	3	Annual LS	\$6,242	\$18,726
SPM 5.0	Maintenance and Support Services (years 4-5)	2	Annual LS	\$10,749	\$21,498
SPM 6.0	Support - Signal Operations (13 IDEA Intersections)	1	LS	\$100,000	\$100,000
SPM 6.0	Support - Signal Operations (18 Town Intersections)	1	LS	\$25,000	\$25,000
ATSPM SUBTOTAL					\$ 224,574
Virtual Bicycle Detection/Bicycle Priority System					
	Project Mobilization (up to 5% of project total.)	1	LS	\$3,000	\$3,000
VBD 2.0	Furnish and Install VBD/BSP software and hardware	1	LS		\$86,977
VBD 3.0	Verification and Acceptance Test Procedures <sup>1</sup>	1	LS	\$7,047	
VBD 3.0	Proof of Concept Report	1	LS	\$4,048	
VBD 3.0	Fully configured, tested and verified VBD/BPS system	1	LS	\$65,768	
VBD 3.0	Verification and Acceptance Test Report	1	LS	\$7,114	
VBD 4.0	Training Program	1	LS	\$3,000	
VBD 5.0	Maintenance and Support Services (years 1-3)	3	Annual LS	\$1,966	\$5,898
VBD/BPS SUBTOTAL					\$95,875
<b>GRAND TOTAL</b>					<b>\$320,449</b>

Vendor Name: Econolite Systems Inc.  
 Contact Name: Marc Porter  
 Contact Email: [mporter@econolite.com](mailto:mporter@econolite.com)  
 Contact Phone: 310-418-1663

## VENDOR AGREEMENT

### LOS GATOS SMART SIGNALS

#### Automated Traffic Signal Performance Measures and Virtual Bike Detection/Bike Signal Priority

#### I. INTRODUCTION

This AGREEMENT is made and entered into on this \_\_\_\_\_ day of \_\_\_\_\_, 2021 by and between the **TOWN OF LOS GATOS**, a California municipal corporation, hereinafter referred to as, **LOCAL AGENCY** and **Econolite Systems, Inc. (ESI)** hereinafter referred to as, **CONSULTANT**, whose address is 1250 N. Tustin Avenue, Anaheim, CA 92807. The CONSULTANT is incorporated in the State of California.

This AGREEMENT is made with reference to the following facts.

The LOCAL AGENCY desires to engage CONSULTANT to provide Automated Traffic Signal Performance Measures (ATSPM) and Virtual Bike Detection/Bike Signal Priority (VBD/BSP) components of the Los Gatos Smart Signals Project (Project #813-0227 Traffic Signal Modernization).

The CONSULTANT represents and affirms that it is willing to perform the desired work pursuant to this AGREEMENT.

The CONSULTANT represents to LOCAL AGENCY that it possesses the professional skills, qualifications, experience, and resources necessary and has all licenses, permits, qualifications and approvals of whatsoever nature which are legally required for CONSULTANT to practice its profession and to timely perform the services described in this AGREEMENT. The services performed by CONSULTANT will be in a manner consistent with that level of care and skill ordinarily exercised by other professional consulting firms providing similar services under similar circumstances at the time, and in the general vicinity where, the services are performed. CONSULTANT acknowledges LOCAL AGENCY has relied upon these representations to retain the CONSULTANT.

CONSULTANT shall comply with all applicable laws, codes, ordinances, and regulations of governing federal, state and local laws.

CONSULTANT shall maintain a Town of Los Gatos business license pursuant to Chapter 14 of the Code of the Town of Los Gatos.

- A. The work to be performed under this AGREEMENT is described in Article II entitled Statement of Work and the approved CONSULTANT's Cost Proposal dated XXX XX, 2021. The approved CONSULTANT's Scope of Services (Exhibit A) and Cost Proposal (Exhibit B) is attached hereto and incorporated by reference. If there is any conflict between the approved Scope of Services or Cost Proposal and this AGREEMENT, this AGREEMENT shall take precedence.
- B. CONSULTANT agrees to the fullest extent permitted by law, to indemnify, protect, defend, and hold harmless LOCAL AGENCY, its officers, officials, agents, employees and



volunteers from and against any and all claims, damages, demands, liability, penalties, costs, losses and expenses, in law or equity, including without limitation, court costs and reasonable attorneys' and expert witness fees, to the extent caused by the negligent acts, errors, or omissions, recklessness or willful misconduct on the part of CONSULTANT, or any of the CONSULTANT'S officers, employees, or agents or any sub-consultants. The provisions of this section shall survive termination or suspension of this AGREEMENT.

- C. CONSULTANT and the agents and employees of CONSULTANT, in the performance of this AGREEMENT, shall act in an independent capacity and not as officers or employees or agents of LOCAL AGENCY. As an independent contractor it or its employees or agents shall not obtain any rights to retirement benefits or other benefits which accrue to LOCAL AGENCY employee(s).
- D. LOCAL AGENCY is not required to make any deductions or withholdings from the compensation payable to CONSULTANT under the provisions of this AGREEMENT, and is not required to issue W-2 Forms for income and employment tax purposes for any of CONSULTANT's assigned personnel. CONSULTANT, in the performance of its obligation hereunder, is only subject to the control or direction of the LOCAL AGENCY as to the designation of tasks to be performed and the results to be accomplished.
- E. Any third party person(s) employed by CONSULTANT shall be entirely and exclusively under the direction, supervision, and control of CONSULTANT. CONSULTANT hereby indemnifies and holds LOCAL AGENCY harmless from any and all claims that may be made against LOCAL AGENCY based upon any contention by any third party that an employer-employee relationship exists by reason of this AGREEMENT.
- F. The services to be performed under this AGREEMENT are unique and personal to the CONSULTANT. No portion of these services shall be assigned or subcontracted without the written consent of the LOCAL AGENCY. With prior written consent, the CONSULTANT may perform some obligations under this AGREEMENT by subcontracting, but may not delegate ultimate responsibility for performance or assign or transfer interests under this AGREEMENT. CONSULTANT agrees to reasonably cooperate with LOCAL AGENCY regarding litigation brought regarding the subject of CONSULTANT's work to be performed under this AGREEMENT. CONSULTANT shall be compensated for its time, and any costs and expenses at its then current hourly rates of compensation, unless such litigation is brought by CONSULTANT or is based on allegations of CONSULTANT'S negligent performance or wrongdoing.
- G. CONSULTANT shall be as fully responsible to the LOCAL AGENCY for the negligent acts and omissions of its contractors and subcontractors or Subconsultants, and of persons either directly or indirectly employed by them, in the same manner as persons directly employed by CONSULTANT.
- H. No alteration or variation of the terms of this AGREEMENT shall be valid, unless made in writing and signed by the parties hereto; and no oral understanding or agreement not incorporated herein, shall be binding on any of the parties hereto.
- I. The consideration to be paid to CONSULTANT as provided herein, shall be in compensation for all of CONSULTANT's expenses incurred in the performance hereof, including travel and per diem, unless otherwise expressly so provided.

## II. STATEMENT OF WORK

CONSULTANT agrees to perform the services as outlined in "Exhibit A-Scope of Services"

within the time frames specified therein, and "Exhibit B - Consultant's Cost Proposal" which are hereby incorporated by reference and attached.

**III. CONSULTANT'S REPORTS OR MEETINGS**

- A. CONSULTANT shall submit progress reports at least once a month. The report should be sufficiently detailed for the LOCAL AGENCY to determine, if CONSULTANT is performing to expectations, or is on schedule; to provide communication of interim findings, and to sufficiently address any difficulties or special problems encountered, so remedies can be developed.
- B. CONSULTANT's Project Manager shall meet with LOCAL AGENCY's staff, as needed, to discuss progress on the AGREEMENT.

**IV. TERM AND PERFORMANCE PERIOD**

- A. This AGREEMENT shall go into effect on the date it is signed, and CONSULTANT shall commence work after notification to proceed by LOCAL AGENCY. The AGREEMENT shall end on 06/20/23, unless extended by AGREEMENT amendment.
- B. CONSULTANT is advised that any recommendation for AGREEMENT award is not binding on LOCAL AGENCY until the AGREEMENT is fully executed and approved by LOCAL AGENCY.

**V. ALLOWABLE COSTS AND PAYMENTS**

- A. The method of payment for this contract will be based on actual cost. The LOCAL AGENCY will reimburse the CONSULTANT for actual costs (including labor costs, employee benefits, travel, equipment rental costs, overhead and other direct costs) incurred by the CONSULTANT in performance of the work. The CONSULTANT will not be reimbursed for actual costs that exceed the estimated wage rates, employee benefits, travel, equipment rental, overhead, and other estimated costs set forth in the approved CONSULTANT'S Cost Proposal attached as Exhibit B, unless additional reimbursement is provided for by amendment to this Agreement.
- B. When milestone cost estimates are included in the approved Cost Proposal, the CONSULTANT shall obtain prior written approval for a revised milestone cost estimate from the LOCAL AGENCY before exceeding such cost estimate.
- C. If CONSULTANT fails to submit required deliverable items according to the schedule, if any, set forth in Exhibit A, the LOCAL AGENCY shall have the right to delay payment and/or terminate this Agreement in accordance with the provisions of this Agreement. No payment will be made prior to approval of any work, nor for any work performed prior to approval of this Agreement.
- D. Progress payments may be made monthly in arrears based on the percentage of work completed by CONSULTANT. If CONSULTANT fails to submit the required deliverable items according to the schedule set forth in the Statement of Work, LOCAL AGENCY shall have the right to delay payment or terminate this AGREEMENT in accordance with the provisions of Article VI Termination.

- E. Billing. Billing shall be monthly by invoice within thirty (30) days of the rendering of the service and shall be accompanied by a detailed explanation of the work performed by whom at what rate and on what date. Invoices shall detail the work performed on each milestone, on each project as applicable. Invoices shall follow the format stipulated for the approved Cost Proposal and shall reference this AGREEMENT number and project title. Final invoice must contain the final cost and all credits due LOCAL AGENCY that include any equipment purchased under the provisions of Article XI Equipment Purchase of this AGREEMENT. The final invoice must be submitted within sixty (60) calendar days after completion of CONSULTANT's work, unless a later date is approved by the LOCAL AGENCY. Payment shall be net thirty (30) days. All invoices and statements to the Town shall be addressed as follows:

Town of Los Gatos  
Attn: Mike Vroman  
Via email: [mvroman@losgatosca.gov](mailto:mvroman@losgatosca.gov)

## VI. TERMINATION

The Town may terminate this Contract for Town's convenience at any time by providing Consultant thirty (30) days written notice. Upon receipt of the notice of termination, Consultant shall immediately take action not to incur any additional obligations, costs or expenses, except as may be necessary to terminate its activities. Town shall pay Consultant its reasonable and allowable costs through the effective date of termination and those reasonable and necessary costs incurred by Consultant to affect the termination. Thereafter, Consultant shall have no further claims against Town under this Agreement. All finished and unfinished documents and materials procured for or produced under this Agreement, including all intellectual property rights Town is entitled to under the Agreement, shall become Town property upon the date of the termination.

Except on account of an excusable delay described below, if Consultant fails to perform any of the provisions of this Agreement or so fails to make progress as to endanger timely performance of this Agreement, Town may give Consultant written notice of the default. Town's default notice will provide for thirty (30) days to cure the default. Additionally, Town's default notice may offer Consultant an opportunity to provide Town with a plan to cure the default, which shall be submitted to Town within the time period allowed by Town. If the default cannot be cured or if Consultant fails to cure within the period allowed by Town, then Town may terminate this Agreement due to Consultant's breach of this Agreement. In the event Town terminates this Agreement as provided in this section, Town may procure, upon such terms and in the manner as Town may deem appropriate, services similar in scope and level of effort to those so terminated, and Consultant shall be liable to Town for all of its costs. If, after notice of termination of this Agreement under the provisions of this section, it is determined for any reason that Consultant was not in default under the provisions of this section, or that the default was excusable under the terms of this Agreement, the rights and obligations of the parties shall be the same as if the notice of termination had been issued pursuant to termination for convenience.

Consultant shall not be liable for delay or failure to perform any obligation under and in accordance with this Agreement, if the delay or failure arises out of fires, floods, earthquakes, epidemics, quarantine

restriction, government orders, other natural occurrences, strikes, lockouts, freight embargoes, terrorist acts, insurrections or other civil disturbances, or other similar events.

## **VII. COST PRINCIPLES AND ADMINISTRATIVE REQUIREMENTS**

- A. The CONSULTANT agrees that 48 CFR Part 31, Contract Cost Principles and Procedures, shall be used to determine the allowability of individual terms of cost.
- B. The CONSULTANT also agrees to comply with Federal procedures in accordance with 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.
- C. Any costs for which payment has been made to the CONSULTANT that are determined by subsequent audit to be unallowable under 48 CFR Part 31 or 2 CFR Part 200 are subject to repayment by the CONSULTANT to LOCAL AGENCY.
- D. When a CONSULTANT or Subconsultant is a Non-Profit Organization or an Institution of Higher Education, the Cost Principles for Title 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards shall apply.
- E. "Not to Exceed" Compensation. The compensation payable to CONSULTANT for the services identified in Exhibit A shall not exceed \$581,649. CONSULTANT shall not perform any services beyond the services identified in Exhibit A without prior written authorization from the LOCAL AGENCY.

## **VIII. RETENTION OF RECORDS/AUDIT**

For the purpose of determining compliance with California Gov. Code § 8546.7, the CONSULTANT, Subconsultants, and LOCAL AGENCY shall maintain all books, documents, papers, accounting records, Independent CPA Audited Indirect Cost Rate workpapers, and other evidence pertaining to the performance of the AGREEMENT including, but not limited to, the costs of administering the AGREEMENT. All parties, including the CONSULTANT's Independent CPA, shall make such workpapers and materials available at their respective offices at all reasonable times during the AGREEMENT period and for three (3) years from the date of final payment under the AGREEMENT. LOCAL AGENCY, Caltrans Auditor, FHWA, or any duly authorized representative of the Federal government having jurisdiction under Federal laws or regulations (including the basis of Federal funding in whole or in part) shall have access to any books, records, and documents of the CONSULTANT, Subconsultants, and the CONSULTANT's Independent CPA, that are pertinent to the CONSULTANT's work and services for audits, examinations, workpaper review, excerpts, and transactions, and copies thereof shall be furnished if requested without limitation.

## **IX. AUDIT REVIEW PROCEDURES**

- A. Any dispute concerning a question of fact arising under an interim or post audit of this AGREEMENT that is not disposed of by agreement of LOCAL AGENCY and CONSULTANT, shall be reviewed by LOCAL AGENCY'S Chief Financial Officer.
- B. Not later than thirty (30) days after issuance of the final audit report, CONSULTANT may request a review by LOCAL AGENCY'S authorized representative of unresolved audit

- issues. The request for review will be submitted in writing.
- C. Neither the pendency of a dispute nor its consideration by LOCAL AGENCY will excuse CONSULTANT from full and timely performance, in accordance with the terms of this AGREEMENT.
  - D. CONSULTANT and Subconsultant contracts, including cost proposals and ICR, are subject to audits or reviews such as, but not limited to, an AGREEMENT audit, an incurred cost audit, an ICR Audit, or a CPA ICR audit work paper review. If selected for audit or review, the AGREEMENT, cost proposal and ICR and related work papers, if applicable, will be reviewed to verify compliance with 48 CFR, Part 31 and other related laws and regulations. In the instances of a CPA ICR audit work paper review it is CONSULTANT's responsibility to ensure federal, state, or local government officials are allowed full access to the CPA's work papers including making copies as necessary. The AGREEMENT, cost proposal, and ICR shall be adjusted by CONSULTANT and approved by LOCAL AGENCY contract manager to conform to the audit or review recommendations. CONSULTANT agrees that individual terms of costs identified in the audit report shall be incorporated into the AGREEMENT by this reference if directed by LOCAL AGENCY at its sole discretion. Refusal by CONSULTANT to incorporate audit or review recommendations, or to ensure that the federal, state or local governments have access to CPA work papers, will be considered a breach of AGREEMENT terms and cause for termination of the AGREEMENT and disallowance of prior reimbursed costs.
  - E. CONSULTANT'S Cost Proposal may be subject to a CPA ICR Audit Work Paper Review and/or audit by California's Department of Transportation (Caltrans) Audit and Investigation (A&I). Caltrans A&I, at its sole discretion, may review and/or audit and approve the CPA ICR documentation. The Cost Proposal shall be adjusted by the CONSULTANT and approved by the LOCAL AGENCY to conform to the Work Paper Review recommendations included in the management letter or audit recommendations included in the audit report. Refusal by the CONSULTANT to incorporate the Work Paper Review recommendations included in the management letter or audit recommendations included in the audit report will be considered a breach of the AGREEMENT terms and cause for termination of the AGREEMENT and disallowance of prior reimbursed costs.
    - 1. During a Caltrans A&I review of the ICR audit work papers created by the CONSULTANT's independent CPA, Caltrans A&I will work with the CPA and/or CONSULTANT toward a resolution of issues that arise during the review. Each party agrees to use its best efforts to resolve any audit disputes in a timely manner. If Caltrans A&I identifies significant issues during the review and is unable to issue a cognizant approval letter, LOCAL AGENCY will reimburse the CONSULTANT at an accepted ICR until a FAR (Federal Acquisition Regulation) compliant ICR {e.g. 48 CFR, part 31; GAGAS (Generally Accepted Auditing Standards); CAS (Cost Accounting Standards), if applicable; in accordance with procedures and guidelines of the American Association of State Highways and Transportation Officials (AASHTO) Audit Guide; and other applicable procedures and guidelines} is received and approved by A&I.

Accepted rates will be as follows:

      - a. If the proposed rate is less than 150% - the accepted rate reimbursed will be 90% of the proposed rate.
      - b. If the proposed rate is between one hundred fifty percent (150%) and two hundred percent (200%) - the accepted rate will be 85% of the proposed rate.

- c. If the proposed rate is greater than two hundred percent (200%) - the accepted rate will be 75% of the proposed rate.
2. If Caltrans A&I is unable to issue a cognizant letter per paragraph E.1. above, Caltrans A&I may require CONSULTANT to submit a revised independent CPA-audited ICR and audit report within three (3) months of the effective date of the management letter. Caltrans A&I will then have up to six (6) months to review the CONSULTANT's and/or the independent CPA's revisions.
3. If the CONSULTANT fails to comply with the provisions of this paragraph E, or if Caltrans A&I is still unable to issue a cognizant approval letter after the revised independent CPA-audited ICR is submitted, overhead cost reimbursement will be limited to the accepted ICR that was established upon initial rejection of the ICR and set forth in paragraph E.1. above for all rendered services. In this event, this provisional ICR will become the actual and final ICR for reimbursement purposes under this AGREEMENT.
4. CONSULTANT may submit to LOCAL AGENCY final invoice only when all of the following items have occurred: (1) Caltrans A&I accepts or adjusts the original or revised independent CPA-audited ICR; (2) all work under this AGREEMENT has been completed to the satisfaction of LOCAL AGENCY; and, (3) Caltrans A&I has issued its final ICR review letter. The CONSULTANT MUST SUBMIT ITS FINAL INVOICE TO LOCAL AGENCY no later than sixty (60) calendar days after occurrence of the last of these items. The accepted ICR will apply to this AGREEMENT and all other AGREEMENTs executed between LOCAL AGENCY and the CONSULTANT, either as a prime or Subconsultant, with the same fiscal period ICR. The ICR period shall extend beyond the one-year period and shall be fixed for the life of the contract.

## **X. SUBCONTRACTING**

- A. Nothing contained in this AGREEMENT or otherwise, shall create any contractual relation between LOCAL AGENCY and any Subconsultant(s), and no subcontract shall relieve CONSULTANT of its responsibilities and obligations hereunder. CONSULTANT agrees to be as fully responsible to LOCAL AGENCY for the acts and omissions of its Subconsultant(s) and of persons either directly or indirectly employed by any of them as it is for the acts and omissions of persons directly employed by CONSULTANT. CONSULTANT's obligation to pay its Subconsultant(s) is an independent obligation from LOCAL AGENCY'S obligation to make payments to the CONSULTANT.
- B. CONSULTANT shall perform the work contemplated with resources available within its own organization and no portion of the work pertinent to this AGREEMENT shall be subcontracted without written authorization by LOCAL AGENCY, except that, which is expressly identified in the approved Cost Proposal.
- C. All subcontracts entered into as a result of this AGREEMENT shall contain all the provisions stipulated in this entire AGREEMENT to be applicable to Subconsultants unless otherwise noted.
- D. CONSULTANT shall pay its Subconsultants within fifteen (15) calendar days from receipt of each payment made to CONSULTANT by LOCAL AGENCY for the work performed by such Subconsultants.
- E. Any substitution of Subconsultant(s) must be approved in writing by LOCAL AGENCY in advance of assigning work to a substituted Subconsultant(s).

**XI. EQUIPMENT PURCHASE**

- A. Prior authorization in writing, by LOCAL AGENCY shall be required before CONSULTANT enters into any unbudgeted purchase order, or subcontract exceeding five thousand dollars (\$5,000) for supplies, equipment, or CONSULTANT services. CONSULTANT shall provide an evaluation of the necessity or desirability of incurring such costs.
- B. For purchase of any item, service or consulting work not covered in CONSULTANT's approved Cost Proposal and exceeding one hundred ninety five thousand dollars (\$195,000), with prior authorization by LOCAL AGENCY; three competitive quotations must be submitted with the request, or the absence of bidding must be adequately justified.
- C. Any equipment purchased with funds provided under the terms of this AGREEMENT is subject to the following:
  - 1. CONSULTANT shall maintain an inventory of all nonexpendable property. Nonexpendable property is defined as having a useful life of at least two years and an acquisition cost of one hundred ninety five thousand dollars (\$195,000) or more. If the purchased equipment needs replacement and is sold or traded in, LOCAL AGENCY shall receive a proper refund or credit at the conclusion of the AGREEMENT, or if the AGREEMENT is terminated, CONSULTANT may either keep the equipment and credit LOCAL AGENCY in an amount equal to its fair market value, or sell such equipment at the best price obtainable at a public or private sale, in accordance with established LOCAL AGENCY procedures; and credit LOCAL AGENCY in an amount equal to the sales price. If CONSULTANT elects to keep the equipment, fair market value shall be determined at CONSULTANT's expense, on the basis of a competent independent appraisal of such equipment. Appraisals shall be obtained from an appraiser mutually agreeable to by LOCAL AGENCY and CONSULTANT, if it is determined to sell the equipment, the terms and conditions of such sale must be approved in advance by LOCAL AGENCY.
  - 2. Regulation 2 CFR Part 200 requires a credit to Federal funds when participating equipment with a fair market value greater than one hundred ninety five thousand dollars (\$195,000) is credited to the project.

**XII. STATE PREVAILING WAGE RATES**

- A. No CONSULTANT or Subconsultant may be awarded an AGREEMENT containing public work elements unless registered with the Department of Industrial Relations (DIR) pursuant to Labor Code §1725.5. Registration with DIR must be maintained throughout the entire term of this AGREEMENT, including any subsequent amendments.
- B. The CONSULTANT shall comply with all of the applicable provisions of the California Labor Code requiring the payment of prevailing wages. The General Prevailing Wage Rate Determinations applicable to work under this AGREEMENT are available and on file with the Department of Transportation's Regional/District Labor Compliance Officer

[http://www.dot.ca.gov/hq/construc/LaborCompliance/documents/DistrictRegion\\_Map\\_Construction\\_7-](http://www.dot.ca.gov/hq/construc/LaborCompliance/documents/DistrictRegion_Map_Construction_7-)



[8-15.pdf](#))

These wage rates are made a specific part of this AGREEMENT by reference pursuant to Labor Code §1773.2 and will be applicable to work performed at a construction project site. Prevailing wages will be applicable to all inspection work performed at LOCAL AGENCY construction sites, at LOCAL AGENCY facilities and at off-site locations that are set up by the construction contractor or one of its subcontractors solely and specifically to serve LOCAL AGENCY projects. Prevailing wage requirements do not apply to inspection work performed at the facilities of vendors and commercial materials suppliers that provide goods and services to the general public.

- C. General Prevailing Wage Rate Determinations applicable to this project may also be obtained from the Department of Industrial Relations Internet site at <http://www.dir.ca.gov>.
- D. Payroll Records
  - 1. Each CONSULTANT and Subconsultant shall keep accurate certified payroll records and supporting documents as mandated by Labor Code §1776 and as defined in 8 CCR §16000 showing the name, address, social security number, work classification, straight time and overtime hours worked each day and week, and the actual per diem wages paid to each journeyman, apprentice, worker, or other employee employed by the CONSULTANT or Subconsultant in connection with the public work. Each payroll record shall contain or be verified by a written declaration that it is made under penalty of perjury, stating both of the following:
    - a. The information contained in the payroll record is true and correct.
    - b. The employer has complied with the requirements of Labor Code §1771, §1811, and §1815 for any work performed by his or her employees on the public works project.
  - 2. The payroll records enumerated under paragraph (1) above shall be certified as correct by the CONSULTANT under penalty of perjury. The payroll records and all supporting documents shall be made available for inspection and copying by LOCAL AGENCY representative's at all reasonable hours at the principal office of the CONSULTANT. The CONSULTANT shall provide copies of certified payrolls or permit inspection of its records as follows:
    - a. A certified copy of an employee's payroll record shall be made available for inspection or furnished to the employee or the employee's authorized representative on request.
    - b. A certified copy of all payroll records enumerated in paragraph (1) above, shall be made available for inspection or furnished upon request to a representative of LOCAL AGENCY, the Division of Labor Standards Enforcement and the Division of Apprenticeship Standards of the Department of Industrial Relations. Certified payrolls submitted to LOCAL AGENCY, the Division of Labor Standards Enforcement and the Division of Apprenticeship Standards shall not be altered or obliterated by the CONSULTANT.
    - c. The public shall not be given access to certified payroll records by the CONSULTANT. The CONSULTANT is required to forward any requests for certified payrolls to the LOCAL AGENCY by both email and regular mail on the business day following receipt of the request.
  - 3. Each CONSULTANT shall submit a certified copy of the records enumerated in paragraph (1) above, to the entity that requested the records within ten (10)

- calendar days after receipt of a written request.
4. Any copy of records made available for inspection as copies and furnished upon request to the public or any public agency by LOCAL AGENCY shall be marked or obliterated in such a manner as to prevent disclosure of each individual's name, address, and social security number. The name and address of the CONSULTANT or Subconsultant performing the work shall not be marked or obliterated.
  5. The CONSULTANT shall inform LOCAL AGENCY of the location of the records enumerated under paragraph (1) above, including the street address, city and county, and shall, within five (5) working days, provide a notice of a change of location and address.
  6. The CONSULTANT or Subconsultant shall have ten (10) calendar days in which to comply subsequent to receipt of written notice requesting the records enumerated in paragraph (1) above. In the event the CONSULTANT or Subconsultant fails to comply within the ten (10) day period, he or she shall, as a penalty to LOCAL AGENCY, forfeit one hundred dollars (\$100) for each calendar day, or portion thereof, for each worker, until strict compliance is effectuated. Such penalties shall be withheld by LOCAL AGENCY from payments then due. CONSULTANT is not subject to a penalty assessment pursuant to this section due to the failure of a Subconsultant to comply with this section.
- E. When prevailing wage rates apply, the CONSULTANT is responsible for verifying compliance with certified payroll requirements. Invoice payment will not be made until the invoice is approved by the LOCAL AGENCY.
- F. Penalty
1. The CONSULTANT and any of its Subconsultants shall comply with Labor Code §1774 and §1775. Pursuant to Labor Code §1775, the CONSULTANT and any Subconsultant shall forfeit to the LOCAL AGENCY a penalty of not more than two hundred dollars (\$200) for each calendar day, or portion thereof, for each worker paid less than the prevailing rates as determined by the Director of DIR for the work or craft in which the worker is employed for any public work done under the AGREEMENT by the CONSULTANT or by its Subconsultant in violation of the requirements of the Labor Code and in particular, Labor Code §§1770 to 1780, inclusive.
  2. The amount of this forfeiture shall be determined by the Labor Commissioner and shall be based on consideration of mistake, inadvertence, or neglect of the CONSULTANT or Subconsultant in failing to pay the correct rate of prevailing wages, or the previous record of the CONSULTANT or Subconsultant in meeting their respective prevailing wage obligations, or the willful failure by the CONSULTANT or Subconsultant to pay the correct rates of prevailing wages. A mistake, inadvertence, or neglect in failing to pay the correct rates of prevailing wages is not excusable if the CONSULTANT or Subconsultant had knowledge of the obligations under the Labor Code. The CONSULTANT is responsible for paying the appropriate rate, including any escalations that take place during the term of the AGREEMENT.
  3. In addition to the penalty and pursuant to Labor Code §1775, the difference between the prevailing wage rates and the amount paid to each worker for each calendar day or portion thereof for which each worker was paid less than the prevailing wage rate shall be paid to each worker by the CONSULTANT or Subconsultant.
  4. If a worker employed by a Subconsultant on a public works project is not paid the

general prevailing per diem wages by the Subconsultant, the prime CONSULTANT of the project is not liable for the penalties described above unless the prime CONSULTANT had knowledge of that failure of the Subconsultant to pay the specified prevailing rate of wages to those workers or unless the prime CONSULTANT fails to comply with all of the following requirements:

- a. The AGREEMENT executed between the CONSULTANT and the Subconsultant for the performance of work on public works projects shall include a copy of the requirements in Labor Code §§ 1771, 1775, 1776, 1777.5, 1813, and 1815.
  - b. The CONSULTANT shall monitor the payment of the specified general prevailing rate of per diem wages by the Subconsultant to the employees by periodic review of the certified payroll records of the Subconsultant.
  - c. Upon becoming aware of the Subconsultant's failure to pay the specified prevailing rate of wages to the Subconsultant's workers, the CONSULTANT shall diligently take corrective action to halt or rectify the failure, including but not limited to, retaining sufficient funds due the Subconsultant for work performed on the public works project.
  - d. Prior to making final payment to the Subconsultant for work performed on the public works project, the CONSULTANT shall obtain an affidavit signed under penalty of perjury from the Subconsultant that the Subconsultant had paid the specified general prevailing rate of per diem wages to the Subconsultant's employees on the public works project and any amounts due pursuant to Labor Code §1813.
5. Pursuant to Labor Code §1775, LOCAL AGENCY shall notify the CONSULTANT on a public works project within fifteen (15) calendar days of receipt of a complaint that a Subconsultant has failed to pay workers the general prevailing rate of per diem wages.
  6. If LOCAL AGENCY determines that employees of a Subconsultant were not paid the general prevailing rate of per diem wages and if LOCAL AGENCY did not retain sufficient money under the AGREEMENT to pay those employees the balance of wages owed under the general prevailing rate of per diem wages, the CONSULTANT shall withhold an amount of moneys due the Subconsultant sufficient to pay those employees the general prevailing rate of per diem wages if requested by LOCAL AGENCY.
- G. Hours of Labor
- Eight (8) hours labor constitutes a legal day's work. The CONSULTANT shall forfeit, as a penalty to the LOCAL AGENCY, twenty-five dollars (\$25) for each worker employed in the execution of the AGREEMENT by the CONSULTANT or any of its Subconsultants for each calendar day during which such worker is required or permitted to work more than eight (8) hours in any one calendar day and forty (40) hours in any one calendar week in violation of the provisions of the Labor Code, and in particular §§1810 to 1815 thereof, inclusive, except that work performed by employees in excess of eight (8) hours per day, and forty (40) hours during any one week, shall be permitted upon compensation for all hours worked in excess of eight (8) hours per day and forty (40) hours in any week, at not less than one and one-half (1.5) times the basic rate of pay, as provided in §1815.
- H. Employment of Apprentices
1. Where either the prime AGREEMENT or the sub agreement exceeds thirty thousand

dollars (\$30,000), the CONSULTANT and any Subconsultants under him or her shall comply with all applicable requirements of Labor Code §§ 1777.5, 1777.6 and 1777.7 in the employment of apprentices.

2. CONSULTANTS and Subconsultants are required to comply with all Labor Code requirements regarding the employment of apprentices, including mandatory ratios of journey level to apprentice workers. Prior to commencement of work, CONSULTANT and Subconsultants are advised to contact the DIR Division of Apprenticeship Standards website at <https://www.dir.ca.gov/das/>, for additional information regarding the employment of apprentices and for the specific journey-to-apprentice ratios for the AGREEMENT work. The CONSULTANT is responsible for all Subconsultants' compliance with these requirements. Penalties are specified in Labor Code §1777.7.

### **XIII. CONFLICT OF INTEREST**

- A. During the term of this AGREEMENT, the CONSULTANT shall disclose any financial, business, or other relationship with LOCAL AGENCY that may have an impact upon the outcome of this AGREEMENT, or any ensuing LOCAL AGENCY construction project. CONSULTANT shall also list current clients who may have a financial interest in the outcome of this AGREEMENT, or any ensuing LOCAL AGENCY construction project, which will follow.
- B. CONSULTANT certifies that it has disclosed to LOCAL AGENCY any actual, apparent, or potential conflicts of interest that may exist relative to the services to be provided pursuant to this AGREEMENT. CONSULTANT agrees to advise LOCAL AGENCY of any actual, apparent or potential conflicts of interest that may develop subsequent to the date of execution of this AGREEMENT. CONSULTANT further agrees to complete any statements of economic interest if required by either LOCAL AGENCY ordinance or State law.
- C. CONSULTANT hereby certifies that it does not now have, nor shall it acquire any financial or business interest that would conflict with the performance of services under this AGREEMENT.
- D. The CONSULTANT hereby certifies that the CONSULTANT or Subconsultant and any firm affiliated with the CONSULTANT or Subconsultant that bids on any construction contract or on any AGREEMENT to provide construction inspection for any construction project resulting from this AGREEMENT, has established necessary controls to ensure a conflict of interest does not exist. An affiliated firm is one, which is subject to the control of the same persons, through joint ownership or otherwise.

### **XIV. REBATES, KICKBACKS OR OTHER UNLAWFUL CONSIDERATION**

CONSULTANT warrants that this AGREEMENT was not obtained or secured through rebates, kickbacks or other unlawful consideration, either promised or paid to any LOCAL AGENCY employee. For breach or violation of this warranty, LOCAL AGENCY shall have the right in its discretion; to terminate this AGREEMENT without liability; to pay only for the value of the work actually performed; or to deduct from this AGREEMENT price; or otherwise recover the full amount of such rebate, kickback or other unlawful consideration.

**XV. PROHIBITION OF EXPENDING LOCAL AGENCY STATE OR FEDERAL FUNDS FOR LOBBYING**

- A. CONSULTANT certifies to the best of his or her knowledge and belief that:
  - 1. No state, federal or LOCAL AGENCY appropriated funds have been paid, or will be paid by- or-on behalf of CONSULTANT to any person for influencing or attempting to influence an officer or employee of any local, State or Federal agency; a Member of the State Legislature or United States Congress; an officer or employee of the Legislature or Congress; or any employee of a Member of the Legislature or Congress, in connection with the awarding or making of this AGREEMENT, or with the extension, continuation, renewal, amendment, or modification of this AGREEMENT.
  - 2. If any funds other than Federal appropriated funds have been paid, or will be paid to any person for influencing or attempting to influence an officer or employee of any agency; a Member of Congress; an officer or employee of Congress, or an employee of a Member of Congress; in connection with this AGREEMENT, the CONSULTANT shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying", in accordance with its instructions.
- B. This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by Section 1352, Title 31, U.S. Code. Any person who fails to file the required certification shall be subject to a civil penalty of not less than ten thousand dollars (\$10,000) and not more than one hundred thousand dollars (\$100,000) for each such failure.
- C. CONSULTANT also agrees by signing this document that he or she shall require that the language of this certification be included in all lower-tier subcontracts, which exceed one hundred thousand dollars (\$100,000) and that all such sub recipients shall certify and disclose accordingly.

**XVI. NON-DISCRIMINATION CLAUSE AND STATEMENT OF COMPLIANCE**

- A. CONSULTANT's signature affixed herein, and dated, shall constitute a certification under penalty of perjury under the laws of the State of California that CONSULTANT has, unless exempt, complied with, the nondiscrimination program requirements of Government Code § 12990 and Title 2 CCR § 8103.
- B. During the performance of this AGREEMENT, CONSULTANT and its Subconsultants shall not discriminate against any person on the basis of race, religious creed, color, national origin, ancestry, physical disability, mental disability, medical condition, genetic information, marital status, sex, gender, gender identity, gender expression, age, sexual orientation, or military and veteran status, nor shall they unlawfully discriminate, harass, or allow harassment against any employee or applicant for employment because of race, religious creed, color, national origin, ancestry, physical disability, mental disability, medical condition, genetic information, marital status, sex, gender, gender identity, gender expression, age, sexual orientation, or military and veteran status.

- C. CONSULTANT and Subconsultants shall insure that the evaluation and treatment of their employees and applicants for employment are free from such discrimination and harassment. CONSULTANT and Subconsultants shall comply with the provisions of the Fair Employment and Housing Act (California Gov. Code §12990 et seq.), the applicable regulations promulgated there under (2 CCR §11000 et seq.), the provisions of California Gov. Code §§11135-11139.5, and the regulations or standards adopted by LOCAL AGENCY to implement such article. The applicable regulations of the Fair Employment and Housing Commission implementing California Gov. Code §12990 (a-f), set forth 2 CCR §§8100-8504, are incorporated into this AGREEMENT by reference and made a part hereof as if set forth in full.
- D. CONSULTANT, with regard to its work performed under this Agreement and to the extent the California Fair Employment and Housing Commission regulations are applicable to such work, shall permit access by representatives of the Department of Fair Employment and Housing and the LOCAL AGENCY upon reasonable notice at any time during the normal business hours, but in no case less than twenty-four (24) hours' notice, to such of its books, records, accounts, and all other sources of information and its facilities as said Department or LOCAL AGENCY shall require to ascertain compliance with this clause.
- E. CONSULTANT and its Subconsultants shall give written notice of their obligations under this clause to labor organizations with which they have a collective bargaining or other Agreement.
- F. CONSULTANT shall include the nondiscrimination and compliance provisions of this clause in all subcontracts to perform work under this AGREEMENT.
- G. The CONSULTANT, with regard to the work performed under this AGREEMENT, shall act in accordance with Title VI of the Civil Rights Act of 1964 (42 U.S.C. §2000d et seq.). Title VI provides that the recipients of federal assistance will implement and maintain a policy of nondiscrimination in which no person in the United States shall, on the basis of race, color, national origin, religion, sex, age, disability, be excluded from participation in, denied the benefits of or subject to discrimination under any program or activity by the recipients of federal assistance or their assignees and successors in interest.
- H. The CONSULTANT shall comply with regulations relative to non-discrimination in federally-assisted programs of the U.S. Department of Transportation (49 CFR Part 21- Effectuation of Title VI of the Civil Rights Act of 1964). Specifically, the CONSULTANT shall not participate either directly or indirectly in the discrimination prohibited by 49 CFR §21.5, including employment practices and the selection and retention of Subconsultants.

**XVII. DEBARMENT AND SUSPENSION CERTIFICATION**

- A. CONSULTANT's signature affixed herein, shall constitute a certification under penalty of perjury under the laws of the State of California, that CONSULTANT or any person associated therewith in the capacity of owner, partner, director, officer or manager:
  - 1. Is not currently under suspension, debarment, voluntary exclusion, or determination of ineligibility by any federal agency;
  - 2. Has not been suspended, debarred, voluntarily excluded, or determined ineligible by any federal agency within the past three (3) years;
  - 3. Does not have a proposed debarment pending; and

4. Has not been indicted, convicted, or had a civil judgment rendered against it by a court of competent jurisdiction in any matter involving fraud or official misconduct within the past three (3) years.
- B. Any exceptions to this certification must be disclosed to LOCAL AGENCY. Exceptions will not necessarily result in denial of recommendation for award, but will be considered in determining responsibility. Disclosures must indicate to whom exceptions apply, initiating agency, and dates of agency action.
- C. Exceptions to the Federal Government Excluded Parties List System maintained by the General Services Administration are to be determined by the FHWA.

#### **XVIII. DISADVANTAGED BUSINESS ENTERPRISES (DBE) PARTICIPATION**

- A. This AGREEMENT is subject to 49 CFR, Part 26 entitled "Participation by Disadvantaged Business Enterprises in Department of Transportation Financial Assistance Programs". Consultants who enter into a federally-funded agreement will assist the LOCAL AGENCY in a good faith effort to achieve California's statewide overall DBE goal.
- B. The goal for DBE participation for this AGREEMENT is 15%. Participation by DBE Consultant or Subconsultants shall be in accordance with information contained in the Consultant Proposal DBE Commitment (Exhibit 10-01), or in the Consultant Contract DBE Information (Exhibit 10-02) attached hereto and incorporated as part of the AGREEMENT. If a DBE Subconsultant is unable to perform, CONSULTANT must make a good faith effort to replace him/her with another DBE Subconsultant, if the goal is not otherwise met.
- C. CONSULTANT can meet the DBE participation goal by either documenting commitments to DBEs to meet the AGREEMENT goal, or by documenting adequate good faith efforts to meet the AGREEMENT goal. An adequate good faith effort means that the CONSULTANT must show that it took all necessary and reasonable steps to achieve a DBE goal that, by their scope, intensity, and appropriateness to the objective, could reasonably be expected to meet the DBE goal. If CONSULTANT has not met the DBE goal, complete and submit Exhibit 15-H: DBE Information - Good Faith Efforts to document efforts to meet the goal. Refer to 49 CFR Part 26 for guidance regarding evaluation of good faith efforts to meet the DBE goal.
- D. DBEs and other small businesses, as defined in 49 CFR, Part 26 are encouraged to participate in the performance of contracts financed in whole or in part with federal funds. The LOCAL AGENCY, CONSULTANT or Subconsultants shall not discriminate on the basis of race, color, national origin, or sex in the performance of this AGREEMENT. CONSULTANT shall carry out applicable requirements of 49 CFR, Part 26 in the award and administration of US DOT-assisted contracts. Failure by CONSULTANT to carry out these requirements is a material breach of this AGREEMENT, which may result in the termination of this AGREEMENT or such other remedy as LOCAL AGENCY deems appropriate which may include:
  1. Withholding monthly progress payments;
  2. Disqualifying the CONSULTANT from future bidding as non-responsive.
- E. A DBE firm may be terminated only with prior written approval from LOCAL



- AGENCY and only for the reasons specified in 49 CFR 26.53(f). Prior to requesting LOCAL AGENCY consent for the termination, CONSULTANT must meet the procedural requirements specified in 49 CFR 26.53(f). If a DBE Subconsultant is unable to perform, CONSULTANT must make a good faith effort to replace him/her with another DBE Subconsultant, if the goal is not otherwise met.
- F. Consultant shall not be entitled to any payment for such work or material unless it is performed or supplied by the listed DBE or by other forces (including those of Consultant) pursuant to prior written authorization of the LOCAL AGENCY.
  - G. A DBE is only eligible to be counted toward the AGREEMENT goal if it performs a commercially useful function (CUF) on the AGREEMENT. A DBE performs a Commercially Useful Function (CUF) when it is responsible for execution of the work of the AGREEMENT and is carrying out its responsibilities by actually performing, managing, and supervising the work involved. To perform a CUF, the DBE must also be responsible with respect to materials and supplies used on the AGREEMENT, for negotiating price, determining quality and quantity, ordering the material, and installing (where applicable) and paying for the material itself. To determine whether a DBE is performing a CUF, evaluate the amount of work subcontracted, industry practices, whether the amount the firm is to be paid under the AGREEMENT is commensurate with the work it is actually performing, and other relevant factors.
  - H. A DBE does not perform a CUF if its role is limited to that of an extra participant in a transaction, contract, or project through which funds are passed in order to obtain the appearance of DBE participation. In determining whether a DBE is such an extra participant, examine similar transactions, particularly those in which DBEs do not participate.
  - I. If a DBE does not perform or exercise responsibility for at least thirty percent (30%) of the total cost of its contract with its own work force, or the DBE subcontracts a greater portion of the work of the contract than would be expected on the basis of normal industry practice for the type of work involved, it will be presumed that it is not performing a CUF.
  - J. CONSULTANT shall maintain records of materials purchased or supplied from all subcontracts entered into with certified DBEs. The records shall show the name and business address of each DBE or vendor and the total dollar amount actually paid each DBE or vendor, regardless of tier. The records shall show the date of payment and the total dollar figure paid to all firms. DBE prime consultants shall also show the date of work performed by their own forces along with the corresponding dollar value of the work.
  - K. Upon completion of the AGREEMENT, a summary of these records shall be prepared and submitted on the form entitled, "Final Report-Utilization of Disadvantaged Business Enterprise (DBE), First-Tier Subconsultants" CEM-2402F [Exhibit 17-F, of the LAPM], certified correct by CONSULTANT or CONSULTANT's authorized representative and shall be furnished to the LOCAL AGENCY with the final invoice. Failure to provide the summary of DBE payments with the final invoice will result in twenty-five percent (25%) of the dollar value of the invoice being withheld from payment until the form is submitted. The amount will be returned to CONSULTANT when a satisfactory "Final Report-Utilization of Disadvantaged Business Enterprises (DBE), First-

Tier Subconsultants" is submitted to the LOCAL AGENCY.

- L. If a DBE Subconsultant is decertified during the life of the AGREEMENT, the decertified Subconsultant shall notify CONSULTANT in writing with the date of decertification. If a Subconsultant becomes a certified DBE during the life of the AGREEMENT, the Subconsultant shall notify CONSULTANT in writing with the date of certification. Any changes should be reported to LOCAL AGENCY within 30 days.
- M. Any subcontract entered into as a result of this AGREEMENT shall contain all of the provisions of this section.

## **XIX. INSURANCE**

- A. Prior to commencement of the work described herein, CONSULTANT shall furnish LOCAL AGENCY a Certificate of Insurance in compliance with the following:  
Minimum Scope of Insurance:
  - i. CONSULTANT agrees to have and maintain, for the duration of the AGREEMENT, General Liability insurance policies insuring it to an amount not less than: one million dollars (\$1,000,000) combined single limit per occurrence for bodily injury, personal injury and property damage.
  - ii. CONSULTANT agrees to have and maintain for the duration of the AGREEMENT, an Automobile Liability insurance policy ensuring it to an amount not less than one million dollars (\$1,000,000) combined single limit per accident for bodily injury and property damage.
  - iii. CONSULTANT shall provide to the LOCAL AGENCY all certificates of insurance, with original endorsements effecting coverage. Consultant agrees that all certificates and endorsements are to be received and approved by the LOCAL AGENCY before work commences.
  - iv. CONSULTANT agrees to have and maintain, for the duration of the AGREEMENT, professional liability insurance in amounts not less than \$1,000,000 which is sufficient to insure CONSULTANT for professional errors or omissions in the performance of the particular scope of work under this AGREEMENT.  
General Liability:
    - i. The LOCAL AGENCY, its officers, officials, employees and volunteers are to be covered as insured as respects: liability arising out of activities performed by or on behalf of the CONSULTANT; products and completed operations of Consultant, premises owned or used by the CONSULTANT. This requirement does not apply to the professional liability insurance required for professional errors and omissions.
    - ii. The CONSULTANT's insurance coverage shall be primary insurance as respects the LOCAL AGENCY, its officers, officials, employees and volunteers. Any insurance or self-insurances maintained by the LOCAL AGENCY, its officers, officials, employees or volunteers shall be excess of the CONSULTANT's insurance and shall not contribute with it.
    - iii. Any failure to comply with reporting provisions of the policies shall not affect coverage provided to the LOCAL AGENCY, its officers, officials, employees or volunteers.

- iv. The CONSULTANT's insurance shall apply separately to each insured against whom a claim is made or suit is brought, except with respect to the limits of the insurer's liability.

All Coverages. Each insurance policy required in this item shall be endorsed to state that coverage shall not be suspended, voided, cancelled, reduced in coverage or in limits except after thirty (30) days' prior written notice by certified mail, return receipt requested, has been given to the LOCAL AGENCY. Current certification of such insurance shall be kept on file at all times during the term of this AGREEMENT with the Town Clerk.

Workers' Compensation. In addition to these policies, CONSULTANT shall have and maintain Workers' Compensation insurance as required by California law and shall provide evidence of such policy to the LOCAL AGENCY before beginning services under this AGREEMENT. Further, CONSULTANT shall ensure that all subcontractors employed by CONSULTANT provide the required Workers' Compensation insurance for their respective employees.

Indemnification. CONSULTANT shall save, keep, hold harmless and indemnify and defend the LOCAL AGENCY its officers, agent, employees and volunteers from all damages, liabilities, penalties, costs, or expenses in law or equity that may at any time arise or be set up because of damages to property or personal injury received by reason of the negligent act or omissions of the CONSULTANT, or any of the CONSULTANT's officers, employees, or agents or any Subconsultant.

- B. CONSULTANT agrees that the insurance herein provided for, shall be in effect at all times during the term of this AGREEMENT. In the event said insurance coverage expires at any time or times during the term of this AGREEMENT, CONSULTANT agrees to provide at least thirty (30) days prior notice to said expiration date; and a new Certificate of Insurance evidencing insurance coverage as provided for herein, for not less than either the remainder of the term of the AGREEMENT, or for a period of not less than one (1) year. New Certificates of Insurance are subject to the approval of LOCAL AGENCY. In the event CONSULTANT fails to keep in effect at all times insurance coverage as herein provided, LOCAL AGENCY may, in addition to any other remedies it may have, terminate this AGREEMENT upon occurrence of such event.

**XX. CHANGE IN TERMS**

- A. No modification, waiver, mutual termination, or amendment of this AGREEMENT is effective unless made in writing and signed by the LOCAL AGENCY and the CONSULTANT.
- B. CONSULTANT shall only commence work covered by an amendment after the amendment is executed and notification to proceed has been provided by LOCAL AGENCY.
- C. There shall be no change in CONSULTANT's Project Manager or members of the

project team, as listed in the approved Cost Proposal, which is a part of this AGREEMENT without prior written approval by LOCAL AGENCY.

**XXI. CONTINGENT FEE**

CONSULTANT warrants, by execution of this AGREEMENT that no person or selling agency has been employed, or retained, to solicit or secure this AGREEMENT upon an agreement or understanding, for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees, or bona fide established commercial or selling agencies maintained by CONSULTANT for the purpose of securing business. For breach or violation of this warranty, LOCAL AGENCY has the right to annul this AGREEMENT without liability; pay only for the value of the work actually performed, or in its discretion to deduct from the AGREEMENT price or consideration, or otherwise recover the full amount of such commission, percentage, brokerage, or contingent fee.

**XXII. DISPUTES**

- A. Prior to either party commencing any legal action under this AGREEMENT, the parties agree to try in good faith, to settle any dispute amicably between them. If a dispute has not been settled after thirty (30) days of good-faith negotiations and as may be otherwise provided herein, then either party may commence legal action against the other.
- B. Any dispute, other than audit, concerning a question of fact arising under this AGREEMENT that is not disposed of by AGREEMENT shall be decided by a committee consisting of LOCAL AGENCY's Public Works Director or his/her designee, who may consider written or verbal information submitted by CONSULTANT.
- C. Not later than 30 days after completion of all deliverables necessary to complete the plans, specifications and estimate, CONSULTANT may request review by LOCAL AGENCY Governing Board of unresolved claims or disputes, other than audit. The request for review will be submitted in writing.
- D. Neither the pendency of a dispute, nor its consideration by the committee will excuse CONSULTANT from full and timely performance in accordance with the terms of this AGREEMENT.
- E. In any dispute over any aspect of the AGREEMENT, the prevailing party shall be entitled to reasonable attorney's fees, including costs of appeal.

**XXIII. INSPECTION OF WORK**

CONSULTANT and any Subconsultant shall permit LOCAL AGENCY, the state, and the FHWA if federal participating funds are used in this AGREEMENT; to review and inspect the project activities and files at all reasonable times during the performance period of this AGREEMENT including review and inspection on a daily basis.

**XXIV. SAFETY**

- A. CONSULTANT shall comply with OSHA regulations applicable to CONSULTANT regarding

necessary safety equipment or procedures. CONSULTANT shall comply with safety instructions issued by LOCAL AGENCY Safety Officer and other LOCAL AGENCY representatives. CONSULTANT personnel shall wear hard hats and safety vests at all times while working on the construction project site.

- B. Pursuant to the authority contained in Division 1, Section 591 of the California Vehicle Code, LOCAL AGENCY has determined that such areas are within the limits of the project and are open to public traffic. CONSULTANT shall comply with all applicable requirements set forth in Divisions 11, 12, 13, 14, and 15 of the California Vehicle Code. CONSULTANT shall take all reasonably necessary precautions for safe operation of its vehicles and the protection of the traveling public from injury and damage from such vehicles.
- C. Any subcontract entered into as a result of this AGREEMENT, shall contain all of the provisions of this Article.
- D. CONSULTANT must have a Division of Occupational Safety and Health (CAL-OSHA) permit(s), as outlined in California Labor Code Sections 6500 and 6705, prior to the initiation of any practices, work, method, operation, or process related to the construction or excavation of trenches which are five feet or deeper.

**XXV. OWNERSHIP OF DATA**

- A. It is mutually agreed that subject to CONSULTANT's receipt of payment for its services under this AGREEMENT all materials prepared by CONSULTANT under this AGREEMENT shall become the property of LOCAL AGENCY, and CONSULTANT shall have no property right therein whatsoever. Immediately upon termination, LOCAL AGENCY shall be entitled to, and CONSULTANT shall deliver to LOCAL AGENCY, reports, investigations, appraisals, inventories, studies, analyses, drawings and data estimates performed to that date, whether completed or not, and other such materials as may have been prepared or accumulated to date by CONSULTANT in performing this AGREEMENT which is not CONSULTANT's privileged information, as defined by law, or CONSULTANT's personnel information, along with all other property belonging exclusively to LOCAL AGENCY which is in CONSULTANT's possession . Publication of the information derived from work performed or data obtained in connection with services rendered under this AGREEMENT must be approved in writing by LOCAL AGENCY.
- B. Additionally, it is agreed that the Parties intend this to be an AGREEMENT for services and each considers the products and results of the services to be rendered by CONSULTANT hereunder to be work made for hire. CONSULTANT acknowledges and agrees that the work (and all rights therein, including, without limitation, copyright) belongs to and shall be the sole and exclusive property of LOCAL AGENCY without restriction or limitation upon its use or dissemination by LOCAL AGENCY.
- C. Nothing herein shall constitute or be construed to be any representation by CONSULTANT that the work product is suitable in any way for any other project except the one detailed in this AGREEMENT. Any reuse by LOCAL AGENCY for another project or project location shall be at LOCAL AGENCY's sole risk.
- D. Applicable patent rights provisions regarding rights to inventions shall be included in the AGREEMENTs as appropriate (48 CFR 27, Subpart 27.3 - Patent Rights under Government Contracts for federal-aid contracts).
- E. LOCAL AGENCY may permit copyrighting reports or other AGREEMENT products. If

copyrights are permitted; the AGREEMENT shall provide that the FHWA shall have the royalty-free nonexclusive and irrevocable right to reproduce, publish, or otherwise use; and to authorize others to use, the work for government purposes.

**XXVI. CLAIMS FILED BY LOCAL AGENCY'S CONSTRUCTION CONTRACTOR**

- A. If claims are filed by LOCAL AGENCY's construction contractor relating to work performed by CONSULTANT's personnel, and additional information or assistance from CONSULTANT's personnel is required in order to evaluate or defend against such claims; CONSULTANT agrees to reasonably cooperate with LOCAL AGENCY.
- B. CONSULTANT's consultation or testimony will be reimbursed at CONSULTANT's then current hourly rates of compensation plus any costs and expenses.

**XXVII. CONFIDENTIALITY OF DATA**

- A. All financial, statistical, personal, technical, or other data and information relative to LOCAL AGENCY's operations, which are designated confidential by LOCAL AGENCY and made available to CONSULTANT in order to carry out this AGREEMENT, shall be protected by CONSULTANT from unauthorized use and disclosure.
- B. Permission to disclose information on one occasion, or public hearing held by LOCAL AGENCY relating to the AGREEMENT, shall not authorize CONSULTANT to further disclose such information, or disseminate the same on any other occasion.
- C. CONSULTANT shall not comment publicly to the press or any other media regarding the AGREEMENT or LOCAL AGENCY's actions on the same, except to LOCAL AGENCY's staff, CONSULTANT's own personnel involved in the performance of this AGREEMENT, at public hearings or in response to questions from a Legislative committee.
- D. CONSULTANT shall not issue any news release or public relations item of any nature, whatsoever, regarding work performed or to be performed under this AGREEMENT without prior review of the contents thereof by LOCAL AGENCY, and receipt of LOCAL AGENCY'S written permission.
- E. All information related to the construction estimate is confidential, and shall not be disclosed by CONSULTANT to any entity other than LOCAL AGENCY, Caltrans, and/or FHWA. All of the materials prepared or assembled by CONSULTANT pursuant to performance of this AGREEMENT are confidential and CONSULTANT agrees that they shall not be made available to any individual or organization without the prior written approval of LOCAL AGENCY or except as may be required by any law, regulation or government or court order. If CONSULTANT or any of its officers, employees, or subcontractors does voluntarily provide information in violation of this AGREEMENT, LOCAL AGENCY has the right to reimbursement and indemnity from CONSULTANT for any damages caused by CONSULTANT releasing the information, including, but not limited to, LOCAL AGENCY's attorney's fees and disbursements, including without limitation experts' fees and disbursements.

**XXVIII. NATIONAL LABOR RELATIONS BOARD CERTIFICATION**

In accordance with Public Contract Code Section 10296, CONSULTANT hereby states under penalty of perjury that no more than one final unappealable finding of contempt of court by a federal court

has been issued against CONSULTANT within the immediately preceding two-year period, because of CONSULTANT's failure to comply with an order of a federal court that orders CONSULTANT to comply with an order of the National Labor Relations Board.

**XXIX. RETENTION OF FUNDS**

- A. Any subcontract entered into as a result of this AGREEMENT shall contain all of the provisions of this section.
- B. No retainage will be held by the LOCAL AGENCY from progress payments due the CONSULTANT. Any retainage held by the CONSULTANT or subconsultants from progress payments due subconsultants shall be promptly paid in full to subconsultants within thirty (30) calendar days after the subconsultant's work is satisfactorily completed. Federal law (49 CFR §26.29) requires that any delay or postponement of payment over thirty (30) calendar days may take place only for good cause and with the LOCAL AGENCY's prior written approval. Any violation of this provision shall subject the violating CONSULTANT or subconsultant to the penalties, sanctions and other remedies specified in Business and Professions Code §7108.5. These requirements shall not be construed to limit or impair any contractual, administrative, or judicial remedies, otherwise available to the CONSULTANT or subconsultant in the event of a dispute involving late payment or nonpayment by the CONSULTANT, deficient subconsultant performance, or noncompliance by a subconsultant. This provision applies to both DBE and non-DBE CONSULTANT and subconsultants.

**XXX. NOTIFICATION**

Any notice required to be given shall be deemed to be duly and properly given if mailed postage prepaid, and addressed to:

**Town of Los Gatos**  
Attn: WooJae Kim  
41 Miles Avenue  
Los Gatos, CA 95030

**CONSULTANT:**  
Econolite Systems, Inc.  
Legal Department  
1250 N. Tustin Ave.  
Anaheim, CA 92886

or personally delivered to Consultant to such address or such other address as Consultant designates in writing to Town.



**XXXI. SIGNATURES**

WHEREOF, THE LOCAL AGENCY AND CONSULTANT HAVE EXECUTED THIS AGREEMENT.

**TOWN OF LOS GATOS** by:

Town of Los Gatos by:

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Laurel Prevetti, Town Manager

Recommended by:

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Matt Morley, Director of Parks and Public Works

**Approved as to Form:**

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Robert Schultz, Town Attorney

**Attest:**

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Shelley Neis, CMC, Town Clerk



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/16/2021

ITEM NO: 8

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DATE: February 11, 2021  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Authorize the Town Manager to Execute an Agreement with HouseKeys for Administration of the Town's Below Market Price Affordable Housing Program.

**RECOMMENDATION:**

Authorize the Town Manager to execute an agreement with HouseKeys for administration of the Town's Below Market Price Affordable Housing Program (BMP Program).

**BACKGROUND:**

The BMP Program was initiated in 1976 as a mechanism to increase the supply of housing in Los Gatos that is affordable to low- or moderate-income households. The BMP Program requires developers, when they obtain entitlements, to provide a percentage of the total number of market rate units in a development as affordable housing units. Deed restrictions are recorded on the title of each property to ensure the long-term affordability of the rental and for sale units and to maintain the Town's repurchase option. When new units are made available by a developer or via a resale by an existing owner, the Town or its administrator solicits applications from income qualified households and then selects buyers using the Town's adopted preference scoring criteria. Approximately 55 for-sale and 119 rental BMP units are in the Town's current BMP Program inventory.

The Town has used an administrator for the BMP Program since July 1999. The Administrator's expertise and knowledge of the United States Department of Housing and Urban Development (HUD) requirements and affordable housing program administration is more extensive than that of Town staff. Additionally, the Town does not have the resources to dedicate the time needed to administer the BMP Program.

**PREPARED BY:** Jocelyn Shoopman  
Associate Planner

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

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BACKGROUND (continued):

Since November 2015, Hello Housing has administered the Town's BMP Program under the direction of the Community Development Department. They monitored the Town's BMP Program rentals and owner-occupied homes, and made sure they were following BMP Program requirements. Hello Housing worked with the Town on the sale of homes to BMP qualified applicants, held meetings to inform interested persons, and ensure they were qualified for the BMP Program. On November 17, 2020, the Town Council authorized the Town Manager to execute an agreement with Hello Housing for administration of the Town's BMP Program under the direction of the Community Development Director. Hello Housing notified the Town in January of 2021 that they would no longer be able to provide these services to the Town or any of the other jurisdictions they worked with.

DISCUSSION:

A request for proposals (RFP) had previously been prepared by staff, distributed to housing organizations, posted under the "What's New" page on the Town's website, and posted on the Town's social media accounts to encourage additional submittals.

Staff identified that foreclosure prevention, homebuyer education, and buyer financial pre-qualification experience would also be requisite areas of expertise of the successful administrator of the BMP Program. Two organizations previously submitted proposals, Hello Housing and HouseKeys.

HouseKeys was founded in 2015 with the City of Morgan Hill and has been administering affordable housing programs for other municipalities since 2017. They currently administer the BMP Program for the Cities of Morgan Hill, Campbell, Gilroy, Burlingame, San Ramon, Hayward, and Santa Clara.

Due to Hello Housing no longer offering their services, staff recommends that the Town contract with HouseKeys for a five-year period for a fixed base annual cost of approximately \$96,000 per year with a first year onboarding cost of \$30,000 from approximately March 1, 2021 to February 28, 2026 (see Attachment 1). Projected transactional costs would also be provided at an additional cost depending on the volume of those transactions.

CONCLUSION:

Staff recommends that the Town Council authorize the Town Manager to execute an agreement with HouseKeys for administration of the Town's BMP Program under the direction of the Community Development Director.

PAGE 3 OF 3

SUBJECT: Below Market Price Affordable Housing Program

DATE: February 11, 2021

COORDINATION:

This report has been coordinated with the Town Manager's Office, Town Attorney's Office, and the Finance Department.

FISCAL IMPACT:

Sufficient funds are available in the Housing In-Lieu Fee Deposit Account to cover the costs of the services for the Town. The current balance in the deposit account is approximately \$2.3 million.

ENVIRONMENTAL REVIEW:

Environmental review is not required as this is not a project defined by the California Environmental Quality Act.

Attachment:

1. Draft Agreement with HouseKeys

**AGREEMENT FOR CONSULTANT SERVICES FOR ADMINISTRATOR OF THE  
TOWN'S BELOW MARKET PRICE AFFORDABLE HOUSING PROGRAM**

THIS AGREEMENT is dated for identification March 1, 2021, and is made by and between TOWN OF LOS GATOS, a California municipal corporation, ("Town") and HouseKeys, ("Consultant"), whose address is 358 Digital Drive, Morgan Hill, CA 95037. This Agreement is made with reference to the following facts. This contract will remain in effect from March 1, 2021 to February 28, 2026.

**I. RECITALS**

- 1.1 The Town desires to engage Consultant to administer the Town's Below Market Price Affordable Housing Program.
- 1.2 Consultant represents and affirms that it is qualified and willing to perform the desired work pursuant to this Agreement.
- 1.3 Consultant represents and affirms that it is qualified and willing to perform the desired work pursuant to this Agreement.
- 1.4 Consultant warrants it possesses the distinct professional skills, qualifications, experience, and resources necessary to timely perform the services described in this Agreement. Consultant acknowledges that the Town has relied upon these warranties to retain Consultant.

**II. AGREEMENTS**

- 2.1 Scope of Services. Consultant shall provide services as described in that certain Proposal for Services sent to the Town on August 21, 2020, which is hereby incorporated by reference and attached as Exhibit A.
- 2.2 Term and Time of Performance. The services of Consultant are fixed for a five-year period that will commence upon the execution of the contract. At the end of this period, should the Town not renew the contract, the contract shall automatically expire. The individual time of performance schedule for each project referred to the Consultant is required to be performed as outlined in the scope of services section of this Agreement.
- 2.3 Compliance with Laws. Consultant shall comply with all applicable laws, codes, ordinances, and regulations of governing federal, state, and local laws. Consultant represents and warrants to Town that it has all licenses, permits, qualifications, and approvals of whatsoever nature which are legally required for Consultant to practice its profession. Consultant shall maintain a Town of Los Gatos business license pursuant to Chapter 14 of the Code of the Town of Los Gatos.
- 2.4 Sole Responsibility. Consultant shall be responsible for employing or engaging all persons necessary to perform the services under this Agreement.

- 2.5 Information/Report Handling. All documents furnished to Consultant by the Town and all reports and supportive data prepared by Consultant under this Agreement are the Town's property and shall be delivered to the Town upon the completion of Consultant's services or at the Town's written request. All reports, information, data, and exhibits prepared or assembled by Consultant in connection with the performance of its services pursuant to this Agreement are confidential until released by the Town to the public, and Consultant shall not make any of these documents or information available to any individual or organization not employed by Consultant or the Town without the written consent of the Town before such release. The Town acknowledges that the reports to be prepared by Consultant pursuant to this Agreement are for the purpose of evaluating a defined project, and the Town's use of the information contained in the reports prepared by Consultant in connection with other projects shall be solely at the Town's risk, unless Consultant expressly consents to such use in writing. The Town further agrees that it will not appropriate any methodology or technique of Consultant which is and has been confirmed in writing by Consultant to be a trade secret of Consultant.
- 2.6 Compensation. Compensation for Consultant's professional services shall be a fixed annual base cost of approximately \$96,000 with a first-year onboarding cost of \$30,000, with possible optional increases for transactional costs such as sales and re-sales of homes. Payment shall be based upon Town approval of each task.
- 2.7 Billing. Billing shall be monthly by invoice within thirty (30) days of the rendering of the service and shall be accompanied by a detailed explanation of the work performed, the relevant property address (if applicable) and at what rate.

Payment shall be net thirty (30) days. All invoices and statements to the Town shall be addressed as follows:

Invoices:  
Town of Los Gatos  
Attn: Accounts Payable  
P.O. Box 655  
Los Gatos, CA 95031-0655

- 2.8 Availability of Records. Consultant shall maintain the records supporting this billing for not less than three years following completion of the work under this Agreement. Consultant shall make these records available to authorized personnel of the Town at Consultant's offices during business hours upon written request of the Town.
- 2.9 Assignability and Subcontracting. The services to be performed under this Agreement are unique and personal to Consultant. No portion of these services shall be assigned or subcontracted without the written consent of the Town.
- 2.10 Independent Contractor. It is understood that Consultant, in the performance of the work and services agreed to be performed, shall act as and be an independent contractor and not an agent or employee of the Town. As an independent contractor he/she shall not obtain any rights to retirement benefits or other benefits which accrue to Town employee(s). With prior

written consent, Consultant may perform some obligations under this Agreement by subcontracting, but may not delegate ultimate responsibility for performance or assign or transfer interests under this Agreement. Consultant agrees to testify in any litigation brought regarding the subject of the work to be performed under this Agreement. Consultant shall be compensated for its costs and expenses in preparing for, traveling to, and testifying in such matters at its then current hourly rates of compensation, unless such litigation is brought by Consultant or is based on allegations of Consultant's negligent performance or wrongdoing.

2.11 Conflict of Interest. Consultant understands that its professional responsibilities are solely to the Town. Consultant has no and shall not obtain any holding or interest within the Town of Los Gatos. Consultant has no business holdings or agreements with any individual member of the staff or management of the Town or its representatives nor shall it enter into any such holdings or agreements. In addition, Consultant warrants that it does not presently and shall not acquire any direct or indirect interest adverse to those of the Town in the subject of this Agreement, and it shall immediately disassociate itself from such an interest, should it discover it has done so and shall, at the Town's sole discretion, divest itself of such interest. Consultant shall not knowingly and shall take reasonable steps to ensure that it does not employ a person having such an interest in this performance of this Agreement. If after employment of a person, Consultant discovers it has employed a person with a direct or indirect interest that would conflict with its performance of this Agreement, Consultant shall promptly notify Town of this employment relationship, and shall, at the Town's sole discretion, sever any such employment relationship.

2.12 Equal Employment Opportunity. Consultant warrants that it is an equal opportunity employer and shall comply with applicable regulations governing equal employment opportunity. Neither Consultant nor its subcontractors do and neither shall discriminate against persons employed or seeking employment with them on the basis of age, sex, color, race, marital status, sexual orientation, ancestry, physical or mental disability, national origin, religion, or medical condition, unless based upon a bona fide occupational qualification pursuant to the California Fair Employment and Housing Act.

### **III. INSURANCE AND INDEMNIFICATION**

3.1 Minimum Scope of Insurance:

- i. Consultant agrees to have and maintain, for the duration of the contract, General Liability insurance policies insuring him/her and his/her firm to an amount not less than: one million dollars (\$1,000,000) combined single limit per occurrence for bodily injury, personal injury, and property damage.
- ii. Consultant agrees to have and maintain for the duration of the contract, an Automobile Liability insurance policy ensuring him/her and his/her staff to an amount not less than: one million dollars (\$1,000,000) combined single limit per accident for bodily injury, personal injury, and property damage.



- iii. Consultant shall provide to the Town all certificates of insurance, with original endorsements effecting coverage. Consultant agrees that all certificates and endorsements are to be received and approved by the Town before work commences.
- iv. Consultant agrees to have and maintain, for the duration of the contract, professional liability insurance in amounts not less than: one million dollars (\$1,000,000) which is sufficient to insure Consultant for professional errors or omissions in the performance of the particular scope of work under this agreement.

General Liability:

- i. The Town, its officers, officials, employees, and volunteers are to be covered as insured as respects: liability arising out of activities performed by or on behalf of Consultant; products and completed operations of Consultant; premises owned or used by Consultant. This requirement does not apply to the professional liability insurance required for professional errors and omissions.
- ii. Consultant's insurance coverage shall be primary insurance as respects the Town, its officers, officials, employees, and volunteers. Any insurance or self-insurances maintained by the Town, its officers, officials, employees, or volunteers shall be excess of Consultant's insurance and shall not contribute with it.
- iii. Any failure to comply with reporting provisions of the policies shall not affect coverage provided to the Town, its officers, officials, employees, or volunteers.
- iv. The Consultant's insurance shall apply separately to each insured against whom a claim is made, or suit is brought, except with respect to the limits of the insurer's liability.

3.2 All Coverages. Each insurance policy required in this item shall be endorsed to state that coverage shall not be suspended, voided, cancelled, reduced in coverage or in limits except after thirty (30) days prior written notice by certified mail, return receipt requested, has been given to the Town. Current certification of such insurance shall be kept on file at all times during the term of this agreement with the Town Clerk.

3.3 Workers' Compensation. In addition to these policies, Consultant shall have and maintain Workers' Compensation insurance as required by California law and shall provide evidence of such policy to the Town before beginning services under this Agreement. Further, Consultant shall ensure that all subcontractors employed by Consultant provide the required Workers' Compensation insurance for their respective employees.

3.4 Indemnification. The Consultant shall save, keep, hold harmless, and indemnify and defend the Town its officers, officials, employees, and volunteers from all damages, liabilities, penalties, costs, or expenses in law or equity that may at any time arise or be set up because of damages to property or personal injury received by reason of, or in the course of performing work which may be occasioned by a willful or negligent act or omissions of Consultant, or any of Consultant's officers, employees, or agents or any subconsultant.

#### IV. GENERAL TERMS

4.1 Waiver. No failure on the part of either party to exercise any right or remedy hereunder shall operate as a waiver of any other right or remedy that either party may have hereunder, nor does waiver of a breach or default under this Agreement constitute a continuing waiver of a subsequent breach of the same or any other provision of this Agreement.

4.2 Governing Law. This Agreement, regardless of where executed, shall be governed by and construed to the laws of the State of California. Venue for any action regarding this Agreement shall be in the Superior Court of the County of Santa Clara.

4.3 Termination of Agreement. The Town and the Consultant shall have the right to terminate this agreement with or without cause by giving not less than fifteen days (15) written notice of termination. In the event of termination, Consultant shall deliver to the Town all plans, files, documents, and reports, performed to date by Consultant. In the event of such termination, Town shall pay Consultant an amount that bears the same ratio to the maximum contract price as the work delivered to the Town bears to completed services contemplated under this Agreement, unless such termination is made for cause, in which event, compensation, if any, shall be adjusted in light of the particular facts and circumstances involved in such termination.

4.4 Amendment. No modification, waiver, mutual termination, or amendment of this Agreement is effective unless made in writing and signed by the Town and Consultant.

4.5 Disputes. In any dispute over any aspect of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees, including costs of appeal.

4.6 Notices. Any notice required to be given shall be deemed to be duly and properly given if mailed postage prepaid, and addressed to:

Town of Los Gatos  
Attn: Town Clerk  
110 E. Main Street  
Los Gatos, CA 95030

HouseKeys  
Attn: Julius Nyanda  
358 Digital Drive  
Morgan Hill, CA 95037

or personally delivered to Consultant to such address or such other address as Consultant designates in writing to the Town.

- 4.7 Order of Precedence. In the event of any conflict, contradiction, or ambiguity between the terms and conditions of this Agreement in respect of the Products or Services and any attachments to this Agreement, then the terms and conditions of this Agreement shall prevail over attachments or other writings.
- 4.8 Entire Agreement. This Agreement, including all Exhibits, constitutes the complete and exclusive statement of the Agreement between the Town and Consultant. No terms, conditions, understandings, or agreements purporting to modify or vary this Agreement, unless hereafter made in writing and signed by the party to be bound, shall be binding on either party.

IN WITNESS WHEREOF, the Town and Consultant have executed this Agreement.

Town of Los Gatos by:

Consultant by:

\_\_\_\_\_  
Laurel Prevetti, Town Manager

\_\_\_\_\_  
Julius Nyanda, CEO/Program Manager  
HouseKeys

Recommended by:

\_\_\_\_\_  
Joel Paulson, Community Development Director

Approved as to Form:

\_\_\_\_\_  
Robert Schultz, Town Attorney



## **Organizational Profile**

### **Nyanda & Associates, LLC d/b/a HouseKeys**

358 Digital Drive, Morgan Hill, CA 95037

Main Phone Line: 1-877-460-KEYS (5397)

Website: [www.housekeys.org](http://www.housekeys.org)

Email: [programs@housekeys.org](mailto:programs@housekeys.org)

Primary Contact: Julius Nyanda, CEO/Program Manager

[julius@housekeys.org](mailto:julius@housekeys.org)

Office Line: 408-684-8202

Cell Phone: 415-846-8004

**Note:** No claim, lawsuit, or litigation to report

### **The HouseKeys Organization: A Modern Social Enterprise**

HouseKeys was started in April of 2015 in response to the void left by the wind down of several Silicon Valley nonprofit housing, lending, and counseling service providers. In our 3-year history, HouseKeys has been able to create a sustainable service model through public agency contracts and transaction revenue. As former employees of well-established nonprofit entities that folded after decades of service to the community, the HouseKeys team has reengineered the social enterprise model to ensure long-term sustainability through a combination of economically-conscious measures and market-driven solutions. Our experienced team has collaborated over the last ten years, while at different employers, to complete nearly 1,000 program for-sale transactions and manage hundreds of multi-family units during initial new construction lease-up, annual compliance and tenant turnover. There are entire residential housing projects throughout the Bay Area where one of us has had a role as either an agent, lender, counselor, or developer. The lessons learned from this work have enabled us to build the HouseKeys organization, program marketplace, administration platform, and information management system. In addition to the LLC, the HouseKeys team formed the nonprofit agency, HouseKeys Resource & Education Center Inc. (Tax I.D. 81-2880185) which obtained federal tax-exempt status in the summer of 2017. To facilitate real estate transactions, HouseKeys utilizes its state-licensed brokerage subsidiary, HouseKeys Services Corporation (Cal BRE# 02001942). Our strategic plan calls for an approach that utilizes our position as a service provider, educator, and technology company that can apply for grant dollars, attract equity from social investors, and continually cover operating costs through earned income.

### **Technology & the Program Marketplace**

In December of 2015, HouseKeys began recruiting an in-house technology team and building a program marketplace and management platform that not only delivers value to our public agency clients, but also has a direct-to-consumer interface that serves a subscriber base of prospective program applicants and current program participants. After testing other database systems, resource planners, and relationship management tools, HouseKeys decided to build its own database-driven system, from the ground up, to facilitate program administration activities throughout the housing supply chain and program workflow. Instead of downloading forms and exchanging emails, our users



will create a household or entity account and enter an end-to-end program marketplace that houses the direct and 3<sup>rd</sup> party relationships needed to successfully complete program transactions. Users will participate in a streamlined process that reduces paperwork, improves communication, and generates valuable, real-time program data. HouseKeys launched the consumer applicant portal in the Summer of this year (2018) and is looking to launch our Provider Portal in the first quarter of 2019.

## **Content & Media Library**

Program awareness is a major concern at HouseKeys. While studies and statistics show that over 70% of households fall within an eligible income category, most of the public is unaware of the housing opportunities made available through local programs. Land Use and Tax Credit Policies are the primary tool used to generate affordable housing, and yet maintaining a pool of eligible and qualified prospective applicants is critical to getting units occupied and attracting funding from financial institutions. Between our illustrations, animated segments, video podcast, and weekly radio show – we strive to reach the public, build interest in the programs, and increase participation. This helps us navigate the low pull-through associated with finding motivated applicants who are both eligible and qualified.

## **Our Team**

At the core of our capabilities is our close-knit and highly capable team of 10 dedicated practitioners. Each plays a specialized role in providing the expertise needed to design and implement programs, determine household eligibility, manage program transactions, ensure compliance, manage information, and design workflows. Homeownership programs have the unique distinction of having program participants with an ownership stake and legal rights that make the agency-provider responsible for how well the contract language captures program intent. HouseKeys has spent a significant amount of time learning about the defensibility of program contracts through litigation and negotiation activity in cases where program violations occurred because of actions by a homeowner and/or lender. Whether the administrative response required new local laws to be enacted by the public agency, updated contract language or new enforcement policies - our team has consistently been responsive and effective. From 2016 to 2018, we had full-time, in-house counsel on staff, and worked as a team to design our legal strategy to function like an outside collection agency. In 2018, we transitioned from in-house counsel, to keeping attorneys on retainer to deal with cases as they come up. We are actively working on the release of our updated program administration platform called MyHouseKeys at [www.myhousekeys.com](http://www.myhousekeys.com)



Position	Role	Name	Phone	Email
Program Manager	Oversight of the Organization & Program	Julius Nyanda	408-684-8202	<a href="mailto:julius@housekeys.org">julius@housekeys.org</a>
Program Relationship Manager	Program Education & Partnerships	Abraham Valle	408-712-3761	<a href="mailto:abraham@housekeys.org">abraham@housekeys.org</a>
Program Asset Manager	Transactions, Program Inventory & Compliance	Christina Enriquez	408-684-8788	<a href="mailto:christina@housekeys.org">christina@housekeys.org</a>
Program Transaction Coordinator	Existing Owners, Program Inventory, New Construction	Katarina Marusic	408-684-8291	<a href="mailto:katarina@housekeys.org">katarina@housekeys.org</a>
Program Operations Coordinator	Ticket Handling & Application Prep	Kamala Loving	408-684-8364	<a href="mailto:kamala@housekeys.org">kamala@housekeys.org</a>
Program Underwriter	Applicant Eligibility and Participant Compliance	Kathie Wells	408-684-8831	<a href="mailto:Kathie@housekeys.org">Kathie@housekeys.org</a>
Program Processor	Applicant & Participant File Management	Mandy Israde	408-684-8830	<a href="mailto:mandy@housekeys.org">mandy@housekeys.org</a>
Program Accountant and Analyst	Accounting and Support	Angelica Garcia	N/A	<a href="mailto:angelica@housekeys.org">angelica@housekeys.org</a>
Real Estate Project Manager	Rehab/Remodel projects and site inspection for BMR Units under construction	John Ash	408-592-7884	<a href="mailto:john@housekeys.org">john@housekeys.org</a>
Technology Manager & Database Engineer	Design and Implementation of Data Model, Database & Initial Prototype	Everett Bobby Gasper	N/A	<a href="mailto:bobby@housekeys.org">bobby@housekeys.org</a>
Server Administrator & API Engineer	Server Capabilities, Security, API Engineering, and External Data Sourcing	Frank Adams	N/A	<a href="mailto:frank@housekeys.org">frank@housekeys.org</a>
Software Engineering	Interface and Full Stack Development	Kunal Bohra	N/A	<a href="mailto:kunal@housekeys.org">kunal@housekeys.org</a>



## **HouseKeys Scope of Services** **Ownership / Rental / Loan Program Administration 2020-2021 FY**

This Scope of Work details the roles and responsibilities that HouseKeys provides to its Municipal Clients. HouseKeys' Program Administrator Role ("Administrator") positions it to serve as the municipality's interface with industry practitioners and the public. This list not only includes Applicants and Program Participants, it also includes project owners, developers, property managers, mortgage lenders, real estate agents, and escrow officers.

1. Administrator will administer the program and assure Affordability Deed Restrictions are recorded and followed by all parties as applicable for each property.
2. Administrator will provide offsite support for service requests. Orientations and workshops will be held for residents of the municipality. Note: Due to COVID-19 related restrictions, these workshops are held remotely.
3. Administrator will regularly update program guidelines and program materials in conjunction with Municipal staff to reflect the Administrator's administrative process for Program Administration including, but not limited to: applications, program pamphlets, resale calculations, buyer selection process, sale and resale of units, refinancing requests, collection of Municipal fees and other applicable fees, and default monitoring/resolution process. Administrator's objective will be to work alongside Municipal Staff to incorporate "learnings" from the team's collective history with Affordability Programs in municipalities in Santa Clara, San Benito, Contra Costa, Alameda, San Francisco, San Mateo, Santa Cruz, and Monterey Counties.
4. Administrator will maintain an affordability program website presence that will link to the municipality's housing website.
5. Administrator and the Municipality will agree to mutually acceptable performance measures for program administration. These measures shall be included in the quarterly program summary report.
  - a. General Inquiries: Respond within 48 business hours
  - b. Loan Requests: Respond within 48 business hours, Complete requests within reasonable time, with weekly status updates for outstanding requests
  - c. Orientations: Minimum 6 per year, with more as needed for new opportunities
  - d. Rental Vacancies: Fill vacancies within 60 days
  - e. Annual Monitoring: Provide homeowners 30 days to submit recertification packages. Note: multiple collection rounds will extend this timeline.
  - f. Follow up letters at 60 and 90 days before beginning enforcement procedures for non-compliant homeowners
  - g. Eligibility List: Maintain a minimum buyer-to-property ratio of 5:1

- h. Application ID issuance: Issue within 2 business days.
6. Administrator shall maintain the Municipality's existing records, databases, and files through a file retention and management system for the program. All electronic records will be considered work products that are property of the Municipality. The Administrator shall update the Municipality's records quarterly to ensure a coordinated seamless record keeping process. The database shall include the following at a minimum:
- a. For each Program / Former RDA Development if applicable (new and existing):
    - 1) A list of all program units in the development
    - 2) The date of the program developer agreement
    - 3) Program units lost, including date, reason for loss, initial sales price, resale price, and actions taken
  - b. For each ownership unit (new and existing):
    - 1) The address for each ownership unit
    - 2) The level of affordability (e.g., Extremely Low, Very Low, Low, Moderate)
    - 3) The current owner of record
    - 4) The expiration date of the owner agreement
    - 5) The last date of recertification
    - 6) The recertification status (updated annually)
    - 7) The original sales price
    - 8) The current resale restriction price
    - 9) Dates of owner turn-over, as applicable
  - c. For each rental unit (new and existing)
    - 1) The unit number for each rental unit
    - 2) The level of affordability (e.g., Extremely Low, Very Low, Low, Moderate)
    - 3) The current tenant of record
    - 4) The last date of recertification
    - 5) The recertification status (updated annually)
  - d. For each affordable housing loan:
    - 1) The type of loan (e.g., RDA, BEGIN, FTHB, etc.)
    - 2) The address associated with the loan
    - 3) The current owner of record (this should be the loan recipient)
    - 4) The amount, term, and due date of the loan
    - 5) dates of payoff and interest collected, as applicable
    - 6) dates of refinance/subordination, as applicable
    - 7) dates of write-off and amount, as applicable
  - e. Other information as requested and mutually agreed to.
7. Administrator shall provide a quarterly program summary report to the Municipality on the following dates and with the following information, consistent with task #5 and



#6:

Q1 (July – Sept): October 30, 20XX

Q2 (Oct – Dec): January 31, 20XX

Q3 (Jan – March): April 30, 20XX

Q4 (April – June): July 31, 20XX

- a. Performance Measures (see task #5)
  - b. For each owner unit (new and existing):
    - 1) The address for each ownership unit
    - 2) The level of affordability (e.g., Very Low, Low, Moderate)
    - 3) The current owner of record
    - 4) The last date of recertification and current recertification status
  - c. For each rental unit (new and existing)
    - 1) The unit number for each rental unit
    - 2) The level of affordability (e.g., Very Low, Low, Moderate)
    - 3) The current tenant of record
    - 4) The last date of recertification and current recertification status
  - d. For each affordable housing loan:
    - 1) The type of loan (e.g., RDA, BEGIN, FTHB, etc.)
    - 2) The address associated with the loan
    - 3) The current owner of record (this should be the loan recipient)
    - 4) The amount, term, and due date of the loan
    - 5) Dates of payoff and interest collected, as applicable
    - 6) Dates of refinance/subordination, as applicable
    - 7) Dates of write-off and amount, as applicable
  - e. Current list of defaults and pending defaults
    - 1) Actions taken to date
    - 2) Next steps, including dates
  - f. In-lieu fees collected, if applicable
  - g. Other information as requested and mutually agreed to
8. Administrator will provide the applicants with the following services:
- a. Conducting income qualifications including review of assets, income, Verifications of Employment, and all other necessary approvals to ensure qualification for the Municipal Program loans.
  - b. Making minor revisions to the Municipality's existing program materials and legal documents.
  - c. Underwriting loan applications in accordance with program requirements.
  - d. Preparing all loan documents, overseeing proper execution thereof, and

- conducting final loan approval reviews.
  - e. Ensuring timely delivery of all necessary documents into escrow, and preparing escrow demands and funding requests.
  - f. Overall management and implementation of specific program policies, including required reporting.
  - g. Preparation of program materials by revising the Municipality's current documents.
  - h. Calculating all pay off demands and issuing any disclosures and tax forms as required by State and/or Federal Law.
  - i. Calculating the resale value of all ownership program homes as requested annually by the County.
  - j. Work with Municipal staff to ensure a seamless and coordinated development of documents as it relates to the Affordability Program, including the Developer application process where Restricted Affordability Units are included, reviewing developer agreements, and ensuring that affordability requirements are outlined in an Affordable Housing Agreement and any subsequent amendments to the development documentation.
9. Administrator shall act as transaction coordinator for all real estate transactions and will provide the Municipality with a fee schedule. Administrator will charge BMR resale transaction fees in line with applicable recorded Deed Restrictions. Administrator will charge the developer transaction coordination fees in accordance with the Affordable Housing Agreement pertaining to the subject development project.
10. Administrator will coordinate document transmittals between buyers, homeowners, developers, and Municipality as needed. Administrator will be responsible for ensuring all documents submitted for Municipal signatures are complete and accurate. Administrator will be responsible for making any necessary corrections to documents.
11. Administrator shall work alongside Staff to conduct monitoring to annually evaluate Program Owners' & Renters' compliance with the terms and conditions of the recorded deed restrictions and program guidelines including the following:
- a. Mailing monitoring letters to all the Program units.
  - b. Reviewing in conjunction with Municipal staff, Municipality or County Assessor data to assist in the process (e.g., water utility bills, property records).
  - c. Review Municipality's preliminary monitoring list to identify follow up actions required.
  - d. Meet with Municipal staff to develop guidelines for acceptable default remedies (e.g., allowing rental of Program Units for hardship cases).

12. Administrator shall work alongside Staff to investigate and identify cure for potential BMR defaults including:
  - a. Conduct follow up of those Program Owners who do not submit their compliance documentation.
  - b. Reviewing information from calls from Program Unit neighbors and interested parties.
  - c. Conduct reasonable follow-up investigation to assess potential defaults including unit site visits.
  - d. Scheduled appointments with Program Owners.
  - e. For confirmed defaults, provide Program Owners with list of actions needed to remedy the default and conduct follow-up to monitoring compliance.
  - f. Maintaining log of actions taken to remedy the defaults.
  - g. For those defaults in which the Program Owners choose to not remedy the situation within a reasonable amount of time, Administrator will meet with Municipal staff to determine the course of action to pursue. Municipality authorization will be sought for any legal action taken.
  - h. Municipality will provide a list of any current program participant defaults and actions taken to date.
13. Administrator shall conduct introductory Home Buyer Education/Training classes – Homebuyer Orientation Classes prior to Program application
14. Administrator shall build and maintain a group of qualified and eligible Program homebuyers at a minimum Buyer-to-Property ratio of 5:1
15. Administrator will partner with the Municipality to create Program legal templates for documents required for signature by the Program participants. Administrator shall supply documents that are typically used in the Applicable County for residential real estate transactions (e.g. purchase and sale, disclosure acknowledgements, addendums, etc.)
16. Administrator will maintain a list of approved loan officers and lending operations eligible to provide mortgage lending for purchase and refinance transactions
17. Administrator will review individual program restrictions for terms and requirements as needed including shared equity programs, down payment assistance loans and any resale restriction agreements.
18. Administrator will prepare Municipal staff reports.

In addition, the HouseKeys team will provide the following services:

- A. Administrator will enter contract with the Municipality with the intention of adding the Municipality to the Model City Project that incorporates Industry Best Practices, A

Program Database, and a Regional Program Working Group. This Project will improve efficiencies and reduce program costs to the Municipality.

- B. Administrator will provide training, analysis, and suggested improvements to the Affordability Program.
- C. Administrator will prepare a presentation for Staff and Council Members on the Model City Project.

## HOUSEKEYS FEE SCHEDULE 2020-2021

<u>Description</u>	<u>Fee<sup>1</sup></u>	<u>Fee Cap / Max</u>	<u>Billed To</u>
<b>Program Administration</b>	Base Fee to be Determined at Contract		Municipality
<b>Rental Unit Processing Fee</b>	\$1,500.00 per lease transaction	\$1,500 per lease transaction	Developer
<b>Loan Processing Transaction Fee</b>	\$1,250.00 per transaction <sup>2</sup>	\$1,250.00 per transaction	Owner / Lender
<b>New Ownership Sales Transaction Fee</b>	3% of Sales Price	Maximum \$18,000.00	Paid by Developer or Added to Sales Price
<b>Ownership Resale (compliant) Transaction Fee</b>	6% of New Sales Price	Maximum \$36,000.00	Buyer (via Sales Price)
<b>Acquisition (default) and Ownership Resale / Rehab Transaction Fee</b>	5% of Resale Restriction Price plus 5% of New Sales Price	Maximum \$60,000.00	Buyer (via Sales Price)
<b>Application I.D. Issuance</b>	No fee	No fee	n/a
<b>Participant I.D. Issuance</b>	No fee	No fee	n/a
<b>Opportunity Drawing (Lottery) Entry Fee</b>	\$25.00	\$25.00	Applicant
<b>Application Fee</b>	\$75.00	\$75.00	Applicant
<b>Billing Rate for Projects Outside of Contract Scope</b>	\$250.00 / hour	\$250.00 / hour	Municipality

<sup>1</sup> Fees may be lower pursuant to the relevant executed Agreement (e.g., developer agreement, owner resale restriction agreement, promissory note, etc.)

<sup>2</sup> 25% of the \$1,250 loan processing fee (\$312.50) paid by the owner/lender will be transferred to the Municipality for administration and internal processing of the subordination / payoff request.



## City of Morgan Hill

**Role:** Program Administrator

**Program(s):** Ownership, Rental, Lending

**Timeline:** June 2015 to Present (Note: 4 Team Members were employed by previous Program Administrator from 2012-2015)

### Applicable Scope of Services Includes:

- Homebuyer Orientation
- Homeowner Workshops and “Town Hall” Listening Sessions
- Applicant Eligibility (Processing and Underwriting)
- Participant Compliance
- Asset Management
- Overseeing Ownership Program, Loan Portfolio, and Rental Program
- Real Estate Acquisition, Rehabilitation, and Sales
- Program Development (Marketing Materials, Guideline Creation, and Municipal Code Modifications)

### Description Relevant Experience:

Morgan Hill has a well-established ownership program that has been in place for over 40 years and includes over 500 units spread out across nearly 75 residential development projects. Due to the varying nature of each restriction agreement, this has been the training ground on which the HouseKeys team continues to hone its skills. Resale Restriction Agreements include mutual self-help homes, forgivable notes that lock up equity for the first 20 years before passing it to the owner by year 30, and index-based restricted resale prices. Affordable Properties have been built through the City’s former Redevelopment Agency and through its Residential Development Control System, whereby developers compete for allocations and earn points for affordable units. HouseKeys has dealt with a variety of compliance challenges and transaction types, all while handling a healthy volume of new construction and resale transactions.

**Budget:** \$525,000 per year

**Morgan Hill Contact:** Rebecca Garcia, Housing Manager  
City of Morgan Hill  
408-778-6480 / [rebecca.garcia@morganhill.ca.gov](mailto:rebecca.garcia@morganhill.ca.gov)



## City of Campbell

**Role:** Program Administrator

**Program(s):** Ownership, Rental, Lending

**Timeline:** June 2016 to Present (Note: 4 Team Members were employed by Affordable First Mortgage Lender that financed many of the affordable ownership units in the city's program)

### Applicable Scope of Services Includes:

- Homebuyer Orientation
- Applicant Eligibility (Processing and Underwriting)
- Participant Compliance
- Asset Management
- Overseeing Ownership Program, Loan Portfolio, and Rental Program
- Real Estate Acquisition, Rehabilitation, and Sales
- Program Development (Marketing Materials and Guideline Creation)

### Description of Relevant Experience:

The HouseKeys team's experience in the City of Campbell started with an early partnership on one of their largest affordable ownership projects. At our previous employer, we used our Fannie Mae Seller Servicer status to serve as the primary first mortgage lender for 40 affordable homeownership units. We coordinated with the City of Campbell, Charities Housing, and Housing Trust Silicon Valley. Years later, when the City of Campbell was looking for a Program Administrator, HouseKeys was invited to propose in response to the city's 2016 RFP. Our onboarding process including ownership units, rentals, and the first-time homebuyer loan portfolio. After a rocky start during the first year, HouseKeys was able to gain the trust of staff and council and got a renewal in 2017 and has continued to do so. The strength that shined through in this contract, was our ability to tackle difficult compliance enforcement activities that culminated with the acquisition of a BMR Unit and a resale to an eligible subsequent purchaser.

**Budget:** \$137,200 per year (\$30,000 Onboarding)

**City of Campbell Contact:** Stephen Rose, Senior Planner  
City of Campbell  
408-866-2412 / [stephenr@campbellca.gov](mailto:stephenr@campbellca.gov)



## City of Gilroy

**Role:** Program Administrator

**Program(s):** Ownership, Rental, Lending

**Timeline:** June 2017 to Present

### Scope of Services Includes:

- Homebuyer Orientation
- Applicant Eligibility (Processing and Underwriting)
- Participant Compliance
- Asset Management
- Overseeing Ownership Program, Loan Portfolio, and Rental Program
- Real Estate Acquisition, Rehabilitation, and Sales
- Program Development (Marketing Materials and Municipal Code Modifications)

### Description of Relevant Experience:

Gilroy is a multi-faceted contract whereby the HouseKeys team has a longstanding relationship through its work with South County Housing. Members of the HouseKeys Team were part of the first mortgage lending teams that provided financing to many of the homeowners in the project. As we continue to rebuild the database of existing units and determine which units are still in the program, we will rely on this experience as we work to facilitate transactions and perform compliance reviews. The City of Gilroy has over 480 ownership units, spread across 10 residential development projects. These were made possible through nonprofit developer financing and the Residential Development Ordinance. HouseKeys has been holding orientation classes each month to build the buyer pool and our team is working alongside staff to refine the scope as we work through the onboarding.

**Budget:** \$90,000 (\$40,000 onboarding)

### City of Gilroy Contact:

Karen L. Garner, Community Development Director  
City of Gilroy  
408-846-0451  
[Karen.garner@ci.gilroy.ca.us](mailto:Karen.garner@ci.gilroy.ca.us)





## City of Burlingame

**Role:** Program Administrator

**Program(s):** Rental

**Timeline:** June 2018 to Present

### Scope of Services Includes:

- Renter Orientation
- Applicant Eligibility (Processing and Underwriting)
- Participant Compliance
- Asset Management
- Overseeing Rental Program
- Initial Lease-Ups and Vacancies
- Program Development (Marketing Materials and Municipal Code Modifications)

### Description of Relevant Experience:

Like Los Gatos, Burlingame was a legacy client from the team's time at Neighborhood Housing Services Silicon Valley. We reconnected in 2018 to provide assistance with the existing rental portfolio and then added a formalized contract in 2020 to assist with the new construction pipeline. We are presently working

**Budget:** \$90,000 (\$40,000 onboarding)

**City of Burlingame Contact:** Ruben Hurin, Planning Manager  
City of Burlingame  
650-558-7256  
[rhurin@burlingame.org](mailto:rhurin@burlingame.org)



## **City of San Ramon**

**Role:** Program Administrator

**Program(s):** Ownership

**Timeline:** June 2019 to Present

### **Scope of Services Includes:**

- Buyer Orientation
- Applicant Eligibility (Processing and Underwriting)
- Overseeing Ownership Program
- New Construction Project setup
- Program Development (Marketing Materials and Municipal Code Modifications)

### **Description of Relevant Experience:**

Lennar built the first affordable homeownership project in the City of San Ramon in nearly 15 years. Knowing that staff needed assistance with getting their homeownership program materials updated and in place, HouseKeys signed a contract to assist Lennar with its 28 affordable homeownership units and a contract with the City of San Ramon exclusively to assist with the Lennar Project.

**Budget:** \$30,000 Onboarding – Fee Agreement with Developer

**City of San Ramon Contact:** Cindy Yee, Senior Planner  
City of San Ramon  
925-973-2562  
[cjee@sanramon.ca.gov](mailto:cjee@sanramon.ca.gov)



## City of Hayward

**Role:** Program Administrator

**Program(s):** Ownership

**Timeline:** July 2020 to Present

### **Scope of Services Includes:**

- Buyer Orientation
- Applicant Eligibility (Processing and Underwriting)
- Overseeing Ownership Program
- New Construction Project setup
- Program Development (Marketing Materials and Municipal Code Modifications)

### **Description of Relevant Experience:**

Taylor Morrison (formerly William Lyon Homes) is building an ownership project that contains 28 affordable ownership units. HouseKeys was commissioned to interface with the City of Hayward and help them formalize program materials and facilitate the marketing, application, and transaction process for income-eligible buyers.

**Budget:** Fee Agreement with Developer

**City of Hayward Contact:** Christina Morales, Housing Division Manager  
City of Hayward  
510-583-4243  
[Christina.morales@hayward-ca.gov](mailto:Christina.morales@hayward-ca.gov)



## **City of Santa Clara**

**Role:** Program Administrator

**Program(s):** Rental

**Timeline:** June 2019 to Present

### **Scope of Services Includes:**

- Renter Orientation
- Applicant Eligibility (Processing and Underwriting)
- Participant Compliance
- Asset Management
- Overseeing Rental Program
- Initial Lease-Ups and Vacancies
- Program Development (Marketing Materials and Municipal Code Modifications)

### **Description of Relevant Experience:**

City of Santa Clara recently brought in HouseKeys to be the first 3<sup>rd</sup> party program administrator to oversee its rental program. This includes a large pipeline of new construction rental units that are being built, along with over 1,400 rental units in its existing inventory.

**Budget:** \$166,000 (\$55,000 onboarding)

**City of Santa Clara Contact:** Jonathan Veach, Housing Division Manager  
City of Santa Clara  
408-615-2297  
[jveach@santaclaraca.gov](mailto:jveach@santaclaraca.gov)

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**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/16/2021

ITEM NO: 9

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DATE: February 11, 2021  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Authorize the Town Manager to Purchase Two Vehicles:  
a. One Vehicle from Folsom Lake Ford in an Amount not to Exceed \$43,405 and  
b. One Cab Chassis with Aerial Lift Platform Body from Altec Industries, Inc. in an Amount not to Exceed \$129,658.

**RECOMMENDATION:**

Authorize the Town Manager to purchase two vehicles:

- a. One vehicle from Folsom Lake Ford in an amount not to exceed \$43,405 and
- b. One cab chassis with aerial lift platform body from Altec Industries, Inc. in an amount not to exceed \$129,658.

**BACKGROUND:**

As part of the Fiscal Year 2020/21 Operating Budget, the Equipment Replacement Fund was approved, providing funds for replacement of high mileage or older vehicles that have reached their replacement criteria or do not meet federal regulations for emissions. The Town's goal is to amortize a vehicle's replacement over its forecasted life and sets funds aside on an annual basis to ensure the Equipment Replacement Fund has sufficient resources for the timely replacement of vehicles. In addition, this funding structure allows for a smoothing of operating expenditures and a more accurate reflection of the actual cost of operations.

The Town Vehicle and Equipment Acquisition and Replacement Policy (Attachment 1) determines which assets should be replaced by evaluating predetermined age and/or mileage criteria.

**PREPARED BY:** Jim Harbin  
Superintendent

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Reviewed by: Town Manager, Assistant Town Manager, Town Attorney, Finance Director, and Parks and Public Works Director

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PAGE 2 OF 4

SUBJECT: Authorize the Town Manager to Purchase Vehicles:

- a. One Vehicle from Folsom Lake Ford in an Amount not to Exceed \$43,405 and
- b. One Cab Chassis with Aerial Lift Platform Body from Altec Industries, Inc. in an Amount not to Exceed \$129,658.

DATE: February 11, 2021

BACKGROUND (continued):

Fleet vehicle replacement purchases are reviewed annually through the Operating Budget and approved as part of the budget process. There are two assets recommended for replacement at this time.

DISCUSSION:

Police Department Vehicle

The Police Department currently operates a 2014 Ford Equinox equipped as an unmarked support vehicle for the detective bureau. The Police unmarked vehicle recommended for replacement is over six years old and has reached the identified criteria for replacement of 4 years and/or 75,000 miles. The lead time for purchasing and equipping detective vehicles will result in increased age and mileage.

Staff compared multiple vehicle models to determine the best option for replacement. In prior vehicle purchases, staff has taken into consideration several factors including the purpose of the vehicle, capabilities of the proposed vehicle, the vehicle's fuel consumption, and overall cost. Additionally, the Police Department needs to keep a fresh circulation of unmarked vehicles for successful operations. Staff proposes reassigning a vehicle from the Police Department command staff to the detective bureau and using the newly purchased vehicle as a replacement. This keeps an effective vehicle rotation in the Department.

The Police and Parks and Public Works Departments have evaluated options currently in production as a replacement vehicle. The mid-sized Ford Explorer Hybrid is a good all-around vehicle for this assignment and is familiar to staff in Police and Fleet Maintenance as it is a common vehicle for patrol. Extensive idle times make hybrid technology ideal for law enforcement. While stopped, the lithium hybrid batteries power lights, radios, computers, and other on-board electrical systems. The hybrid engine can shut off intermittently, self-starting to charge the battery when needed.

Parks and Public Works Vehicle

PPW currently operates a Ford F450 medium duty Versalift aerial unit which is used in the Parks and Public Works Maintenance Operations to provide access for work on signs, banners, streetlights, tree work, and other high locations needing work. The vehicle that staff

PAGE 3 OF 4

SUBJECT: Authorize the Town Manager to Purchase Vehicles:

- a. One Vehicle from Folsom Lake Ford in an Amount not to Exceed \$43,405 and
- b. One Cab Chassis with Aerial Lift Platform Body from Altec Industries, Inc. in an Amount not to Exceed \$129,658.

DATE: February 11, 2021

DISCUSSION (continued):

recommends replacing is fully amortized in the replacement program and all necessary funds are available. This vehicle is 14 years old and has reached the identified criteria for replacement of 12 years and/or 80,000 miles. The Town Vehicle and Equipment Acquisition and Replacement Policy is designed to replace vehicles and equipment prior to failure to ensure the ability of the Town to provide uninterrupted service. This vehicle has an older diesel engine that is overdue for an expensive upgrade this year to Tier 4 standards to operate in the State of California. Staff has been recommending light and medium duty vehicles and equipment purchases (pick-ups, vans, etc.) with non-diesel engines, which is directly in line with the Town's Sustainability Plan in reducing the Town's carbon footprint. The proposed vehicle is efficient, gas powered, and incorporates safety features such as a back-up camera, air ride, and ergonomic seating for the operator.

In accordance with the Town's Purchasing Policy Section 7c (Cooperative Purchasing), the purchase of these vehicles is based on a formal bid process completed by the State of California Department of General Services, which allows for other municipalities to purchase vehicles using their formal bid proposal documents (Attachment 2). The budget allows for replacement of each of the vehicles as recommended in this report.

CONCLUSION:

Authorize the Town Manager to purchase the vehicles described in this report.

ALTERNATIVES:

Alternatively, the Town Council could direct staff to delay replacement of the equipment. Staff does not recommend this alternative as the vehicles have reached the end of their useful life and the lack of a replacement vehicle will impact daily operations.



PAGE 4 OF 4

SUBJECT: Authorize the Town Manager to Purchase Vehicles:

- a. One Vehicle from Folsom Lake Ford in an Amount not to Exceed \$43,405 and
- b. One Cab Chassis with Aerial Lift Platform Body from Altec Industries, Inc. in an Amount not to Exceed \$129,658.

DATE: February 11, 2021

FISCAL IMPACT:

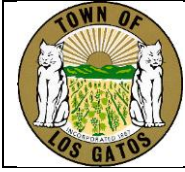
There are sufficient funds available in the Equipment Replacement Fund to purchase these vehicles.

ENVIRONMENTAL ASSESSMENT:

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

Attachments:

1. Town Vehicle and Equipment Acquisition and Replacement Policy
2. Bid Proposal Document



<b>TITLE:</b> Town Vehicle and Equipment Acquisition and Replacement Policy		<b>POLICY NUMBER:</b> 4-05
<b>EFFECTIVE DATE:</b> 4/6/1994		<b>PAGES:</b> 3
<b>ENABLING ACTIONS:</b>	<b>REVISED DATES:</b> 5/26/1998	
<b>APPROVED:</b> Mayor Linda Lubeck		

**PURPOSE**

To set forth specific procedures for the acquisition and disposal of vehicle and motorized equipment used by the Town of Los Gatos.

**SCOPE**

This policy will apply to the acquisition and disposal of vehicles and equipment used by all Town Departments.

**POLICY**

When purchasing vehicles or motorized equipment or disposing of surplus vehicles and equipment, the following will apply:

- A. Replacement of vehicles and motorized equipment is based on an equipment replacement schedule that allows for replacement on a programmed cycle. The recommended basis is as follows:

<u>Vehicle/Equipment Type</u>	<u>Replacement Cycle</u>
Police Patrol	3 years and/or 85,000 miles
Police Undercover (used, 1 to 2 years old)	4 years and/or 75,000 miles
Police Sedans (used, 1 to 2 years old)	4 years and/or 75,000 miles
Motor Cycles	4 years and/or 42,000 miles
Parking Vehicles	6 years and/or 75,000 miles
All-Terrain Vehicle	8 years and/or 50,000 miles
Police Vans	6 years and/or 85,000 miles
Sedans (new)	8 years and/or 85,000 miles

<b>TITLE:</b> Town Vehicle and Equipment Acquisition and Replacement Policy	<b>PAGE:</b> 2 of 3	<b>POLICY NUMBER:</b> 4-05
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<u>Vehicle/Equipment Type</u>	<u>Replacement Cycle</u>
Sedans (used 1 to 2 years old)	6 years and/or 85,000 miles
Pickups (gas)	8 years and/or 72,000 miles
Pickups (diesel)	12 years and/or 100,000 miles
Medium Trucks (gas)	8 years and/or 80,000 miles
Medium Trucks (diesel)	12 years and/or 100,000 miles
Heavy Trucks (gas)	8 years and/or 80,000 miles
Heavy Trucks (diesel)	15 years and/or 100,000 miles
Lawn Mowers	6 years
Roadable Mowers	8 years
Vans	8 years and/or 100,000 miles
Sweepers	6 years and/or 65,000 miles
Backhoes	10 years and/or 7,000 hours
Loaders	12 years and/or 7,200 hours
Graders	20 years and/or 9,000 hours
Aerial Units	12 years and/or 80,000 miles
Chippers	10 years and/or 5,000 hours
Compressors	12 years and/or 5,000 hours
Forklifts	17 years and/or 9,000 hours
Rollers	15 years
Trailers	10 years
Sprayers	8 years
Sewer Cleaners	6 years
Rodders	10 years

The equipment/replacement list will be used as a guideline in the replacement of vehicles and equipment. Other factors that will be used in the evaluation process include:

1. Overall conditions of vehicles and equipment
2. Repair records.
3. Vehicle efficiency and safety.
4. Service life related to extended use in other departments.

**B. COOPERATIVE PURCHASING PROGRAM:**

When purchasing vehicles and equipment, the town of Los Gatos will invite vendors (local and non-local) to submit bids. Where applicable, the Town will use the State of California Cooperative Purchasing Program.

<b>TITLE:</b> Town Vehicle and Equipment Acquisition and Replacement Policy	<b>PAGE:</b> 3 of 3	<b>POLICY NUMBER:</b> 4-05
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C. SPECIFICATIONS:

The Department of Parks and Public Works will review all specifications for vehicles and motorized equipment to be purchased by the Town of Los Gatos. Specifications will be prepared based on user needs, operating costs, safety factors, life expectancy, new technology, availability, and cost. When applicable, performance standards will be included in the specification writing process.

D. VEHICLE AND EQUIPMENT DISPOSAL:

Disposal may take place via trade-in when vehicles or equipment are purchased. If the trade-in offer is deemed insufficient, the Town will advertise and surplus items at a minimum pre-determined price. When possible, staff will try to offer specialized vehicles, such as Police patrol cars, to agencies that need such equipment but may not be able to purchase new equipment. Prior to the disposal of vehicle or equipment, the Parks and Public Works Department will determine if reassignment to another department is warranted.

E. RESPONSIBILITY:

All applicable departments within the Town of Los Gatos who are assigned vehicles or motorized equipment may be involved in the procurement/disposal process.

1. Finance personnel and the Town Manager shall review the equipment replacement list annually to ensure that replacement costs for vehicles and equipment are current and in-line with long-term replacement needs.
2. Each Department is responsible for requesting vehicle or equipment replacement during the annual budget process.
3. The Parks and Public Works Department will prepare vehicle specifications for all Town Departments except the Police Department.
4. The Parks and Public Works Department will review all Town specifications for vehicles and motorized equipment.
5. Disposal or reassignment of surplus vehicles and equipment will be coordinated by the Parks and Public Works Department.

APPROVED AS TO FORM:

\_\_\_\_\_  
/s/ Orry Korb, Town Attorney

# FOLSOM LAKE

## FORD



## THE FORD SOURCE

12755 FOLSOM BOULEVARD  
FOLSOM, CA 95630 • (916) 353-2000

**DANIEL A. RAIMONDI**

Fleet Director

CHIEF

(916) 353-2000, Ext.376  
Toll Free 1-800-655-0555  
Cell (916) 825-1622  
Fax (916) 353-2078  
danr@folsomlakeford.com

2021 OERDER-10-12 WEEKS

STATE CONTRACT 1-18-23-14B

1/11/2021

K8A 4DR AWD POLICE  
.119" WHEELBASE  
UJ STERLING GRAY  
F CLTH BUCKETS/RR  
6 EBONY  
500A EQUIP GRP  
99W .3.3L HYBRID  
44B .10-SP MOD HYBRD  
JOB #2 ORDER  
CA BOARD FEES  
FLEET SPCL ADJ  
16D BADGE DELETE  
425 50 STATE EMISS  
55F KEYLESS - 4 FOB  
60R NOISE SUPPRESS  
65U INT UPGRADE PKG  
.CARPET FLR COV  
.SYNC 3  
66A FRONT HDLMP PKG  
.GRILL WIRING  
66B TAIL LAMP PKG  
85D FRT CNSL MT DEL  
86T RR TAILLAMP HSG  
87R RR VIEW MIR/CAM  
90E LH/RH PNLS III  
153 FRT LICENSE BKT

\$39,767.53 PLUS TAX

PLUS \$8.75 CA TIRE FEE

LESS \$500.00 DISCOUNT  
20 DAY PAYMENT

DELIVERED

Quoted for: Town of Los Gatos

Customer Contact:

Phone: / Email:

Quoted by: Brooklyn Russell

Phone: 270-505-1691 / Email: brooklyn.russell@altec.com

Altec Account Manager: William Hamburger

**REFERENCE ALTEC MODEL**

**Sourcwell Price**

AT37G	Articulating Telescopic Aerial Device (Insulated)	\$104,353
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**(A.) SOURCEWELL OPTIONS ON CONTRACT (Unit)**

1	AT37G-US40	40' Boom Height (AT40-G) MUST quote ISO option	\$2,236
2	AT37G-ISO	ISO boom - MUST QUOTE for 40' boom height (n/a on base model)	\$3,937
3	AT37G-GAS	Gas Engine	-\$4,313
4			

**(A1.) SOURCEWELL OPTIONS ON CONTRACT (General)**

1	FE	POWER EQUIPMENT (Power Locks and Power Windows)	\$993
2			
3			
4			
5			
6			
7			
8			
<b>SOURCEWELL OPTIONS TOTAL:</b>			<b>\$107,206</b>

**(B.) OPEN MARKET ITEMS (Customer Requested)**

1	UNIT		
2	UNIT & HYDRAULIC ACC	Bemis PPF295 Post Puller and Atlas LPD-T with adapter	\$10,757
3	BODY		
4	BODY & CHASSIS ACC		
5	ELECTRICAL		
6	FINISHING		
7	CHASSIS	2022 Dodge Gas 4x2 ILO Stock Chassis	-\$3,526
8	OTHER		
<b>OPEN MARKET OPTIONS TOTAL:</b>			<b>\$7,231</b>

**SUB-TOTAL FOR UNIT/BODY/CHASSIS: \$114,437**  
**Delivery to Customer: \$4,668**  
**TOTAL FOR UNIT/BODY/CHASSIS: \$119,105**

**(C.) ADDITIONAL ITEMS (items are not included in total above)**

1	OTHER	Document, Admin, Tire Fees	\$110.50
2	OTHER	ESTIMATED Taxes	\$10,441.88
3			
4			

**\*\*Pricing valid for 45 days\*\***

**NOTES**

**PAINT COLOR:** White to match chassis, unless otherwise specified

**WARRANTY:** Standard Altec Warranty for Aerials and Derricks - One (1) year parts warranty One (1) year labor warranty Ninety (90) days warranty for travel charges (Mobile Service) Limited Lifetime Structural Warranty. Chassis to include standard warranty, per the manufacturer.

**TO ORDER:** To order, please contact the Altec Account Manager listed above.

**CHASSIS:** Per Altec Commercial Standard

**DELIVERY:** No later than **360-390** days ARO, FOB Customer Location

**TERMS:** Net 30 days

**BEST VALUE:** Altec boasts the following "Best Value" features: Altec ISO Grip Controls for Extra Protection, Only Lifetime Warranty on Structural Components in Industry, Largest Service Network in Industry (Domestic and Overseas), Altec SENTRY Web/CD Based Training, Dedicated/Direct Gov't Sales Manager, In-Service Training with Every Order.

**TRADE-IN:** Equipment trades must be received in operational condition (as initial inspection) and DOT compliant at the time of pick-up. Failure to comply with these requirements, may result in customer bill-back repairs.

**BUILD LOCATION:** Elizabethtown, KY



January 13, 2021  
Our 92nd Year

**Ship To:**  
TOWN OF LOS GATOS  
41 MILES AVE  
LOS GATOS, CA 95030-0000  
US

**Bill To:**  
TOWN OF LOS GATOS  
PO BOX 949  
LOS GATOS, CA 95031-0000  
United States

Attn:  
Phone:  
Email:

**Altec Quotation Number:** 797733 - 3  
**Account Manager:** William P Hamburger  
**Technical Sales Rep:** Brooklyn Ryan Russell

<u>Item</u>	<u>Description</u>	<u>Qty</u>	<u>Price</u>
	<u>Unit</u>		
1.	ALTEC Model AT40-G telescopic articulating Aerial device with ISO-Boom.	1	
	A. ISO Boom: the inner telescopic fiberglass boom maintains full dielectric integrity even with the fiberglass inner boom fully retracted.		
	B. Hydraulic platform leveling system.		
	C. Hydraulic tool circuit at the platform.		
	D. Emergency lowering valve at the platform.		
	E. Single handle control at the platform with a safety interlock system.		
	F. Two (2) operators and maintenance/parts manuals.		
	G. Working height: 45.6 feet		
	H. Side reach: 29.7 feet		
	I. Low-power fiber-optic control system (FOC-L).		
	J. Continuous rotation		
2.	AT40G Unit Model	1	
3.	Post style pedestal mounting	1	
4.	Poly Hydraulic Reservoir, Pedestal Mounted, 7 Gallon (Includes Sight Gauge)	1	
5.	Single One-Man End-Mounted Platform With 180 Degree Rotator, 24 X 30 X 42. Platform is rated at 400 pounds. Control panel on platform dashboard provides controls for auxiliary functions. Includes emergency stop (push-pull) switch and rocker switches, which operate platform leveling, platform rotation, tools, and battery selector (for fiber-optic controls system). Composite fiberglass platform mounting bracket. (AT40G)	1	
6.	Platform Leveling At Lower Controls. AT40-G	1	
7.	Two (2) Platform Steps	1	
8.	Soft nylon reinforced vinyl platform cover for a 24 x 30 inch platform	1	
9.	Platform liner for a 24 x 30 x 42 inch platform	1	

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And Opportunity of Serving You

UTILITY EQUIPMENT AND BODIES SINCE 1929

<u>Item</u>	<u>Description</u>	<u>Qty</u>	<u>Price</u>
10.	4-Function Single Handle Fiber-Optic Controller.	1	
11.	Engine Start/Stop at the upper controls actuated through the Fiber-Optic controls system with Secondary Stowage System (AT40G)	1	
12.	Manual lowering valve located at the boomtip. For use in emergency situations to allow the operator to lower the boom to the ground	1	
13.	Powder coat unit Altec White.	1	
<b><u>Unit &amp; Hydraulic Acc.</u></b>			
14.	HVI-22 Hydraulic Oil (Standard).	9	
15.	Standard Pump For PTO	1	
16.	Hot shift PTO for automatic transmission	1	
17.	Custom Hydraulic Tool Bemis heavy duty PPF295 post puller mounted on front bumper	1	
18.	Additional Unit/Hydraulic Accessory Atlas Copco LPD-T part# 18014040 02 and the adapter to drive a 2 1/4" sign anchor - Square adapter #3371 8060 32 and universal adapter #3371 8060 34	1	
<b><u>Body</u></b>			
19.	108 Inch Universal Small Aerial Body for a 60 Inch CA Chassis with 38 Inch Long Side Access Tailshelf to Meet the Following Specifications:	1	
	A. Basic body fabricated from A40 grade 100% zinc alloy coated steel		
	B. All doors are full, double paneled, self-sealed with built-in drainage.		
	C. Stainless steel hinge rods extend full length of door.		
	D. Door hinges are zinc alloy material attached with rivets		
	E. All doors contain stainless steel, flush mounted, paddle activated rotary style latches with two-stage locking, including keyed locks and adjustable strikers.		
	F. Heavy-gauge welded steel frame construction with smooth galvanneal floor.		
	G. Possible contact edges are folded for safety.		
	H. Door header drip rail at top for maximum weather protection.		
	I. Neoprene or rolled fenders on wheel fender panels.		
	J. Steel treated for improved primer bond and rust resistance.		
	K. Automotive underseal applied to body.		
	L. Automotive type non-porous door seals fastened to the door facing.		
	M. 108 Inch Body Length		
	N. 40 Inch Body Height (Standard)		
	O. 94 Inch Body Width (Standard)		
	P. 20 Inch Body Compartment Depth (Standard)		
	Q. 8 Inch Body crossmembers (Standard)		
	R. No Treadplate On Compartment Tops		
	S. 6 Inch tall wooden tailboard installed at the rear of body cargo area		
	T. Stainless Steel Rotary Paddle Latch With Lock (Standard)		

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<u>Item</u>	<u>Description</u>	<u>Qty</u>	<u>Price</u>
U.	Master Body Locking System (Standard)		
V.	One (1) wheel chock holder installed in fender panel on each side of body.		
W.	Gas Shock Type Rigid Door Holders For Vertical Doors (Standard)		
X.	Chains On Horizontal Doors		
Y.	Hotstick shelf extending full length of body on Curbside.		
Z.	Drop-Down Hot Stick Door For One (1) Shelf (Right Side)		
AA.	Two (2) Hot Stick Brackets		
AB.	1st Vertical Streetside (LH) - Two (2) Adjustable Shelves With Removable Dividers On 4 Inch Centers		
AC.	1st Horizontal Streetside (LH) - One (1) Fixed Shelf With Removable Dividers On 8 Inch Centers		
AD.	Rear Vertical Streetside (LH) - Six (6) Adjustable Locking Swivel Hooks		
AE.	1st Vertical Curbside (RH) - Seven (7) Adjustable Locking Swivel Hooks, Louvered Panel Installed in Cargo Wall		
AF.	1st Horizontal Curbside (RH) - Vacant		
AG.	Rear Vertical Curbside (RH) - Two (2) Adjustable Shelves With Removable Dividers On 4 Inch Centers		
AH.	One (1) Small Bolt-On Grab Handle Installed At Rear Of Curbside Compartments		
AI.	38 Inch Tailshelf with Integrated Side Access Steps and Smooth Galvaneal Floor Installed at Rear of Body. Includes One (1) U-Shaped Grab Handle.		

**Body and Chassis Accessories**

20.	ICC Underride Protection	1	
21.	Combination 2 Ball (10,000 LB MGTW) And Pintle Hitch (16,000 LB MGTW)	1	
22.	Set Of Eye Bolts for Trailer Safety Chain, installed one each side of towing device mount.	1	
23.	Rear Torsion Bar Installed On Chassis	1	
24.	Appropriate counterweight added for stability.	1	
25.	Platform Rest, Rigid with Rubber Tube	1	
26.	Platform to be side stowed	1	
27.	Boom Rest for a Telescopic Unit	1	
28.	Mud Flaps With Altec Logo (Pair)	1	
29.	Wheel Chocks, Rubber, 9.75" L x 7.75" W x 5.00" H, with 4" L Metal Hairpin Style Handle (Pair)	1	
30.	Slope Indicator Assembly For Machine Without Outriggers	1	
31.	Safety Harness And 4.5' Lanyard (Fits Medium To Xlarge) Includes Pouch and Placards	1	
32.	5 LB Fire Extinguisher With Light Duty Bracket, Installed (In Cab or Inside Compartment Only)	1	
33.	Triangular Reflector Kit, Installed	1	
34.	Vinyl manual pouch for storage of all operator and parts manuals	1	

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<u>Item</u>	<u>Description</u>	<u>Qty</u>	<u>Price</u>
35.	Rock Guards, Lexan, Installed Each Front Corner Of Body	1	
<b><u>Electrical Accessories</u></b>			
36.	Lights and reflectors in accordance with FMVSS #108 lighting package. (Complete LED, including LED reverse lights)	1	
37.	Altec Standard Amber LED Strobe Light with Brush Guard Post Mounted On Streetside Front Compartment Top	1	
38.	Single tone back up alarm installed between the chassis frame rails at the rear of the chassis. To work in conjunction with chassis reverse drive system	1	
39.	6-Way Trailer Receptacle (Pin Type) Installed At Rear	1	
40.	Dodge Upfitter Switches (Supplied with Chassis)	1	
41.	Power Distribution Module (PDM-6) is a compact self-contained electronic system that provides a standardized interface with the chassis electrical system. (Includes Operator's Manual)	1	
42.	Install secondary stowage system.	1	
43.	PTO Indicator Light Installed In Cab	1	
<b><u>Finishing Details</u></b>			
44.	Powder Coat Unit Altec White	1	
45.	Finish Paint Body Accessories Above Body Floor Altec White	1	
46.	Altec Standard; Components mounted below frame rail shall be coated black by Altec. i.e. step bumpers, steps, frame extension, pintle hook mount, dock bumper mounts, D-rings, receiver tubes, accessory mounts, light brackets, under-ride protection, etc. Components mounted to under side of body shall be coated black by Altec. i.e. Wheel chock holders, mud flap brackets, pad carriers, boxes, lighting brackets, steps, and ladders.	1	
47.	Apply Non-Skid Coating to all walking surfaces	1	
48.	English Safety And Instructional Decals	1	
49.	Vehicle Height Placard - Installed In Cab	1	
50.	Placard, HVI-22 Hydraulic Oil	1	
51.	Dielectric test unit according to ANSI requirements.	1	
52.	Stability test unit according to ANSI requirements.	1	
53.	Focus Factory Build	1	
54.	Delivery Of Completed Unit	1	

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<u>Item</u>	<u>Description</u>	<u>Qty</u>	<u>Price</u>
55.	Inbound Freight	1	
56.	AT40G FA Installation	1	
<u>Chassis</u>			
57.	Altec Supplied Chassis	1	
58.	Chassis	1	
59.	2022 Model Year	1	
60.	Dodge Ram 5500	1	
61.	4x2	1	
62.	60 Clear CA (Round To Next Whole Number)	1	
63.	Regular Cab	1	
64.	Chassis Cab	1	
65.	Dual Rear Wheel	1	
66.	Chassis Color - White	1	
67.	Chassis Wheelbase Length - 145	1	
68.	Dodge 6.4L Hemi (Gas)	1	
69.	Gas	1	
70.	Aisin AS66RC Automatic Transmission (Dodge Chassis)	1	
71.	GVWR 19,000 LBs	1	
72.	7,000 LBS Front GAWR	1	
73.	Spring Suspension	1	
74.	13,500 LBS Rear GAWR	1	
75.	4.44 Axle Ratio	1	
76.	Hydraulic Brakes	1	
77.	Park Brake In Rear Wheels	1	
78.	Dodge 3500-5500 Single Horizontal Right Side Exhaust	1	
79.	Dodge PTO Prep Package (Right Hand Side PTO) (LBN)	1	
80.	50-State Emissions	1	
81.	NFH - RAM 52 Gallon Fuel Tank (Rear)	1	

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<u>Item</u>	<u>Description</u>	<u>Qty</u>	<u>Price</u>
82.	AM/FM Radio	1	
83.	Cruise Control	1	
84.	Keyless Entry	1	
85.	Power Door Locks	1	
86.	Power Windows	1	
87.	Cold Weather Group (Includes Block Heater)	1	
88.	Snow Plow Package	1	

**Additional Pricing**

89.	Standard Altec Warranty: One (1) year parts warranty, one (1) year labor warranty, ninety (90) days warranty for travel charges, limited lifetime structural warranty	1	
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<b>Unit / Body / Chassis Total</b>	<b>119,105.00</b>
<b>FET Total</b>	<b>0.00</b>
<b>Total</b>	<b>119,105.00</b>

**Altec Industries, Inc.**

BY \_\_\_\_\_

Brooklyn Ryan Russell

**Notes:**

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UTILITY EQUIPMENT AND BODIES SINCE 1929



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/16/2021

ITEM NO: 10

---

**DATE:** February 10, 2021

**TO:** Mayor and Town Council

**FROM:** Laurel Prevetti, Town Manager

**SUBJECT:** Consider a Request for an Exception to the Story Pole Policy to Allow an Alternative to Standard Story Pole Installation to Illustrate and Provide Notice of the Proposed Project on Property Zoned R:PD. Located at 110 Wood Road. APN 510-47-038. Applicant: Frank Rockwood. Property Owner: Covia Communities. Project Planner: Jocelyn Shoopman.

**REMARKS:**

At its meeting on January 19, 2021, the Town Council opened the public testimony, completed questions of the applicant, and closed the public testimony portion of the public hearing. The item was continued to February 16, 2021 with direction for modifications to the proposal.

The applicant is requesting that the item be continued to the April 6, 2021 Town Council meeting in order to allow additional time to complete neighborhood outreach (Attachment 5).

Public Comments received by 11:00 a.m., Thursday, February 11, 2021 are included in Attachment 6.

**Attachments previously received with January 19, 2021 Staff Report:**

1. Story Pole Policy
2. Exception Request and Proposed Story Pole Plan from the Applicant, received November 13, 2020
3. Public Comments received by 11:00 a.m., Thursday, January 14, 2021

**Attachments previously received with the January 19, 2021 Desk Item Report:**

4. Public Comments received by 11:00 a.m., Tuesday, January 19, 2021

**PREPARED BY:** Jocelyn Shoopman  
Associate Planner

---

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

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PAGE 2 OF 2

SUBJECT: Below Market Price Affordable Housing Program

DATE: February 10, 2021

Attachments received with this Staff Report:

5. Letter from the Applicant, received January 28, 2021
6. Public Comments received by 11:00 a.m., Thursday, February 11, 2021

**From:** Frank Rockwood  
**Sent:** Thursday, January 28, 2021 11:02 AM  
**To:** Jocelyn Shoopman <jshoopman@losgatosca.gov>  
**Cc:** Sean Mullin; Worthington-Forbes, Laura; Falgout, Mark; Susan Rockwood  
**Subject:** Rebuild of Los Gatos Meadows / Request for Modification to Story Pole Policy

Greetings Jocelyn ...

I hope all is well with you.

On behalf of Rockwood Pacific, the applicant, I hereby request for a continuance to April 6<sup>th</sup> for consideration of our request for a modification to story pole policy. Please let me know if you would like additional information related to this matter.

Best.

... Frank

**FRANCESCO "FRANK" ROCKWOOD**

ROCKWOOD PACIFIC INC.  
36 Southwood Drive | Orinda, CA 94563

Phone 415-816-7944  
E-mail: [frank@rockwoodpacific.com](mailto:frank@rockwoodpacific.com)  
[www.rockwoodpacific.com](http://www.rockwoodpacific.com)



ATTACHMENT 5

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**From:** Andrew Ghofrani

**Sent:** Monday, February 8, 2021 10:11:19 PM

**To:** Sally Zarnowitz <SZarnowitz@losgatosca.gov>; Planning <Planning@losgatosca.gov>

**Cc:** Ryan Safty <RSafty@losgatosca.gov>; Andrew Ghofrani; Feri Ghofrani

**Subject:** Los Gatos Meadows- Reconstruction / expansion

Dear Mrs. Zarnowitz,

I am currently a resident of Town of Los Gatos, residing at 121 Wood Road. I have been a resident of Santa Clara County for the past 42 years. I have been an active member of this community, currently a Vice President at Granite Construction Company, responsible for the Heavy Construction Division for the Western United States. It has come to my attention that the Meadows of Los Gatos is proposing to increase the existing building heights from 55' to 88.5'. My property is directly situated behind the Meadows on Wood Road, and this increase in elevation will directly block my view. We primarily chose this property because of its view of downtown and the valley in front of our house. Since we don't have a usable front yard, our front deck serves as our primary entertainment area and considered a special amenity with added value to our property.

Last week we had a visit by the architect, the project manager along with his assistant of the reconstruction project, asking to take a picture from our front deck point of view. In the same visit, the architect admitted that our view will be affected by the additional height. I have also learned that for some reason the Meadows management has asked for a waiver on putting up story poles in its application process.

It is really disturbing that the Meadows is planning to block our view completely without sharing its plan and the bulk of the intended buildings. A lot of my property value is directly correlate to its view and the possible blockage is totally unacceptable.

I have a serious objection to the height increase of this construction directly in front of my property and want to be on record to that effect. Please advise about the application process as I along with my neighbors want to share our opposition to this increase in elevation.

I can be reached at [REDACTED] or my email [REDACTED]

Thank you for your attention.

Andrew Ghofrani P.E

ATTACHMENT 6

**From:** Bernd Neudecker  
**Sent:** Monday, February 1, 2021 11:35 PM  
**To:** Jocelyn Shoopman <jshoopman@losgatosca.gov>  
**Subject:** 110 Wood Road Story Pole / No Policy Exemption

Dear Mrs. Shoopman,

Since 2014 I have lived and owned 109 Wood Road, opposite to the now planned development at 110 Wood Road.

It is my understanding the development will be fairly substantial, financially and also in sheer size and height. Thus, it becomes particularly critical in such case to obtain visual clarity as to the height dimensions and their impact on the neighborhood which does extend well into our Town Plaza Park. Granting an exemption to the story pole policy could well mislead the public's perception of the extent of this development structure.

For the sake of full transparency and visual disclosure, I see no reason why an exemption to the story pole policy should be granted in this matter.

Kind regards,

Bernd Neudecker

**From:** Julie Southern

**Sent:** Tuesday, January 19, 2021 8:24 PM

**To:** Jocelyn Shoopman <jshoopman@losgatosca.gov>

**Subject:** Re: 110 Wood Road Story Pole

Hello Ms. Shoopman

Thank you for presenting my letter at this evening's town meeting. I have not attended a town zoom before real time, so I did not know how to raise my hand to talk!

With that, I understand it will be extended to the Feb 16 meeting. I will try to muster up the rest of the Wood residents to give you their opinions.

Again, I appreciate the professionalism the Meadows has undergone and the inclusion via the neighborhood meetings. What I am concerned about is view from Wood.

I invite anyone on the town council to view from my driveway on 135 Wood Road. I am home most days working-from-home. Cell phone is [REDACTED] if you want to reach me.

As for 'nuisance', story poles will be minor compared to the ugly chain link fence we have had for more than a year, and the upcoming demolition and construction. But you all probably know this.

Feel free to share this with the rest of the council.

Thank you and regards,

Julie Southern



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/18/2021

ITEM NO: 11

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**DATE:** February 10, 2021  
**TO:** Mayor and Town Council  
**FROM:** Laurel Prevetti, Town Manager  
**SUBJECT:** Adopt a Modified Economic Recovery Resolution to Reflect the Town Council's Direction on Conditional Use Permits for up to Five New Markets or Other Non-Restaurant Uses; and Extend the Resolution Until At Least December 31, 2021.

**RECOMMENDATION:**

Adopt a Modified Economic Recovery Resolution (Attachment 1) to reflect the Town Council's direction on Conditional Use Permits for up to five new markets or other non-restaurant uses; and extend the Resolution Until at least December 31, 2021.

**BACKGROUND:**

The COVID-19 pandemic has caused an unfortunate economic downturn for many Los Gatos businesses and residents. Businesses are looking for innovative ways to address the impacts on their business model while providing additional measures to allow for customers to remain socially distanced and feel safe. Customers are looking for creative ways to continue to patronize local businesses and have access to the specialty products offered by Los Gatos merchants.

The Town and its businesses want to be leaders to illustrate how customer safety measures and a return of commerce can coexist with County Health Orders in the new COVID-19 normal. Additionally, the Town continues to strive to retain existing businesses and attract new ones to encourage a strong and diverse business community in Los Gatos, with limited commercial vacancies.

**PREPARED BY:** Monica Renn  
Economic Vitality Manager

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

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BACKGROUND (continued):

On May 26, 2020, the Town Council held a special meeting to discuss opportunities that provide support to the business community through Community Vitality and Economic Recovery initiatives and subsequently adopted an Economic Recovery Resolution on June 3, 2020. The resolution was originally intended to be in place for one year, with a six-month review. The draft resolution (Attachment 1) contains modifications that extend the Economic Recovery Resolution until December 31, 2021 and memorialize further opportunities for Conditional Use Permit (CUP) streamlining consistent with Council direction provided on January 19, 2021.

DISCUSSION:

At its January 19, 2021 meeting, the Town Council received an update on the Town's economic recovery efforts and provided direction to staff for additional land use streamlining, and economic and community vitality opportunities. The draft resolution (Attachment 1) contains modifications that extend the Economic Recovery Resolution until December 31, 2021 and memorialize further opportunities for Conditional Use Permit (CUP) streamlining.

The Council recognized that the COVID-19 Pandemic is still creating hardship for many businesses and that the efforts memorialized within the adopted Economic Recovery Resolution were providing expanded opportunities that support business recovery, retention, and attraction. The Council voted to continue the recovery efforts through at least December 31, 2021 and expand them by modifying the Economic Recovery Resolution to include the option for up to five (5) new non-restaurant business uses to be considered by the Development Review Committee (DRC) rather than the Town Council to reduce the cost and time associated with the CUP applications.

The DRC is a deciding body acting with a public hearing thus allowing the CUPs to still be noticed and vetted through a public hearing process. As business models evolve with the dynamic economic situation, many are looking to limit in-person service and move to a take-out or retail based model that provides options for food and beverages, including beer, wine and cocktails. With the absence of a full-service restaurant, such a use would be required to seek approval from the Town Council creating a time and cost barrier that has been noted as prohibitive. Should the cap of five businesses be reached, staff will return to the Town Council with an update and opportunity for additional discussion. At the time of this staff report, no applications have been filed or requested for such a use.

The draft Economic Recovery Resolution (Attachment 1) contains the draft language in blue, under Section 2., item number 6 memorializing the modifications for the additional CUPs at DRC, and under Section 8 the draft language provides an updated expiration date for the resolution of December 31, 2021.

DISCUSSION (continued):

On January 19, 2021, the Council also directed staff to remain flexible with assistance and opportunities for economic recovery and requested that the staff provide a subsequent update to the Town Council on these effort in June of 2021.

CONCLUSION:

The Town Council should consider and adopt a modified Economic Recovery Resolution (Attachment 1) to reflect the Town Council's direction on Conditional Use Permits for up to five new markets or other non-restaurant uses; and extend the Resolution until at least December 31, 2021.

COORDINATION:

This report has been prepared with coordination between the Town Manager's and Town Attorney's Offices, and the Police, Community Development, Parks and Public Works, and Finance Departments.

FISCAL IMPACT:

As noted above, future revenue and/or expenditure budget adjustments may be needed to reflect the Town's absorption of 50% of the cost of new CUPs. These fees will be paid for out of the Economic Recovery Fund.

ENVIRONMENTAL ASSESSMENT:

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

Attachment:

1. Draft Modified Economic Recovery Resolution

**RESOLUTION 2021-**

**RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS  
APPROVING TEMPORARY OUTDOOR PUBLIC SPACE EXPANSION AND TEMPORARY  
MODIFICATIONS TO SPECIFIC PROVISIONS RELATED TO BUSINESS PERMITS,  
PROCESSES, PROVISIONS, AND ACTIVITIES DURING THE COVID-19 PANDEMIC TO  
OFFER ECONOMIC RELIEF, RECOVERY, AND OPPORTUNITIES FOR COMMUNITY AND  
ECONOMIC VITALITY**

**WHEREAS**, pursuant to the Town’s police power, as granted broadly under Article XI, Section 7 of the California Constitution, the Town Council has the authority to enact and enforce ordinances and regulations for the public peace, morals, and welfare of the Town and its residents; and

**WHEREAS**, pursuant to California Government Code Section 8680.9, a local emergency is a condition of extreme peril to persons or property proclaimed as such by the governing body of the local agency affected by a natural or manmade disaster; and

**WHEREAS**, California Government Code Section 8634 states that “During a local emergency the governing body of a political subdivision, or officials designated thereby, may promulgate orders and regulations necessary to provide for the protection of life and property...”; and

**WHEREAS**, the purpose of a local emergency proclamation is to provide extraordinary powers to issue rules and regulations on matters reasonably related to the protection of life and property as affected by such emergency, obtain vital supplies, and require emergency services of employees; and

**WHEREAS**, international, national, state, and local health and governmental authorities are responding to an outbreak of respiratory disease caused by a novel coronavirus named "SARS-CoV-2," and the disease it causes has been named "coronavirus disease 2019," abbreviated COVID-19, ("COVID-19"); and

**WHEREAS**, on January 30, 2020, the World Health Organization declared the Covid-19 outbreak a Public Health Emergency of International Concern; and

**WHEREAS**, on January 30, 2020, the United States Secretary of Health and Human Services declared a Public Health Emergency; and

**WHEREAS**, on January 31, 2020, the first case of COVID-19 was confirmed in Santa Clara County (“County”); and

ATTACHMENT 1

**WHEREAS**, on February 10, 2020, the Santa Clara County Board of Supervisors and Department of Public Health declared a local emergency and local public health emergency to aid the regional healthcare and governmental community in responding to COVID-19; and

**WHEREAS**, on March 4, 2020, the Governor of the State of California declared a state of emergency to make additional resources available, formalize emergency actions already underway across multiple state agencies and departments, and help the state prepare for broader spread of COVID-19; and

**WHEREAS**, on March 11, 2020, the World Health Organization declared COVID-19 an International Pandemic; and **WHEREAS**, on March 12, 2020, the Town Manager of Los Gatos acting in the capacity of Town of Director of Emergency Services, issued a Proclamation of Local Emergency; and

**WHEREAS**, on March 13, 2020, the President of the United States of America declared a national emergency and announced that the federal government would make emergency funding available to assist state and local governments in preventing the spread of and addressing the effects of COVID-19; and

**WHEREAS**, on March 16, 2020, the Santa Clara County Department of Public Health directed all individuals in the County to Shelter in Place and mandated requirements, including but not limited to, social distancing, staying home if sick, canceling or postponing group events, working from home, and other precautions to protect public health and prevent transmission of this communicable virus; and

**WHEREAS**, on March 17, 2020, the Town Council of the Town of Los Gatos ratified the Proclamation of Local Emergency; and

**WHEREAS**, the pandemic and necessary federal, state and local public health orders requiring social distancing to prevent spread of COVID- 19 have had and will continue to have devastating economic impacts on the local community, including residents, businesses, employees and Town operations; and

**WHEREAS**, the longer the emergency order is in place, the more difficult it will be for small retail and restaurant operators to return and reopen their businesses; and

**WHEREAS**, although the Town continues to be in an emergency response phase, an emergency management principle has been established that recovery planning must begin as early as possible to strengthen community resilience while shortening the economic recovery timeline; and



**WHEREAS**, some of the actions that the Town has taken during this state of emergency to support local business are: eviction protections; suspension of rent for Town owned Facilities; a website with COVID 19 and business resources; and assistance for restaurants and food retailers by allowing sales of alcohol via delivery and takeout, providing flexibility for restaurants to sell groceries, and allowing curbside pickup; and

**WHEREAS**, due to the severe economic impacts of COVID- 19 and its economic impacts on the community and the Town organization, the Council deems it necessary to take additional action to suspend enforcement of certain provisions of the Town of Los Gatos Town Code and provide temporary process streamlining measures to facilitate the retention and attraction of Los Gatos businesses during the COVID-19 pandemic, reduce economic impacts, foster recovery, encourage economic vitality, and reduce commercial vacancies; and specified below to support social distancing requirements, effective public communication related to rapidly transitioning business re-opening status, and economic viability of businesses in adhering to permitted opening and social distancing requirements; and

**WHEREAS**, the below measures are intended to provide economic relief to businesses that are experiencing economic uncertainty while complying with State and County Orders. Accordingly, the Town will facilitate a temporary “ pilot” program, which will include the development and implementation of a plan to use the right- of-way, sidewalks and streets to help maintain social distancing during the first few phases ( stages) of reopening consistent with the State’s Resilience Roadmap and continued economic support of businesses for uses such as walking space, outdoor dining, and pick- up/delivery areas. The program would provide for residents to receive the health and wellness benefits of being outdoors and support businesses with enough space to safely physically distance; and

**WHEREAS**, the program is established for the purpose of supporting and facilitating the recovery of business and economic activity in the Town by expanding the spaces available for the safe conduct of such activities for Town businesses and their customers and patrons to create more physical distance for pedestrians and business patrons to maintain physical distancing; and nothing herein is intended to nor shall be deemed to create open gathering places or public fora unrelated to the intended business support and recovery purpose; and

**WHEREAS**, Over the years, the Town’s conservative budgeting practices have resulted in healthy reserves and frequent annual budgetary surplus with a balanced Operating Budget for Fiscal Year 2020-2021 with no reductions to service, despite significant revenue and other economic impacts from sheltering-in-place. Those reserves and surpluses are now paying the Town huge dividends during the COVID 19 crisis; and

**WHEREAS**, on May 26, 2020, the Town Council reallocated \$1,900,000 in prior surpluses reserved for downtown streetscape revitalization toward COVID-19 economic stimulus recovery efforts. This is one of the single largest economic recovery packages ever proposed in the Town’s history; and

**WHEREAS**, time is of the essence to quickly implement a program to allow for safe physical distancing consistent with the State’s Resilience Roadmap and County Guidelines in order to address both public health and economic impacts of COVID- 19, as residents have been primarily indoors since the initiation of the State and County Orders, this will be a dynamic temporary program, receiving input from the Town Council, and shall be subject to administrative modification by the Town, as authorized herein, as necessary in response to emerging issues or concerns of public, health, safety or convenience; and

**NOW, THEREFORE, BE IT PROCLAIMED AND RESOLVED** by the Town Council of the Town of Los Gatos that:

SECTION 1. All recitals set forth above, and all recitals included in support of Federal, State and County actions referenced herein, are adopted as though fully set forth herein as findings in support of this Resolution and, after considering all such findings and current local circumstances the Council hereby declares the continuing existence of a local emergency related to the continued threat of COVID- 19 as it relates to public health and economic impacts; and

SECTION 2. In order to support the re-opening of restaurants and other businesses in accordance with the State Executive Order N-60-20, the Town Council hereby directs and authorizes the Town Manager to implement the following strategies that may be used independently or in combination. as outlined below:

1. As identified by the Town generally along N. Santa Cruz Avenue (south of Highway 9/Los Gatos-Saratoga Road) and Main Street, private businesses in the C-2 Zone are permitted to utilize public street parking spaces in proximity to their business for expanded dining and alcohol service, retail, or business use space to facilitate safely distanced pedestrian circulation, expanded outdoor dining and alcohol service, and customer queuing, pickup and waiting areas associated with permitted business activities and pursuant to the terms agreed upon in an Economic Recovery Agreement between the business and the Town;
2. Suspend parking requirements in private commercial lots to allow some parking spaces to be utilized for restaurant seating or business activities given sufficient parking remains available for customer use, and to allow for such to facilitate safely distanced pedestrian circulation, expanded outdoor dining and alcohol service, customer queuing, and pickup and waiting areas associated with permitted business activities and pursuant to the terms of agreed upon in an Economic Recovery agreement between the business and the Town;
3. Allow pop-up patios, parklets, and other areas to encourage and support additional ideas for outdoor space such as use of parts of the sidewalk for signage, merchandise

and queueing, where adequate sidewalk width exists consistent with disabled access requirements and public safety; and

4. Current Los Gatos businesses may relocate, expand, or open an additional business location without obtaining a new Conditional Use Permit provided the business enters into an Economic Recovery agreement with the Town, documenting that any change of ownership is subject to a new Conditional Use Permit or Conditional Use Permit modification consistent with the existing Town Code;
5. The requirement for personal service businesses to obtain a Conditional Use Permit in the C-2 zone is suspended provided the business enters into an Economic Recovery agreement with the Town, documenting that any change of ownership is subject to a new Conditional Use Permit consistent with the existing Town Code;
6. The requirement for up to a total of five (5) markets, bars and/or other miscellaneous commercial businesses to obtain a Conditional Use Permit in the C-2 zone is suspended provided the business enters into an Economic Recovery agreement with the Town, documenting that any change of ownership is subject to a new Conditional Use Permit consistent with the existing Town Code;
7. The cot for a new Conditional Use Permit is reduced by 50% with the Town paying the balance of the fees;
8. Alcohol consumption is permitted with meals in Town parks, temporary pop-up parks, temporary patio dining, and parklets; and
9. The expiration date for all building permits and planning entitlements shall be extended by two years.

SECTION 4. Environmental Review. As a result of the COVID- 19 public health emergency, the Town of Los Gatos proposes a temporary program to use the right- of-way, sidewalks and streets to help maintain social distancing during the first few phases ( stages) of reopening consistent with the State’ s Resilience Roadmap and provide for residents to receive the health and wellness benefits of being outdoors and support businesses with enough space to safely physically distance. The proposed project is exempt from environmental review pursuant to the California Environmental Quality Act (CEQA) as followed:

- A. The project is statutorily exempt under State CEQA Guidelines Section 15269 (Emergency Projects), because the temporary program includes specific actions that

would allow for safe physical distancing consistent with the State's Resilience Roadmap and County and State Guidelines in order to mitigate the COVID- 19 public health emergency.

- B. The project is categorically exempt under State CEQA Guidelines Section 15301 (Existing Facilities) because the actions identified in the program are limited to the permitting, leasing, and minor alteration of existing public facilities, including existing streets, sidewalks, bicycle and pedestrian trails, which would not result in the creation of additional automobile lanes. The program would result in a negligible expansion of existing commercial uses and a negligible expansion of the public's use of Town right of- way, as the uses included in the temporary program would not vary from the current uses of commercial businesses, residential areas, or public access within the Town's right- of-way.

SECTION 5. Notwithstanding any other Town policy or procedure, the Town Engineer shall be authorized to review and approve on behalf of the Town any and all design and construction necessary as part of the temporary program herein and the Town Manager shall be authorized to enter into agreements on behalf of the Town to implement the strategies herein without further action of the Town Council.

SECTION 6. Any provision of the Los Gatos Town Code or any appendix thereto inconsistent with the provisions of this Resolution, to the extent of such inconsistencies and no further, is hereby repealed or modified to that extent necessary to affect the provisions of this Resolution.

SECTION 7. All current and prior emergency and public health orders as currently enacted and in effect, or as subsequently amended or modified, issued by the Governor, the State or County Public Health Official or the Town or County Emergency Services Director are expressly adopted

SECTION 8. This resolution remains in place until December 31, 2021. ~~for one year from its adoption with a six-month review by the Town Council.~~

**PASSED AND ADOPTED** at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 19<sup>th</sup> day of January 2021 by the following vote:

COUNCIL MEMBERS:

AYES:

NAYS:

ABSENT:

ABSTAIN:

SIGNED:

MAYOR OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

DATE: \_\_\_\_\_

ATTEST:

TOWN CLERK OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

DATE: \_\_\_\_\_



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/16/2021

ITEM NO: 12

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DATE: February 11, 2021  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Mid-Year Budget Report - July 1 - December 31, 2020.  
a. Receive FY 2020/21 Mid-Year Budget Report; and  
b. Authorize Budget Adjustments as Recommended in the Mid-Year Budget Report.

**RECOMMENDATION:**

Mid-Year Budget Performance Report - July 1 - December 31, 2020.

- a. Receive FY 2020/21 Mid-Year Budget Report; and
- b. Authorize budget adjustments as recommended in the Mid-Year Budget Report.

**REMARKS:**

The purposes of the Mid-Year Report are to provide the Town Council with a status of the adopted Fiscal Year 2020/21 Operating Budget after the first six months and to make any adjustments to ensure the continuity of municipal services and operations for the remainder of the fiscal year. The Report is one of several periodic updates to the Town Council on the status of the current year's revenues and expenditures and the projected financial condition of all Town funds compared with the Adopted Operating Budget. The updates primarily focus on the Town's General Fund. The analysis and recommendations are contained in Attachment 1.

Highlights of the Mid-Year Budget Report include:

***Financial Overview and Executive Summary (pages 1 through 5)***

As discussed in this section, staff is projecting reductions in the key revenues of Property Tax, Sales Tax, Business License Tax, and Transient Occupancy Tax (TOT). In contrast to the revenue

**PREPARED BY:** Stephen Conway  
Finance Director

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

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REMARKS (continued):

projections, staff is estimating that there will be year-end operating expenditure savings. Staff anticipates savings attributable to reduced use of office supplies, travel restrictions, special event cancellations, and limited crossing guard services due to school closures. The net effect of these projected changes is a currently estimated \$1,232,566 deficit of revenues over expenditures at year end.

	Revenues	Expenses	Variance FY 2020/21 Budget vs. FY 2020/21 Estimate
Total General Fund	(\$2,603,789)	\$1,565,612	(\$1,232,566)

*General Fund Revenue Analysis (pages 6 through 14)*

The current forecast expects decreases in economically sensitive revenues such as sales tax, property tax, transient occupancy tax, business license tax due to the current pandemic environment. The combined recommended mid-year revenue adjustments total a net decrease of \$1.5 million. Specific revenue adjustments are shown beginning on page 24 of Attachment 1. While staff conducted a detailed analysis of all General Fund revenues and provided the expected year-end estimates, only major revenue sources are recommended for adjustment at this time.

*General Fund Expenditure Analysis (pages 15 through 29)*

General Fund expenditure totals are trending in accordance with the Adopted Budget, with total operational expenditures at the end of the second quarter at or about 46% of the Adopted Budget. With six months of data now available, staff expects that the next six months of expenditures will be within the Adopted Budget and anticipates \$1.6 million in savings. Recommended expenditure additions total \$0.1 million. Specific expenditure adjustments are shown beginning on page 24 of Attachment 1.

*General Fund Financial Summaries and Estimates (pages 30 through 31)*

This section introduces the *Schedule of General Fund Operating Revenues Versus Operating Expenditures* for the second quarter of FY 2020/21 which includes comparison information from the prior year.

PAGE 3 OF 3

SUBJECT: Mid-Year Budget Performance Report – Six Months Ending December 31, 2021

DATE: February 11, 2021

REMARKS (continued):

*Financial Summaries of Other Funds (pages 32 through 35)*

This section provides financial summaries and presents data by governmental, proprietary and fiduciary fund types. For each, the fund information starts with a beginning fund balance, adds current year revenues, and subtracts current year expenditures, resulting in an ending fund balance.

CONCLUSION AND NEXT STEPS:

Staff is continuing to monitor all revenues and expenditures heading into the development of the Proposed Operating and Capital Budgets for FY 2021/2022. Should any additional budget adjustments be necessary to balance operating revenue and expenditures prior to the FY 2020/21 close, staff will advise the Council accordingly. The Draft FY 2021/22 Operating and Capital Budgets will be available in May with the budget hearing tentatively scheduled for May 18, 2021.

Staff recommends that the Town Council approve the proposed revenue and expenditure budget adjustments as described in Attachment 1. In addition, staff looks forward to answering the Town Council's questions and receiving direction for resolving the FY 2020/21 anticipated \$1.2 million deficit.

ENVIRONMENTAL ASSESSMENT:

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

Attachment:

1. Mid-Year Budget Report - July 1 - December 31, 2020.





**TOWN OF LOS GATOS  
MID-YEAR BUDGET REPORT  
JULY 1 - DECEMBER 31, 2020**

**February 11, 2021**

**FINANCIAL OVERVIEW AND EXECUTIVE SUMMARY: STATUS OF FY 2020/21  
ADOPTED BUDGET**

The purposes of the Mid-Year Report are to provide the Town Council with a status of the Adopted Fiscal Year 2020/21 Operating Budget after the first six months and to make any adjustments to ensure the continuity of municipal services and operations for the remainder of the fiscal year. The Report is one of several periodic updates to the Town Council on the status of the current year's revenues and expenditures and the projected financial condition of all Town funds compared with the Adopted Operating Budget. The updates typically focus on the Town's General Fund.

On January 26, 2021, the Town Council determined the Strategic Priorities for 2021-2023, providing guidance to Town staff and Commissions on workload prioritization. The Town Council reaffirmed its Core Goals, including: Community Character, Good Governance, Fiscal Stability, Quality Public Infrastructure, Civic Enrichment, and Public Safety. Even with the significant budgetary challenges associated with the COVID-19 pandemic, many of Council's primary goals and priorities will continue to be programed in the FY 2021-22 Operating and Capital Budgets. Specifically, the Council emphasized wildfire safety; senior services; diversity, equity, and inclusion; sustainability; implementing parking study recommendations; and exploring increased revenue options (see the following page).

Based on the Town Council's identified Strategic Priorities, staff has started budget development work, including an update of the Five-Year Financial Forecast, identification of critical Town needs, contractual obligations, unfunded mandates, potential adjustments to the Fee and Fine Schedule, and other analyses. Staff is actively engaged in the 2021/22 budget process with the primary focus of ensuring that the available Town resources are allocated to meet the priority service needs of the community. The Town Council is scheduled to hold a public hearing on the Proposed FY 2021/22 Budget on May 18, 2021.

Current fiscal year-end projections for FY 2020/21 reflect an anticipated \$1.2 million deficit of operating revenues over expenditures. This represents a 2.3% deviation from the FY 2020/21 adjusted General Fund Budget of \$53.3 million in total revenues and reserve transfers.

**ATTACHMENT 1**

# STRATEGIC PRIORITIES FY 2021-2023



**CORE GOALS: COMMUNITY CHARACTER • GOOD GOVERNANCE • FISCAL STABILITY •  
QUALITY PUBLIC INFRASTRUCTURE • CIVIC ENRICHMENT • PUBLIC SAFETY**

## ONGOING PRIORITIES

### SAFETY

#### *Emergency Preparedness*

- CERT Recruitment and Training
- EOC Readiness and Emergency Plan Development

#### *Fire Protection*

- Vegetation management
- Implementation of Ad Hoc Wildfire Mitigation Plan

### QUALITY OF LIFE

#### *Community Vitality*

- Diversity, Equity and Inclusion Efforts
- Engaging Seniors
- Events and Other Town-wide Efforts
- Community Engagement

#### *Economic Vitality*

- Policies and Ordinances

#### *Land Use Planning*

- Housing Element
- Potential Area Plans and rezoning to implement General Plan

### TRAFFIC/TRANSPORTATION

#### *Comprehensive Parking Study*

- Short, Medium, and Long Term Actions

#### *Transportation Demand Management*

- Develop Measure B Transportation Projects
- Install Bicycle and Pedestrian Improvements
- Community Shuttle
- Summer/Rush Hour/School Traffic

### PRUDENT FINANCIAL MANAGEMENT

#### *Address Pension and OPEB Obligations*

#### *Explore New Revenue Opportunities*

#### *Sell or Lease Certain Town Properties*

### IN PROGRESS

#### General Plan 2040

- Objective Standards
- Environmental Sustainability/Climate Resiliency

#### Vehicle Miles Travelled Policy

#### Regional Transportation Issues

#### Dittos Lane Affordable Housing

#### Pandemic Recovery

#### Police Reforms

#### Inclusive Community Efforts

### RECENTLY COMPLETED

#### Streamline regulations to enhance Town businesses

#### EOC Communication and Situational Awareness Upgrades

#### Leased Tait and Forbes Mill

#### Ad Hoc Wildfire Mitigation Plan

SMALL TOWN SERVICE, COMMUNITY STEWARDSHIP, FUTURE FOCUS

	Revenues	Expenses	Variance FY 2020/21 Budget vs. FY 2020/21 Estimate
Total General Fund	(\$2,603,789)	\$1,565,612	(\$1,232,566)

As discussed in greater detail later in this Report, the primary driver of the projected deficit is projected reductions in the key revenues of Property Tax, Sales Tax, Business License Tax, and Transient Occupancy Tax (TOT). In contrast to the revenue projections, staff is estimating that there will be year-end operating expenditure savings. Staff anticipates savings attributable to reduced use of office supplies, travel restrictions, special event cancellations, and limited crossing guard services due to school closures. In addition, for FY 2020/21, salaries were budgeted at actual salary plus a one step increase, which was a significant budgeting methodology change from previous practice. As a result, staff is anticipating lower year-end salary savings compared to previous years.

With current projected deficits into the close of FY 2020/21, staff presented several initial budget balancing options to the Finance Commission on February 8, 2021. Given the episodic nature of the revenue impacts associated with the pandemic, staff is primarily targeting one-time budget balancing solutions for FY 2020/21. If revenue impacts during FY 2021/22 appear to become more sustained/structural in nature (such as TOT), staff will evaluate initial ongoing expense reduction options. In the event further expense reductions become necessary, the Council may choose to direct staff to initiate community-wide discussions regarding potential changes in service levels in addition to exploring new revenue generation opportunities as identified in the Council’s Strategic Priorities.

Following are the legally available options for consideration:

1. General Fund Reserve Policy – Catastrophic and Budget Stabilization Reserves

The revenue shortfalls directly correlated to the pandemic could be cured utilizing the Catastrophic and/or Budget Stabilization Reserves per the Council adopted General fund Reserve Policy. The Policy language describing the Reserves is presented below for reference.

*Catastrophic Reserve*

Funds reserved under this category shall be used to mitigate costs associated with unforeseen emergencies, such as a disaster or catastrophic event. Should unforeseen and unavoidable events occur that require the expenditure of Town resources beyond those provided for in the annual budget, the Town Manager or designee shall have authority to approve Catastrophic Reserve appropriations. The Town Manager or designee shall then present to the Town Council a budget amendment confirming the nature of the emergency and authorizing the appropriation of reserve funds.

The Town currently commits to maintaining this Reserve at a minimum of 12.5% (\$5,427,603) of General Fund ongoing operating expenditures (minus one-time expenditures).

#### *Budget Stabilization Reserve*

Funds reserved under this category shall be used to mitigate annual revenue shortfalls (actual revenues less than projected revenues) due to changes in the economic environment and/or one-time uses that will result in future efficiencies and/or budgetary savings. Examples of “economic triggers” and one-time uses include, but are not limited to:

- An unplanned, major event such as a catastrophic disaster requiring expenditures which exceed the General Fund Catastrophic Reserve;
- Drop in projected/actual revenue of more than five percent in property or sales tax, or other economically sensitive revenues;
- Budgeted revenue taken over by another entity exceeding \$100,000;
- Loss of businesses considered to be significant sales tax generators;
- Reductions in projected/actual revenue of more than five percent due to actions by the state/federal government;
- Workflow/technical system improvements to reduce ongoing, personnel costs and enhance customer service;
- One-time maintenance of service levels due to significant economic/budget constraints; and
- One-time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.

The Town currently commits to maintaining this Reserve at a minimum of 12.5% (\$5,427,603) of General Fund ongoing operating expenditures (minus one-time expenditures).

#### 2. Other Post-Employment Benefits (OPEB) Prefunding

Since 2009 the Town has been proactively prefunding its OPEB which consists of a retiree healthcare plan. While this is considered a best practice, it is not mandated similar to payment of the required annual contributions for pension benefits to CalPERS. For FY 2020/21, the adopted budget provided OPEB prefunding of \$591,000.

#### 3. Utilization of OPEB IRS 115 Trust for Pay Go Retiree Healthcare Expenses

In 2009 the Town initiated the prefunding of the retiree healthcare unfunded benefit obligation. Since that time the IRS Section 115 OPEB Trust has accumulated \$23,560,833 in Trust assets as of December 31, 2020. IRS regulations allow Trust assets to be used for payment of healthcare expenses. The FY 2020/21 budget programmed \$1.3 million in anticipated Pay-go healthcare expenses and \$1.4 million in projected Pay-go healthcare expenses in FY 2021/22.

#### 4. Sale of Winchester Property to Santa Clara County Fire District

During the development of the FY 2020/21 budget, the Town Council left \$1,200,000 in property sale proceeds unprogrammed as a contingency to mitigate potential impacts to revenues from the pandemic.

#### 5. Delayed or canceled Capital Improvement Plan (CIP) projects

Each year as part of the budget process, Council adopts a Five-Year Capital Improvement Program. Attachment 6 to the Five-Year Forecast staff report prepared for the February 16, 2021 Town Council meeting contains a matrix summarizing the budget for each capital project, source of funds, amount expended/encumbered to date, and status. This information conveys the level of investment and commitment of particular projects, and the potential opportunity for reallocation to other Town priorities or future capital needs.

The Finance Commission had a detailed discussion of each of the options and formed consensus around several areas. Of note, all Commissioners agreed that the Catastrophic and Budget Stabilization Reserves should not be considered at this time and should remain intact in the event the pandemic impacts become even greater in severity or the Town experiences a serious event (e.g., earthquake or wildfire). While Commissioners acknowledged the unprecedented nature of the pandemic, they felt it prudent to maintain the reserves as other unforeseen disasters could befall the Town. In addition, the Commission had general consensus that both of the OPEB options were reasonable given the benefit has less legal constraints as compared to pension benefits. However, it was noted that the removal of assets from the OPEB IRS 115 Trust would be contrary to the long-standing practice of trying to prefund benefit obligations. At the conclusion of the discussion, the Finance Commission recommended that the budget balancing options of Winchester property proceeds, OPEB Prefunding, and the utilization of OPEB IRS 115 Trust for Pay Go healthcare expenses be programmed in that order.

In addition to the options provided by staff, a conversation emerged regarding the future funding of the Capital Improvement Plan (CIP) utilizing the Measure G District Tax. Discussions revolved around having the District Tax become a dedicated funding source for the General Fund Appropriated Reserve (GFAR) accounts which typically fund capital projects. Staff will bring this item back to the Finance Commission and Town Council for consideration during the development of the FY 2021/22 Proposed Operating and Capital Budgets in the spring. And lastly, the Finance Commission discussed the need for a greater understanding of the Town's expenditure cost structure and historic cost escalation of Town services.

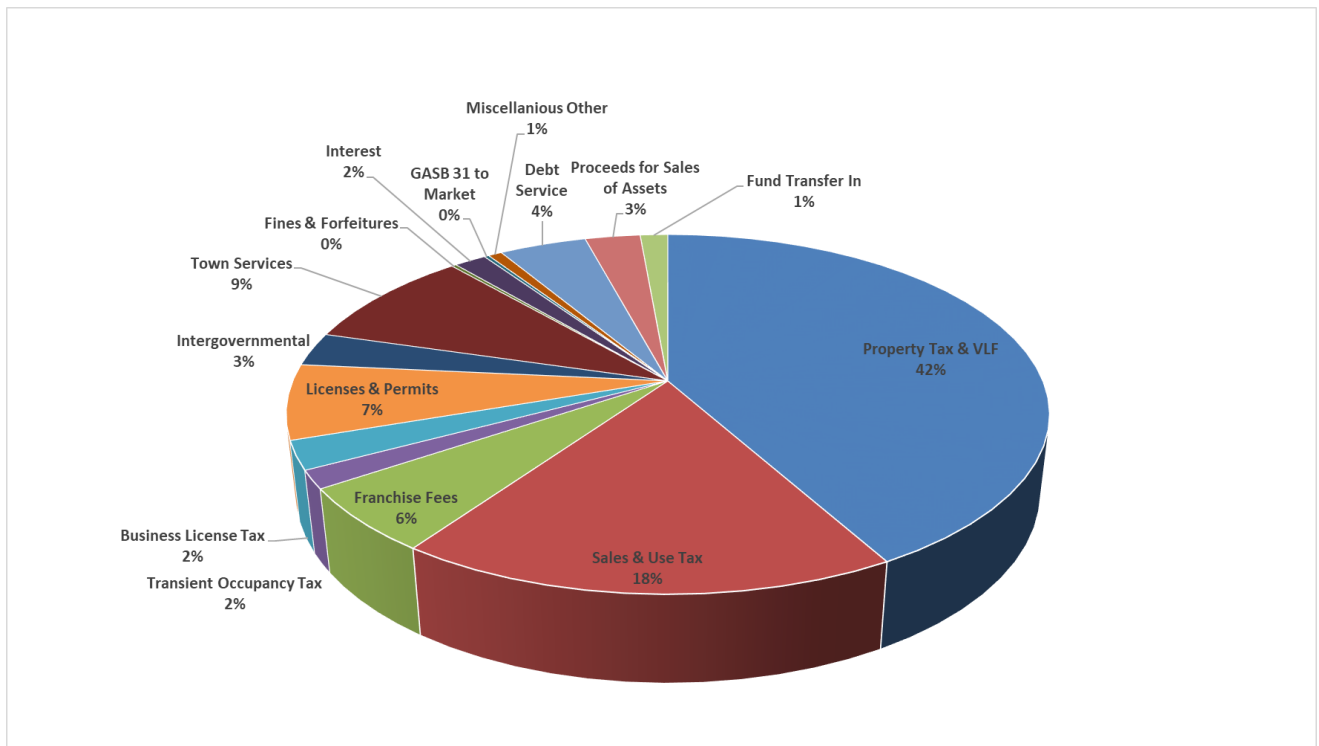
Providing services to the community in this and future fiscal years will require a strong return to pre-pandemic performance of the Town's economically sensitive revenues to offset continued projected cost increases. The FY 2021/22 budget development process will endeavor to maintain essential public services while controlling operational costs in light of the five-year fiscal forecast, which predicts operating revenue shortfalls in subsequent fiscal years.

## CONTENT OVERVIEW

The remainder of this Report focuses on the General Fund and provides analyses of key revenues and expenditures, including historic data by Town Department/Service Area. The next section contains descriptions of recommended revenue and expenditure budget adjustments. The Report also includes financial summaries of other funds as well as a table of General Fund Operating Revenues Versus Operating Expenditures for the second quarter of FY 2020/21 which includes comparison information from the prior year.

## GENERAL FUND - KEY REVENUE ANALYSIS FY 2020/21

The following information provides a recap of the General Fund budgeted significant revenue sources, including estimated year end collection as of the second quarter ending December 31, 2020. Staff is monitoring developments in each major revenue source closely for potential adjustments to budgeted revenues as recommended in this Report.



### Property Tax and Motor Vehicle in Lieu Fee (VLF)

Property tax and VLF are the single largest revenue source for the Town and comprised approximately 42% of total Town General Fund projected revenues for FY 2020/21. Property tax is levied by the Santa Clara County Assessor's Office at 1% of a property's assessed value, of which the Town receives approximately 9.3 cents per dollar paid on property located within the municipal limits of Los Gatos. In compliance with Proposition 13, the assessed value of real property is based on the 1975/76 assessment roll value, adjusted by a 2% inflation factor

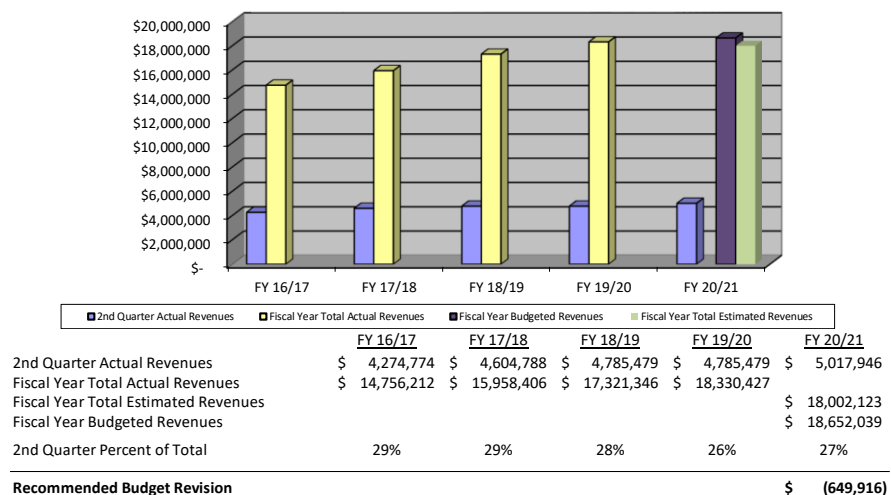
thereafter. However, when property changes hands or new construction occurs, property is than reassessed at its current market value.

The County of Santa Clara provides property tax collection updates and projections throughout the year. The current County estimate indicates a modest deviation from budget of approximately \$700,000 which is primarily the result of the Redevelopment Agency (RDA) residual payment decrease, which the County has already retained, and staff modeling a 50% reduction in Educational Revenue Augmentation Fund (ERAF) payments both of which are unrelated to the COVID pandemic.

The Town has been monitoring 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 is now being contested by the State. The Town's Adopted FY 2020/21 Budget had ERAF base revenue estimated at \$433,000. However, the most recent County property tax estimate included \$1.8 million of additional excess ERAF funds. If the State is successful in contesting ERAF distribution of excess funds, the result would be a negative impact on budgeted revenues. Given that the distribution of ERAF excess funds is a binary outcome, staff is modeling a 50% reduction in ERAF into yearend.

Property tax distributions are largely received in the third and fourth quarters. Second quarter receipts are trending similar to those received during the second quarter of the previous fiscal year and are at 27% of budgeted totals. Based on current County projections and staff recommendations to reduce ERAF projections by 50% as a contingency, staff recommends a \$649,916 decrease in General Property Tax and Motor Vehicle in Lieu Fee collections.

**Property Tax and VLF - Quarterly and Annual Revenues  
5-Year History**





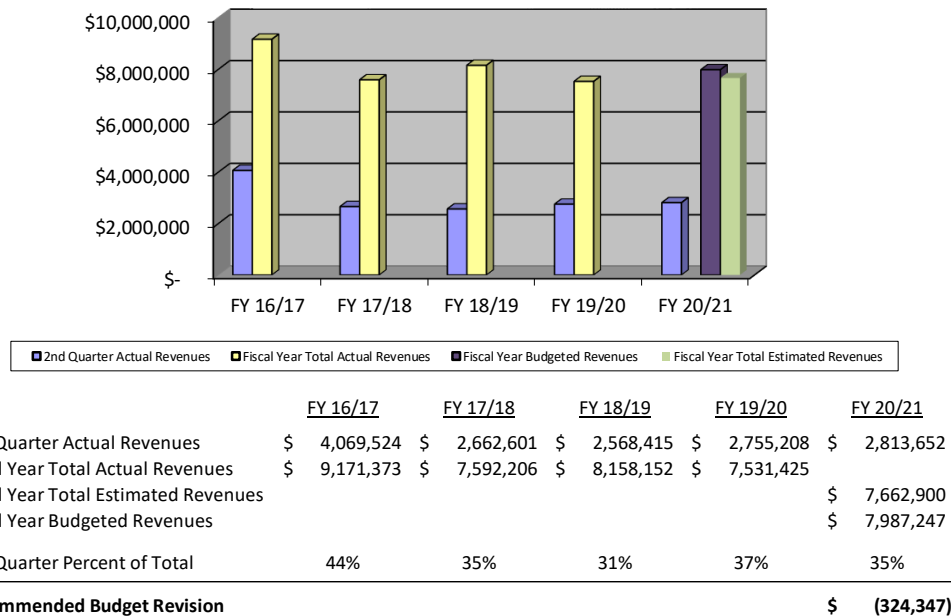
## Sales Tax

Sales tax is the second largest revenue source for the Town’s General Fund, accounting for 18% of budgeted General Fund projected revenues for FY 2020/21. The Town currently receives 1.125 cent for every 9.125 cents of sales tax paid per dollar on retail sales and taxable services transacted within Los Gatos, including the Town of Los Gatos residents’ approved ballot Measure G enacting a one-eighth cent (0.125%) district sales tax for 20 years.

FY 2016/17 marked the end of the State sales tax distributing mechanism commonly known as the “triple-flip” and included a \$900,000 final triple-flip true-up payment from previous fiscal years as illustrated in the table below. Sales tax estimates are based on actual sales tax data and annual sales tax estimates for five years provided by the Town’s consultant, MuniServices including the additional district tax. The MuniServices estimates also include additional proceeds from internet sales due to the 2018 Wayfair Court decision. Current estimates include anticipated \$1,004,300 proceeds from the Measure G one-eighth cent district tax. Actual receipts net of administrative fees collected by the State will be confirmed at the close of the fiscal year.

For FY 2020/21 second quarter receipts are trending lower than in the same period last fiscal year. Staff recommends a \$324,347 budget decrease to reflect the MuniServices current estimates.

**Sales Tax - Quarterly and Annual Revenues  
5-Year History**



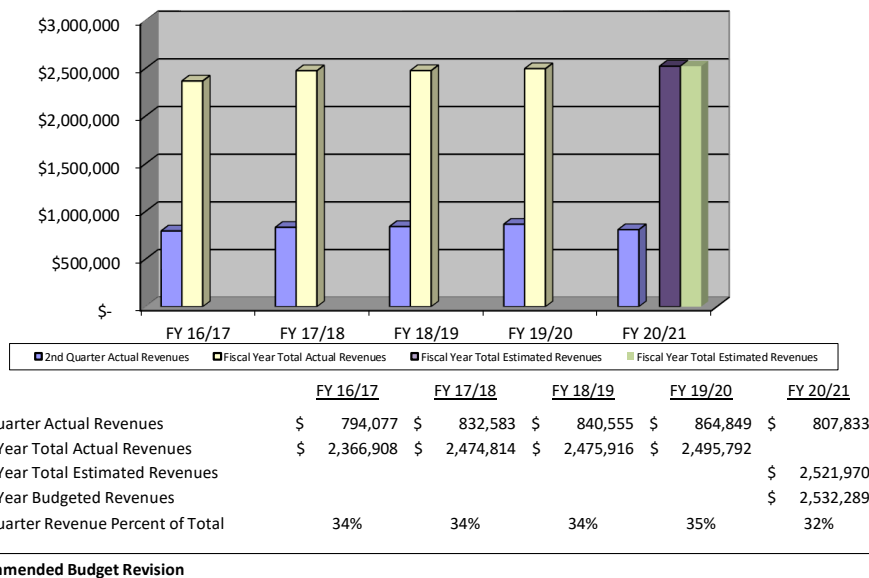


## Franchise Fees

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 2020/21.

Historically, franchise payments are not remitted equally throughout the fiscal year; therefore, second quarter receipts are not necessarily predictive of future receipts. Total franchise fee revenues are trending slightly lower than those of the second quarter in FY 2019/20. Staff recommends no budget adjustment to this revenue source.

**Franchise Fees - Quarterly and Annual Revenues  
5-Year History**

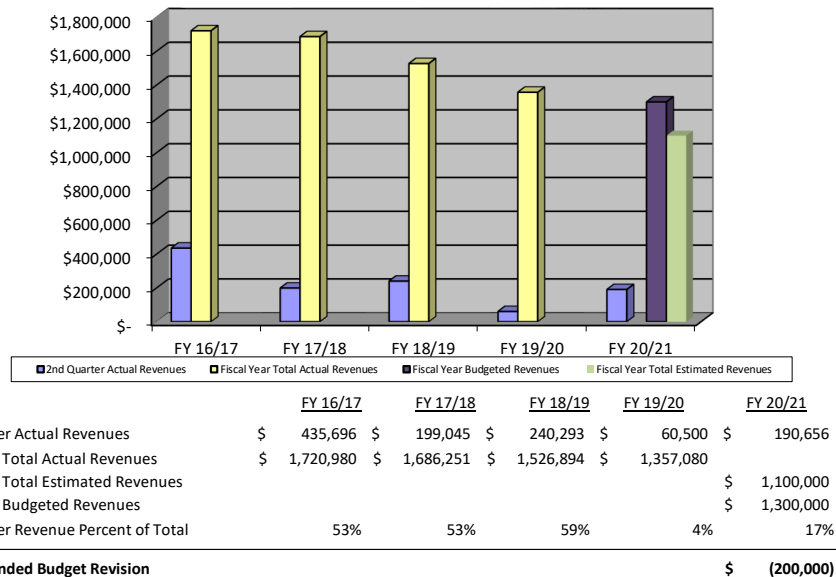


## Business License Tax

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. 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 \$975. 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 pro-rated by quarter.

Business license tax revenue for the current fiscal year was budgeted in line with prior years based on staff analysis and other anticipated business closures and relocation. Staff anticipates lower gross retail activities and additional business license closures due to the pandemic. In addition, Council authorized to give a calendar year first quarter exemption to hair and nail service providers who were not able to operate due to Santa Clara Public Health Order restrictions and omit late business license penalties for all businesses in 2021. Staff anticipates collecting the majority of the business license revenue during the third quarter. Staff recommends a \$200,000 budget decrease to this revenue source.

**Business License Tax - Quarterly and Annual Revenues  
5-Year History**



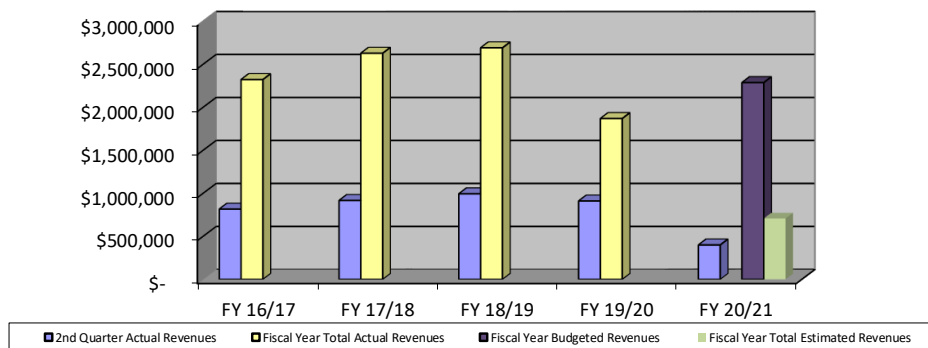
## Transient Occupancy Tax

TOT is an important revenue source for the Town and comprised approximately 3.4% of total Town budgeted revenues of \$2.3 million for FY 2020/21. 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. This tax helps to fund Town services provided to visitors to Los Gatos. .

The FY 2020/21 Adopted Budget modeled a steep contraction with subsequent rebound for a net 15% reduction over the course of the year in TOT revenues from the prior January 21, 2020 initial forecast projection. In addition to the initial Shelter-in-Place (SIP) and Stay-at-Home restrictions instituted on March 17, 2020, on November 28, 2020, Santa Clara County issued new mandatory directives which included that hotels and other lodging facilities will be open only for essential travel and for use to facilitate isolation or quarantine. Given that the November restrictions remain as of this writing, staff anticipates that the current Health Order will continue to degrade TOT revenues for the remainder of the year resulting in YOY declines of 69%.

Based on the current trend staff is recommending a \$1,579,948 budget decrease.

**TOT - Quarterly and Annual Revenues  
5-Year History**



	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21
2nd Quarter Actual Revenues	\$ 817,061	\$ 917,019	\$ 994,581	\$ 910,806	\$ 399,620
Fiscal Year Total Actual Revenues	\$ 2,322,910	\$ 2,628,927	\$ 2,692,043	\$ 1,869,685	
Fiscal Year Total Estimated Revenues					\$ 707,723
Fiscal Year Budgeted Revenues					\$ 2,287,671
2nd Quarter Revenue Percent of Total	35%	35%	37%	49%	17%
<b>Recommended Budget Revision</b>					<b>\$ (1,579,948)</b>

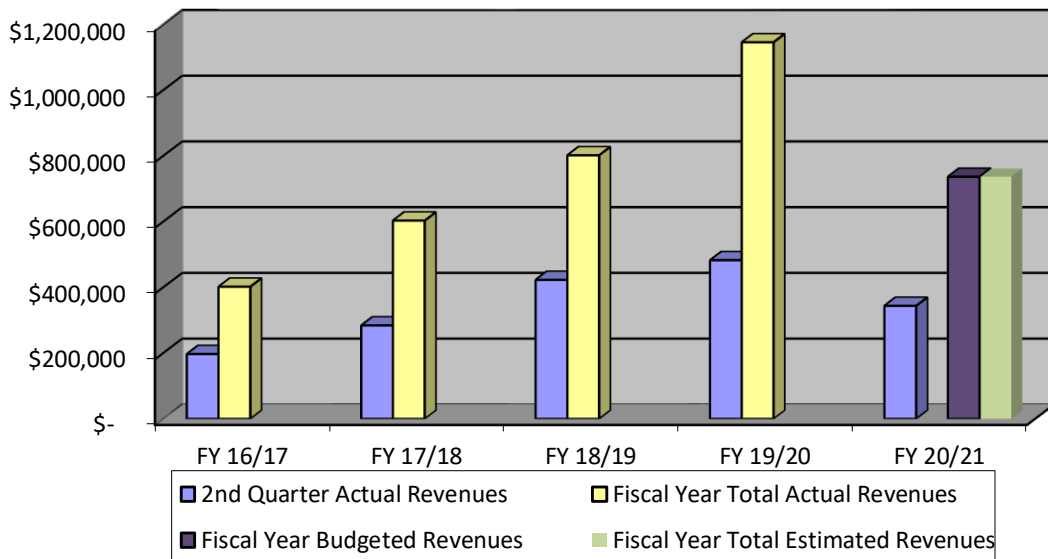
Interest Income

The Town earns interest income by investing monies not immediately required for daily operations in a number of fixed income and money market instruments. These investments are made within the parameters stated in the Town Council’s Investment Policy and State regulation. The Town’s investment goal is to achieve a competitive rate of return while protecting the safety of its funds. Interest income revenue is primarily dependent on two factors: the cash balance in the Town’s investment portfolio and the yield on those funds.

As of December 31, 2020, the Town’s weighted portfolio yield was 1.62% which trended above the Local Agency Investment Fund (LAIF) yield of 0.62%. This favorable yield differential was primarily due to the LAIF portfolio’s weighted average maturity (WAM) of 169 days and the Town’s longer WAM of 579 days. Despite the pandemic, the Town’s weighted average rate of return of 1.62% for the second quarter remained relatively stable when compared to the second quarter return of 1.93% in 2020.

In the months prior to the COVID-19 outbreak, staff in consultation with the Town’s investment advisor had been extending maturities to capture higher yields currently associated with longer dated securities. In recent months, the economic fallout associated with the pandemic has led to Treasury yields falling dramatically. Staff recommends no change to this revenue source at this time.

Interest - Quarterly and Annual Revenues  
5-Year History



	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>
2nd Quarter Actual Revenues	\$ 197,065	\$ 284,009	\$ 422,729	\$ 482,517	\$ 343,813
Fiscal Year Total Actual Revenues	\$ 401,961	\$ 603,017	\$ 801,729	\$ 1,145,538	
Fiscal Year Total Estimated Revenues					\$ 736,409
Fiscal Year Budgeted Revenues					\$ 736,409
2nd Quarter Revenue Percent of Total	49%	47%	53%	42%	47%

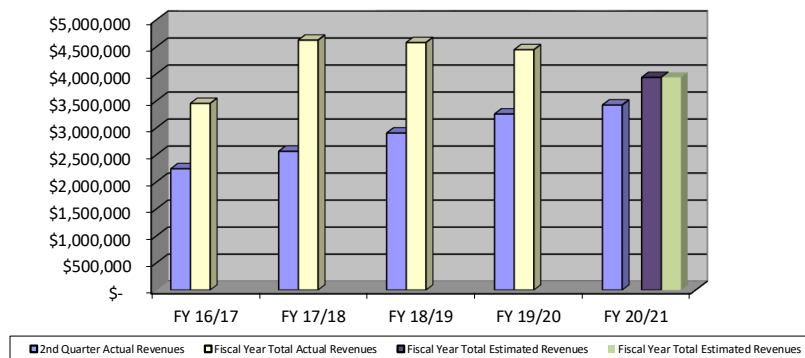
**Recommended Budget Revision**

## Charges for Services

Town Service revenues consist primarily of planning, building, inspections, and engineering fees assessed on local building and development activity. Development fees and charges are assessed based on cost recovery formulas, which reflect approximate costs of providing these regulatory services. This category includes charges for school resource officer and crossing guards' services.

Second quarter Town Service revenues, specifically Charges for Services, are trending higher than in the second quarter compared to the previous fiscal year, with 87% of budgeted revenues already received. Typically, development fees are collected in advance for projects and recognized as revenue in the fiscal year the work is performed. Staff recommends a \$158,073 budget decrease consisting of lower revenues from the school districts for School Resource Officer services (-\$140,444), decreased crossing guard services (-\$65,954 ) offset by increases to this revenue related to engineering service work funded from the General Plan Update deposit account estimated at \$48,325.

**Charges for Services - Quarterly and Annual Revenues  
5-Year History**



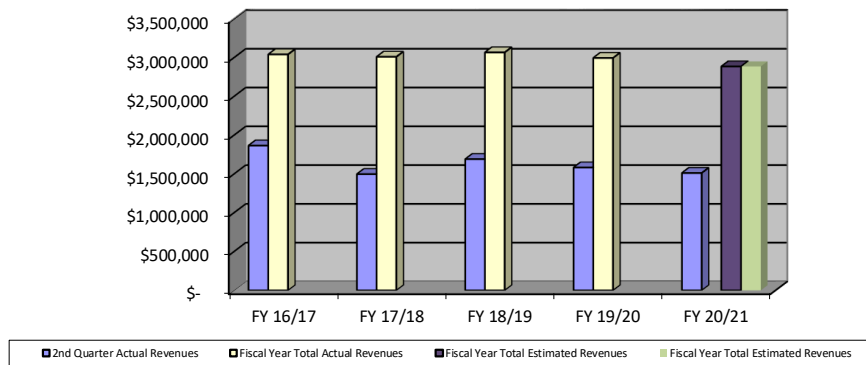
	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>
2nd Quarter Actual Revenues	\$ 2,244,464	\$ 2,567,814	\$ 2,905,238	\$ 3,258,027	\$ 3,424,216
Fiscal Year Total Actual Revenues	\$ 3,454,666	\$ 4,625,136	\$ 4,580,511	\$ 4,447,213	
Fiscal Year Total Estimated Revenues					\$ 3,935,178
Fiscal Year Budgeted Revenues					\$ 4,179,712
2nd Quarter Revenue Percent of Total	65%	56%	63%	73%	87%
<b>Recommended Budget Revision</b>					<b>\$ (158,073)</b>

## Licenses and Permits

Licenses and Permits consist mainly of planning and building permit fees which are collected by the Town to offset administrative costs associated with evaluating development proposals to ensure compliance with codes and policies. Licenses and Permits revenue was budgeted slightly lower than FY 2019/20 in anticipation of slower development activity.

Second quarter License and Permit revenue is trending 51% of budgeted revenue slightly lower than second quarter results from the previous fiscal year. Staff recommends no budget adjustment to this revenue source.

**Licenses & Permits - Quarterly and Annual Revenues  
5-Year History**



	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>
2nd Quarter Actual Revenues	\$ 1,867,300	\$ 1,498,864	\$ 1,692,252	\$ 1,584,098	\$ 1,513,500
Fiscal Year Total Actual Revenues	\$ 3,042,166	\$ 3,011,309	\$ 3,067,994	\$ 2,996,457	\$ 2,886,708
Fiscal Year Total Estimated Revenues					\$ 2,886,708
Fiscal Year Budgeted Revenues					\$ 2,996,898
2nd Quarter Revenue Percent of Total	61%	50%	55%	53%	51%

**Recommended Budget Revision**

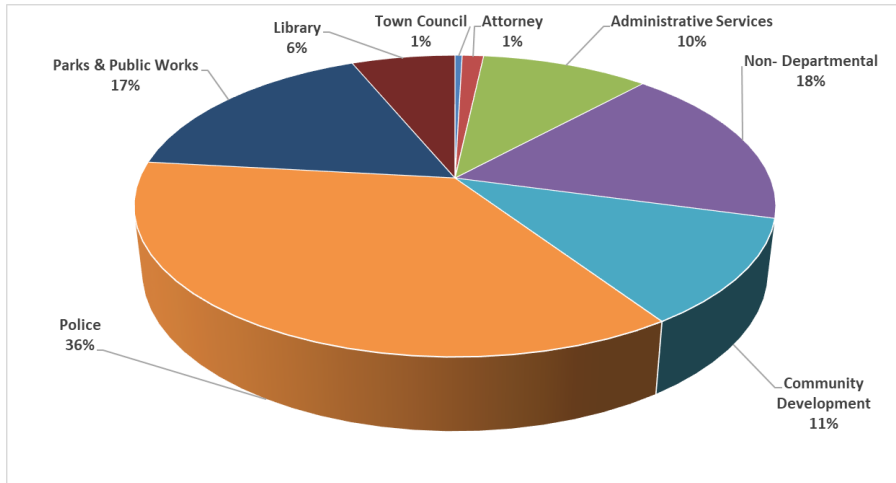
## GENERAL FUND – EXPENDITURE ANALYSIS

For FY 2020/21, General Fund Operating expenditures (not including debt payment and transfers out) were programmed at \$47.9 million. The delivery of Town services is highly dependent on labor which comprises 59.5% of budgeted General Fund expenditures for FY 2020/21. General Fund expenditure totals are trending in accordance with the Adopted Budget, with total operational expenditures at the end of the second quarter at or about 51% of the Adopted Budget. With six months of data now available, staff expects that the next six months of expenditures will be within the Adopted Budget, although unexpected costs can still occur which may require future Council action.

As with most municipalities, services are provided directly by employees to the Town’s residents, businesses, and visitors. As a service delivery enterprise, the cost of salaries and benefits are a significant portion of the budget. As the table below illustrates, at mid-year, actual salaries are trending at 49% of budgeted salaries, while benefits are trending at 69% of the Adopted Budget. Benefits are trending higher than 50% because the Town submits its entire annual amortization of the Town’s unfunded liability upfront in July 2020 as a lump sum pension payment as a cost savings measure, saving approximately \$80,000 in interest expense. While actual vacancies vary during the course of the fiscal year, there were five vacant positions as of 2/8/2021.

General Fund Salaries & Benefits						
	FY 2019/20 Actuals	FY 2019/20 2Q	Q2% of FY 2019/20 Actuals	Q2% of FY 2020/21 Estimated	FY 2020/21 2Q	FY 2020/21 Estimated
Salaries	\$ 19,254,973	\$ 8,999,620	47%	49%	\$ 9,977,252	\$ 20,298,287
Benefits	\$ 9,678,594	\$ 6,556,546	68%	69%	\$ 6,981,902	\$ 10,123,224
Total Salary & Benefit	\$ 28,933,567	\$ 15,556,166	54%	56%	\$ 16,959,154	\$ 30,421,511
<i>FY 2019/20 Upfront Annual Payment to CalPERS in July 2019 \$3,689,063</i>						
<i>FY 2020/21 Upfront Annual Payment to CalPERS in July 2020 \$3,954,819 (not including ADP)</i>						

The graph below represents the Town General Fund estimated operating expenditures. Program expenditures are reviewed and anticipated savings are provided for each program. Also provided are historical program costs, year over year (YOY) percentage changes in actual expenditures and five-year average changes per the Finance Commission’s suggestion. YOY percentage changes are, in many cases, impacted by the timing of one-time expenditures that occur during the fiscal year. Historical analysis has been provided in selected cases to provide explanations for some of the fluctuations between fiscal years.

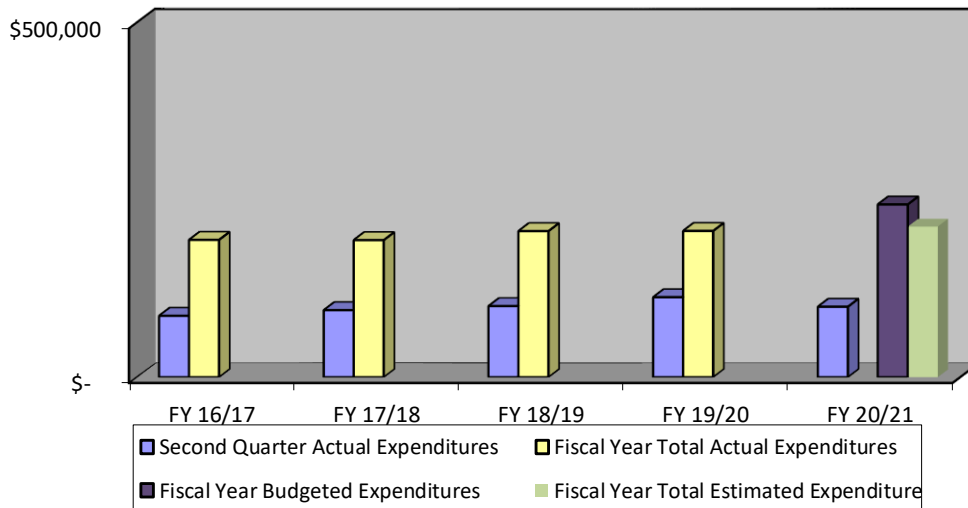




Town Council

The Town Council is the elected legislative body that represents the residents and provides policy direction for the delivery of services and capital improvements for the Town of Los Gatos. Town Council expenditures are trending lower than same quarter in prior year. This program did not have staff vacancy as of 12/31/2021; however, one Council seat was vacant during the first two quarters of the fiscal year. Staff anticipates approximately \$30,000 expenditures savings in this program. Savings is anticipated in travel and training, office supplies and medical benefits. Staff does not recommend any expenditure budget adjustment in this program.

**Town Council - Quarterly and Annual Expenditures  
5-Year History**



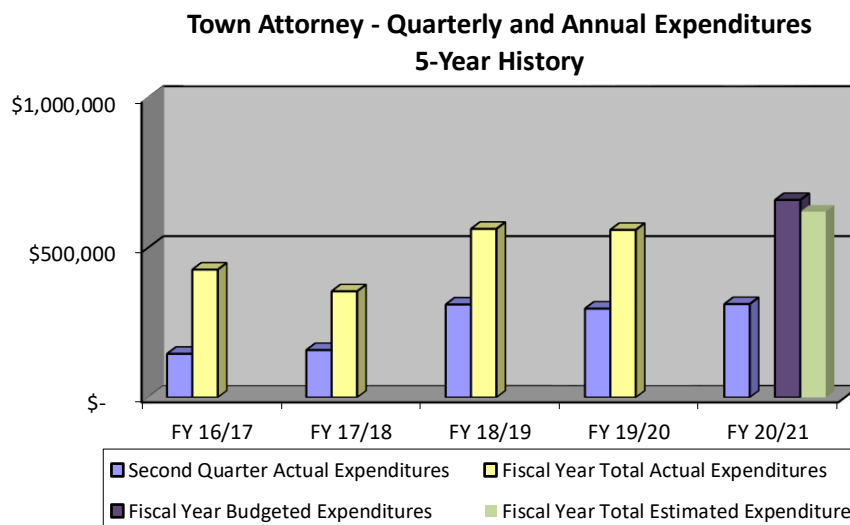
	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>
Second Quarter Actual Expenditures	\$ 86,480	\$ 94,520	\$ 100,209	\$ 112,711	\$ 99,310
Fiscal Year Total Actual Expenditures	\$ 193,584	\$ 193,183	\$ 205,903	\$ 206,163	
Fiscal Year Total Estimated Expenditure					\$ 212,263
Fiscal Year Budgeted Expenditures					\$ 243,486
Second Quarter Percentage of Total	45%	49%	49%	55%	41%

**Recommended Budget Revision**

YOY Percentage Changes	12.86%	-0.21%	6.58%	0.13%	2.96%
5-year Average Percentage Change					4.46%

Town Attorney

The Town Attorney is the legal advisor to the Town Council, Successor Agency to the former Redevelopment Agency, and Town Staff. In this capacity, the office of the Town Attorney provides a wide range of legal services to ensure that Town actions and activities are legally sound. Town Attorney program expenditures are trending lower than same quarter in prior year. This program has a part time Deputy Town Attorney vacancy as of 12/31/2020. The office eliminated the Deputy Attorney position and replaced with the Legal Administrative Assistant. It is anticipated that the position will be filled either the third or fourth quarter of this fiscal year. Staff anticipates approximately \$40,000 expenditures savings in this program. Savings is anticipated in staff salaries and benefits, travel and training, and office supplies. Staff does not recommend any expenditure budget adjustment in this program.



	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>
Second Quarter Actual Expenditures	\$ 145,707	\$ 158,095	\$ 310,219	\$ 296,424	\$ 311,592
Fiscal Year Total Actual Expenditures	\$ 426,548	\$ 354,205	\$ 562,542	\$ 559,010	\$ 559,010
Fiscal Year Total Estimated Expenditure					\$ 619,766
Fiscal Year Budgeted Expenditures					\$ 658,831
Second Quarter Percentage of Total	34%	45%	55%	53%	47%

**Recommended Budget Revision**

YOY Percentage Changes	75.95%	-16.96%	58.82%	-0.63%	10.87%
5-year Average Percentage Change					25.61%

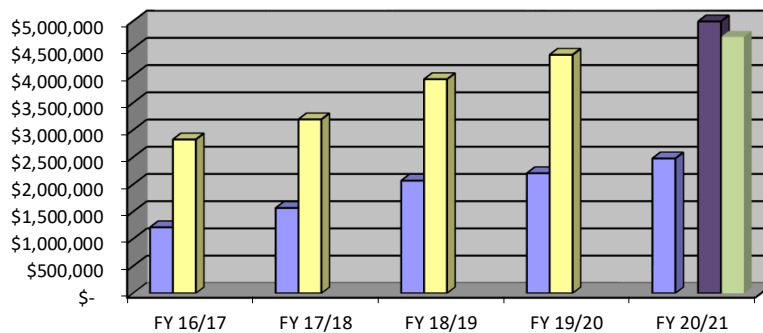
FY 2016/17 the Town had a significant legal expense related to the North 40 lawsuit. In addition, beginning in FY 2018/19 all personnel costs that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a General Fund expense.

## Administrative Services

The Town Manager provides overall management, administration, and direction for the entire Town organization, reporting to the full Town Council. Administrative Services incorporates six key programs; Town Manager’s Office, Clerk Department, Finance Department, Human Resources Department, and Information Technology.

Administrative Services program expenditures are trending lower than same quarter expenditures in prior year. This program does not have any vacancy as of December 31, 2020. Staff anticipates approximately \$280,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, expenditures related special events, travel and training, and office supplies. Staff does not recommend any expenditure budget adjustment in the Administrative Services.

**Administrative Services - Quarterly and Annual Expenditures  
5-Year History**



	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21
Second Quarter Actual Expenditures	\$ 1,212,612	\$ 1,567,002	\$ 2,069,839	\$ 2,204,552	\$ 2,476,978
Fiscal Year Total Actual Expenditures	\$ 2,825,082	\$ 3,193,995	\$ 3,931,807	\$ 4,380,504	
Fiscal Year Total Estimated Expenditure					\$ 4,709,166
Fiscal Year Budgeted Expenditures					\$ 4,993,047
Second Quarter Percentage of Total	43%	49%	53%	50%	50%

### Recommended Budget Revision

YOY Percentage Changes	-2.06%	13.06%	23.10%	11.41%	7.50%
5-year Average Percentage Change					10.60%

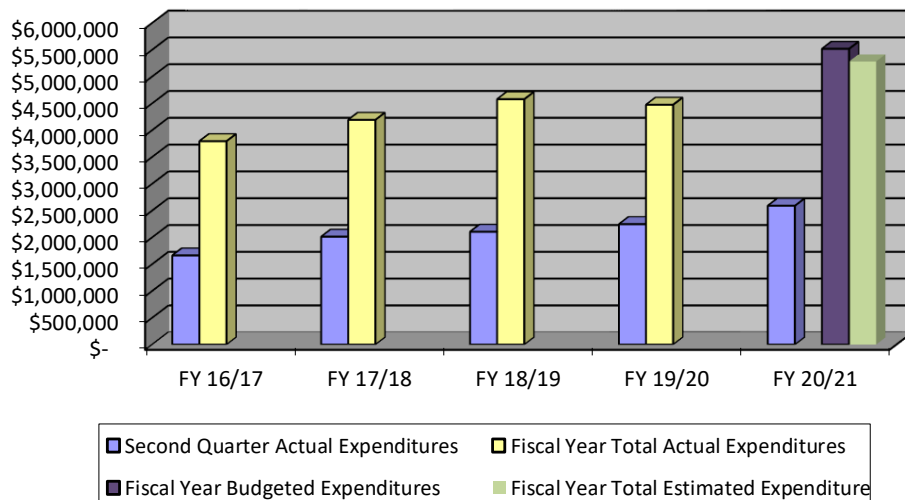
Beginning in FY 2018/19, all personnel that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a General Fund expense. Both FY 2019/20 and FY 2020/21 include a limited two-year temporary position to assist the Town with its emergency preparedness and response operations.

## Community Development Services

The Community Development Department works with elected and appointed officials, other Departments, and the community to guide the physical growth, development, and preservation of the Town.

Community Development program expenditures are trending lower than same quarter expenditures in prior year. This program does not have any vacancy as of December 31, 2020; however, there was an Executive Assistant position that was vacant and was filled beginning the second quarter of the fiscal year. Staff anticipates approximately \$190,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, travel and training, and office supplies. Staff does not recommend any expenditure budget adjustment in the Community Development Department expenditure budget.

**Community Development - Quarterly and Annual Expenditures  
5-Year History**



	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>
Second Quarter Actual Expenditures	\$ 1,662,604	\$ 2,012,335	\$ 2,104,258	\$ 2,245,767	\$ 2,589,502
Fiscal Year Total Actual Expenditures	\$ 3,793,929	\$ 4,192,165	\$ 4,577,495	\$ 4,473,790	
Fiscal Year Total Estimated Expenditure					\$ 5,280,003
Fiscal Year Budgeted Expenditures					\$ 5,517,030
Second Quarter Percentage of Total	44%	48%	46%	50%	47%

### Recommended Budget Revision

YOY Percentage Changes	-6.28%	10.50%	9.19%	-2.27%	18.02%
5-year Average Percentage Change					5.83%

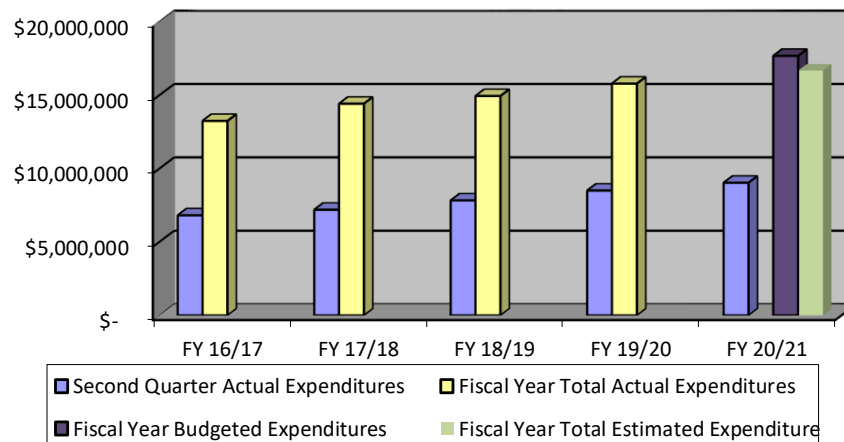
Community Development Department expenditures varies year to year based on the development activity and pass through services. FY 2020/21 includes one-time special project related services to the General Plan update.

## Police Services

The Los Gatos-Monte Sereno Police Department provides Police services to the Town of Los Gatos and contractually to the city of Monte Sereno. The Department is committed to ensuring public safety with integrity, compassion, and professionalism, by providing exceptional law enforcement services, building community partnerships, and engaging the community in problem solving.

Police services program expenditures are trending lower than the same quarter prior year expenditures. This program had a couple of vacancies in Police Officer and Dispatcher positions during the first two quarters of the fiscal year due to retirements. Open Police Officer positions are filled with trainees and temporary employees are presently filling in for the vacant Dispatcher position. There were two vacant Communication Dispatchers and one vacant Police Officer position as of December 31, 2020. Staff anticipates approximately \$846,000 expenditures savings in this program. Savings are anticipated in staff salaries and benefits, crossing guards' services, parking management administration services, travel and training, and office supplies. Staff recommends \$235,236 expenditure budget decreases related to crossing guard services and parking management as explained in the next section of this Report.

**Police - Quarterly and Annual Expenditures  
5-Year History**



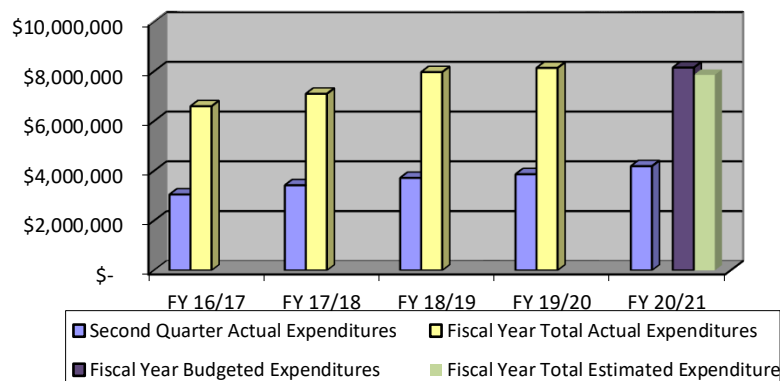
	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>
Second Quarter Actual Expenditures	\$ 6,816,759	\$ 7,197,220	\$ 7,832,251	\$ 8,504,636	\$ 9,037,569
Fiscal Year Total Actual Expenditures	\$13,251,291	\$14,423,554	\$14,948,952	\$15,793,815	\$16,684,133
Fiscal Year Total Estimated Expenditure					\$16,684,133
Fiscal Year Budgeted Expenditures					\$17,687,825
Second Quarter Percentage of Total	51%	50%	52%	54%	51%
<b>Recommended Budget Revision</b>					<b>\$ (235,236)</b>
YOY Percentage Changes	-4.48%	8.85%	3.64%	5.65%	5.64%
5-year Average Percentage Change					3.86%

## Parks and Public Works Services

Parks and Public Works Department constructs and maintains the Town’s public parks, facilities, roadways, right -of -ways, and other infrastructure. Six organizational units work in coordination to achieve the Department’s overarching goal of ensuring the Town’s facilities are safe, functional, and attractive.

Parks and Public Works services program expenditures are trending lower than prior year same quarter expenditures. This program had a couple of vacancies during the first two quarters of the fiscal year; however, the Department hired temporary replacement in order to deliver services until vacancies are filled. There was one vacant Maintenance Worker position as of December 31, 2020. Staff anticipates approximately \$300,000 expenditures savings in this program. Savings are anticipated in fuel cost, travel and training, and office supplies. Staff recommends \$48,325 expenditure budget increase related to General Plan Update engineering services from the available General Plan Update deposit fund.

**Parks and Public Works - Quarterly and Annual Expenditures  
5-Year History**



	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>
Second Quarter Actual Expenditures	\$ 3,051,952	\$ 3,422,553	\$ 3,717,900	\$ 3,864,874	\$ 4,189,004
Fiscal Year Total Actual Expenditures	\$ 6,597,744	\$ 7,099,527	\$ 7,969,631	\$ 8,139,106	\$ 8,139,106
Fiscal Year Total Estimated Expenditure					\$ 7,858,200
Fiscal Year Budgeted Expenditures					\$ 8,152,045
Second Quarter Percentage of Total	46%	48%	47%	47%	51%
<b>Recommended Budget Revision</b>					<b>\$ 48,325</b>
YOY Percentage Changes	5.63%	7.61%	12.26%	2.13%	-3.45%
5-year Average Percentage Change					4.83%

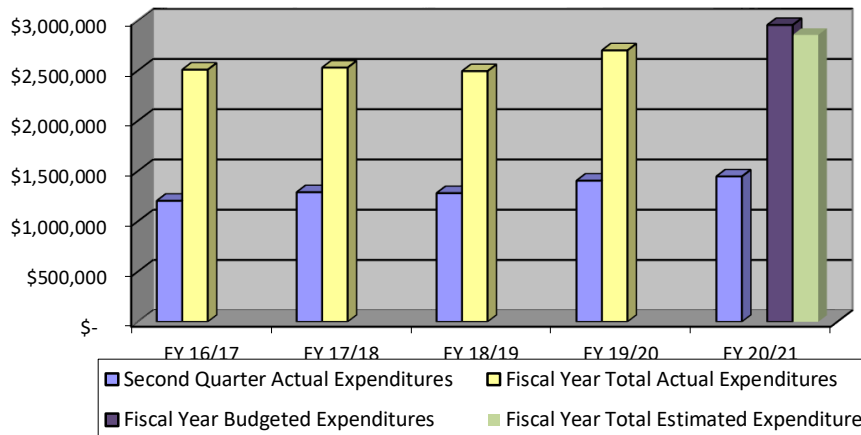
Beginning in FY 2018/19, all personnel that were previously budgeted in Internal Service funds were transferred to the General Fund. While overall expenditures did not increase, salary and benefit costs that were formerly reported as an Internal Service Fund expense effective with the change became a General Fund expense.

## Library Services

The Los Gatos Library fosters curiosity and community connection and strives to be at the heart of an engaged and vibrant community.

Library services program expenditures are trending lower than prior year same quarter expenditures. This program does not have any vacancies as of as of December 31, 2020. Staff anticipates approximately \$100,000 expenditures savings in this program. Savings are anticipated in temporary employee salaries, travel and training, and office supplies. Staff does not recommend any expenditure budget adjustment to this program.

**Library - Quarterly and Annual Expenditures  
5-Year History**



	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>
Second Quarter Actual Expenditures	\$ 1,204,043	\$ 1,289,625	\$ 1,280,179	\$ 1,404,285	\$ 1,446,308
Fiscal Year Total Actual Expenditures	\$ 2,508,678	\$ 2,529,017	\$ 2,493,617	\$ 2,700,802	
Fiscal Year Total Estimated Expenditure					\$ 2,854,192
Fiscal Year Budgeted Expenditures					\$ 2,952,802
Second Quarter Percentage of Total	48%	51%	51%	52%	49%

### **Recommended Budget Revision**

YOY Percentage Changes	-2.74%	0.81%	-1.40%	8.31%	5.68%
5-year Average Percentage Change					2.13%

## FY 2020/21 RECOMMENDED BUDGET ADJUSTMENTS

Budget adjustments are recommended for the following revenues and expenditures at the second quarter as described below:

FY 2020/21 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUNDS				
Fund	Program	Account	General Fund Revenues	
111		36222	Use of Pension/OPEB Reserve	300,000
111	1201	411XX	Property Tax	\$ (729,196)
111	1201	41141	Motor Vehicle In Lieu Fee	79,280
111	1201	41211	Sales & Use Tax	(374,664)
111	1201	41214	Measure G - District Sales Tax	50,317
111	1201	41311	Transient Occupancy Tax	(1,579,948)
111	1201	43216	Corona Virus Relief Fund	388,181
111	1201	45921	Sales Of Winchester Property	1,200,000
111	2301	41411	Business License Tax	(200,000)
111	2301	42321	Business License Processing Fee	(15,000)
111	4302	44512	Crossing Guards' Services	(65,954)
111	4303	44515	School Resource Officer Services	(140,444)
111	4304	45126	Electronic Parking Ticket	(280,000)
111	4303	45127	SCC Park bail Tickets	(60,000)
111	5201	44417	General Plan Update - Engineering Services	48,325
111	5391	42511	OMP Parking Reservation Fee	(70,000)
111	5301	42512	OMP- Parking Fee	(15,000)
<b>TOTAL GENERAL FUND REVENUES</b>				<b>\$ (1,464,103)</b>
Fund	Program	Account	General Fund Expenditures	
111	1201	62119	CalPERS Discretionary Payment	\$ 300,000
111	4302	63342	Crossing Guards' Services	(82,786)
111	4304	62223	Parking Administration - SCC Court and Jail Constructions	(108,000)
111	4304	63116	Parking Administration CA- DMV Admin Fee	(6,000)
111	4304	63344	Parking Administration - Citation Services	(15,000)
111	4304	63345	Valet Parking Services	(23,500)
111	5201	68422	General Plan Update - Engineering Services	48,325
<b>TOTAL GENERAL FUND EXPENDITURES</b>				<b>\$ 113,039</b>



**FY 2020/21 MID-YEAR BUDGET ADJUSTMENT REQUESTS - OTHER FUNDS**

<b>Fund</b>	<b>Program</b>	<b>Account</b>	<b>Other Fund Revenues</b>	
<b>222</b>			<b>Non-Point Source</b>	
222	5203	44613	Non-Point Source Management - Not in Town	(353,000)
				<b>\$ (353,000)</b>
<b>421</b>			<b>Grants</b>	
421	421-813-0227	43407	Traffic Signal Modernization Project	(306,738)
421	421-813-0803	43405	Highway 17 Bicycle and Pedestrian Bridge	(456)
				<b>\$ (307,194)</b>
<b>633</b>			<b>Facilities Maintenance</b>	
633	5404	49631	Police Operation Building Camera Update - From Equipment's	33,000
				<b>\$ 33,000</b>
<b>711</b>			<b>Library Trust</b>	
711	7301	45452	Anticipated Donation Not Received	(44,500)
				<b>\$ (44,500)</b>
<b>TOTAL OTHER FUNDS REVENUES</b>				<b>\$ (605,694)</b>

<b>Fund</b>	<b>Program</b>	<b>Account</b>	<b>Other Fund Expenditures</b>	
<b>222</b>			<b>Non Point Sources</b>	
222	5203	62369	Non-Point Source Management - Not in Town	(353,000)
				<b>\$ (353,000)</b>
<b>411</b>			<b>GFAR</b>	
411	411-832-4508	82405	From Vegetation Management	(250,000)
411	411-812-0130	82405	To Roadside Fire Fuel Reduction	250,000
411	411-811-6004	82405	From Fire Suppression for Server Room	(50,000)
411	411-821-2118	82405	To Police Headquarters Roof Repair	50,000
				<b>\$ -</b>
<b>421</b>			<b>Grants</b>	
421	421-813-0227	82405	Traffic Signal Modernization Project	(306,738)
421	421-813-0803	82405	Highway 17 Bicycle and Pedestrian Bridge	(456)
				<b>\$ (307,194)</b>
<b>612</b>			<b>Workers Compensation</b>	
	2202	63323	COVID 19 Testing	65,000
				<b>\$ 65,000</b>
<b>631</b>			<b>Equipment Replacement</b>	
	5402	99633	Police Operation Building Camera Update - To Facilities	33,000
				<b>\$ 33,000</b>
<b>633</b>			<b>Facilities Maintenance</b>	
633	5404	82025	HVAC Cooling System	58,970
	5404	62379	Police Operation Building Camera Update	33,000
				<b>\$ 91,970</b>
<b>711</b>			<b>Library Trust Fund</b>	
711	7301	62424	Anticipated Donation Not Received	(65,500)
				<b>\$ (65,500)</b>
<b>TOTAL OTHER FUNDS EXPENDITURES</b>				<b>\$ (535,724)</b>

## SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

### General Fund Revenues and Expenditures

- Use of Pension/OPEB Reserve: Staff recommends use of the available Pension/OPEB Reserve in the amount of \$300,000 be transferred to the CalPERS California Employees' Pension Prefunding Trust (CEPPT) to make additional discretionary payments (ADPs) per direction from the Town Pension/OPEB Oversight Committee. The additional \$300,000 was put in the Pension/OPEB Reserve per policy at the close at the FY 2019/20 and was not available at the time of the FY 2020/21 budget adoption.
- General Property Tax and Motor Vehicle in Lieu Fee: Staff recommends a decrease in projected revenues of approximately \$729,196 in General Property Tax and an increase of \$79,280 Motor Vehicle in Lieu fee which are in line with the estimates and forecasts provided to the Town from Santa Clara County.
- Sales and Use Tax: Staff recommends a \$374,664 budget decrease to reflect current trends sales tax based on MuniServices conservative projections.
- Measure G – District Sales Tax: Staff recommends a \$50,317 budget increase to reflect the current trends of the one-eight cent sales tax based on MuniServices conservative projections.
- Transient Occupancy Tax (TOT): Staff recommends a \$1,579,948 budget decrease based on the current trends.
- Corona Virus Relief Fund: Staff recommends a \$388,181 budget increase to recognize the receipt of the Corona Virus Relief Fund.
- Sale of Winchester Property: Staff recommends a revenue budget increase in the amount of \$1,200,000 for the Winchester property sale. The proceeds will be placed into the Surplus Property Reserve that was previously identified by the Town Council to address potential COVID-19 economic impacts.
- Business License Tax and Business License Processing Fee: Staff recommends a decrease in projected revenues of approximately \$200,000 in Business License Tax and a decrease of \$15,000 Business License Processing Fee based on current activities and trends.
- Crossing Guards' Services: The Town contracts with All City Management Services, Inc. (ACMS) to provide crossing guard services at selected school crossing locations in the Town of Los Gatos. The Town of Los Gatos manages the accounting of the service contract and oversees Crossing Guard staff in coordination with a local ACMS manager. The Town contracts with ACMS and the expenses for Crossing Guard services are shared between the Town, Los Gatos Union School District, and Union School District. Town expenditures for the contract account for approximately twenty percent of the annual cost.

Effective March 16, 2020, Santa Clara County Health Orders required remote learning instruction at all schools, thus impacting any Crossing Guard service delivery. The expenditure has decreased and corresponding revenue received from both school districts has also declined. In early February the Town received information that elementary students from both school districts would transition back to the campus environment, thus partial Crossing Guard services will resume. Expenditures are reduced by \$82,786. Combined revenue received from both school districts is reduced by \$65,974. Given the nature of the pandemic, staff notes service delivery using Crossing Guards for the remainder of the fiscal year is subject to swift variations. Staff recommends a 50% decrease both the crossing guard related revenue and expenditure budget.

- School Resource Officer Services: The School Resource Officer (SRO) agreement was amended as a result of the State and Santa Clara County Health Orders which required remote instruction, thus impacting SRO service delivery. Staff recommends a revenue budget decrease of \$140,444.
- The Parking Management Program: The COVID-19 pandemic has significantly impacted the visitation and parking patterns to parking enforcement areas. Residential, visitation and parking in areas with ticketing enforcement were reduced by exponential levels. The Parking Management Program is estimated to have a revenue shortfall of \$340,000. Due to the revenue decrease, there is a corresponding reduction in expenditure forecasted at \$152,500. The reduction in expenditure includes \$23,500 usually paid for Holiday Valet Parking Services. This fiscal year, the Town did not implement the annual Holiday Valet Parking Program to reduce potential health impacts. Staff recommends a revenue budget decrease of \$340,000 and the expenditure budget decrease of \$152,500.
- General Plan Update Engineering: Staff recommends an expenditure and revenues budget increase in the amount of \$48,325 to recognize engineering General Plan update work that carried forward from FY 2019/20 into FY 2020/21 from available General Plan Update deposits.
- Oak Meadow Park Reservation Fee: Staff recommends \$70,000 decreases in the Oak Meadow Park Reservation Fee revenue budget to recognize lower activity. Santa Clara County Health Department orders have limited groups gathering in parks town wide.
- Oak Meadow Park Parking Fee: Staff recommends a decrease the Oak Meadow Park Parking Fee revenue budget in the amount of \$15,000 to recognize lower activity and the inability to fill a booth attendant position. Staff is in the process of procuring a parking pay station that will integrate with the Town's current parking enforcement efforts.

## Other Fund Revenues and Expenditures

- West Valley Clean Water Program Administration: Staff recommends revenue and expenditure budget decrease in the amount of \$353,000 for the Town's participation in the West Valley Clean Water Program. Upon creation of the West Valley Clean Water Program Authority, management of the program fees and expenditures was shifted to the Authority.
- COVID Testing: Staff recommends a \$65,000 expenditure budget increase from the available Workers Compensation Fund balance to provide regular testing for Town's essential workers.
- HVAC Cooling System: Staff recommends a \$58,970 expenditure budget increase from available Facilities Maintenance Fund balance.
- Police Headquarters Roof Replacement: Staff recommends \$50,000 expenditure budget transfer from the Fire Suppression for Server Room project to the Police Headquarters Roof Replacement project. This action increases the Police Headquarters Roof Repair budget for structural and permanent mounting of the microwave radio antenna prior to the roof replacement. This is critical for public safety communications.
- Transfer from Vegetation Management to Roadside Fire Fuel Reduction Project: Staff recommends \$250,000 expenditure budget transfer from the Vegetation Management Project to the Roadside Fire Fuel Reduction project. The Town Council approved an agreement with West Coast Arborist for this project which is partially funded by a transfer from the Vegetation Management – Town-wide project. This action recognizes the transfer. This action increases the Roadside Fire Fuel Reduction project by \$250,000 and decreases the Vegetation Management – Town-wide project by the same amount.
- Traffic Signal Modernization Project: Staff recommends revenue and expenditure budget decrease in the amount of \$306,738 in the Traffic Signal Modernization project. This reduction recognizes an erroneous double counting of a grant, as well as a change in the federal grant amount.
- Highway 17 Bicycle & Pedestrian Bridge: Staff recommends a revenue and budget increase in the amount of \$456 in the Highway 17 Bicycle & Pedestrian Bridge Project as a technical adjustment. The grant was rounded during the annual budget process and should reflect the true grant award. Increase
- Police Operation Building Surveillance Camera and Video System Update: Staff recommend an expenditure budget transfers in the amount of \$33,000 from the Equipment Replacement Fund to the Facilities Maintenance Fund for the replacement of the surveillance camera and video system at the Police Operations Building (POB). The Facilities Maintenance Fund currently has \$20,000 budgeted, and this transfer will fund the remainder of the project. This is a critical security measure for a Law Enforcement Facility. The current system is over 11 years old and several cameras are no longer functional. These cameras are located in the interrogation rooms and on the perimeter

of the POB. Cameras are currently monitored by PD Dispatch and the control room at POB. The new system software would allow multiple viewing locations (on PCs) making viewing more accessible and convenient. The system would also accommodate future expansion and be able to tie in cameras at additional Town facility locations.

- Library Trust programming: Library Trust consists of funds that are received from philanthropic donation from the non-profit fundraising organization Friends of the Los Gatos Library. Due to impacts from COVID-19, the Friends normal fundraising operations were greatly reduced resulting in a donated amount far less than received in previous years. This is also factored into the loss of revenue for this line item. Expenditures have been reduced to offset revenue shortfalls by cutting back on Library hosted community programming.

## FINANCIAL SUMMARIES AND ESTIMATES

### General Fund

The following table is the *Schedule of General Fund Operating Revenues Versus Operating Expenditures* for the second quarter of FY 2020/21 which includes comparison information from the prior year.

The FY 2020/21 Adjusted Budget column includes the adopted budget and items that Council approved during the course of the first two quarters of fiscal year, such as additional funding for Police use of SLESF funds, salary adjustments for Council appointed employees, and miscellaneous carry over grants from prior fiscal year.

The FY 2020/21 Estimated column contains projections of final balances for the current fiscal year based upon staff analysis, the early trends observed through the second quarter in sales tax and property tax projections and the proposed mid-year adjustments as listed in this report.

The FY 2020/21 Estimated figures also include analysis on potential salary and other expenditure savings; however, budget adjustments are only recommended as identified in this Report.

Staff continues to fine tune the detailed analysis of the FY 2020/21 year-end estimated revenue and expenditure numbers and an update will be provided with the presentation of the Proposed Fiscal Year 2021/22 Operating Budget.

**SUMMARY OF REVENUES AND EXPENDITURES**

	<b>FY 2019/20 Actuals</b>	<b>FY 2019/20 Q2</b>	<b>Q2% of FY 2019/20 Actuals</b>	<b>Q2% of FY 2020/21 Adjusted Budget</b>	<b>FY 2020/21 Q2</b>	<b>FY 2020/21 Adjusted</b>	<b>FY 2020/21 Estimated YE Including Mid-Year Proposed</b>
<b>Revenues</b>							
Property Tax	\$ 14,454,513	\$ 5,017,946	34.7%	37.3%	\$ 5,481,928	\$ 14,678,319	\$ 13,949,123
Sales & Use Tax	7,531,425	2,755,208	36.6%	35.2%	2,813,652	7,987,247	7,662,900
VLF Backfill Property Tax	3,875,914	-	0.0%	0.0%	-	3,973,720	4,053,000
Franchise Fees	2,495,792	864,849	34.7%	31.9%	807,883	2,532,289	2,521,970
Transient Occupancy Tax	1,869,685	910,806	48.7%	17.5%	399,620	2,287,671	707,723
Business License Tax	1,357,080	60,500	4.5%	14.7%	190,656	1,300,000	1,100,000
Licenses & Permits	2,696,457	1,584,098	58.7%	50.5%	1,513,500	2,996,898	2,886,708
Intergovernmental	1,104,075	410,882	37.2%	84.4%	818,352	969,385	1,272,328
Town Services	4,447,213	3,258,027	73.3%	81.9%	3,424,216	4,179,712	3,935,178
Fines & Forfeitures	271,117	134,707	49.7%	5.9%	25,587	434,950	99,207
Interest	1,145,538	(183,415)	-16.0%	-114.3%	(841,366)	736,409	736,409
GASB 31 to Market	1,092,564	517,744	47.4%	114.7%	(126,168)	(110,000)	(110,000)
Use of Property	31,039	-	0.0%	-	-	-	-
Miscellaneous Other	680,439	134,336	19.7%	57.6%	167,206	290,144	338,409
Park Construction Tax	7,653	-	-	-	-	7,000	7,000
Debt Service - <i>Entry Eliminated for CAFR</i>	1,905,024	-	0.0%	0.0%	-	1,908,494	1,908,494
Proceeds for Sales of Assets	656	-	0.0%	-	1,200,000	-	1,200,000
Fund Transfer In	599,669	102,000	17.0%	17.0%	104,659	616,834	616,834
<b>Total Revenues &amp; Transfers In</b>	<b>\$ 45,565,853</b>	<b>\$ 15,567,688</b>	<b>34%</b>	<b>36%</b>	<b>\$ 15,979,725</b>	<b>\$ 44,789,072</b>	<b>\$ 42,885,283</b>
<b>Use of Other Funding Sources:</b>							
Use of Reserves - Capital/Special Projects - Capital	\$ 8,053,847	\$ -	0.0%	0.0%	\$ -	\$ 3,401,479	\$ 3,401,479
Use of Reserve - Pension/OPEB	-	-	-	-	-	4,232,500	4,532,500
Use of Reserves - Capital/Special Projects - One-Time	-	-	-	-	-	901,267	901,267
<b>Total Other Funding Sources</b>	<b>\$ 8,053,847</b>	<b>\$ -</b>	<b>0%</b>	<b>0%</b>	<b>\$ -</b>	<b>\$ 8,535,246</b>	<b>\$ 8,835,246</b>
<b>Total Revenues and Use of Reserves</b>	<b>\$ 53,619,700</b>	<b>\$ 15,567,688</b>	<b>29%</b>	<b>30%</b>	<b>\$ 15,979,725</b>	<b>\$ 53,324,318</b>	<b>\$ 51,720,529</b>
<b>Expenditures</b>							
Town Council	\$ 206,163	\$ 112,711	54.7%	40.8%	\$ 99,310	\$ 243,486	\$ 212,263
Attorney	559,010	296,424	53.0%	47.3%	311,592	658,831	619,766
Administrative Services	4,380,504	2,204,552	50.3%	49.6%	2,476,978	4,993,047	4,709,166
Non- Departmental	3,505,098	1,166,054	33.3%	55.6%	4,339,030	7,803,668	8,068,199
Community Development	4,473,790	2,245,767	50.2%	46.9%	2,589,502	5,517,030	5,280,003
Police	15,793,815	8,504,636	53.8%	51.1%	9,037,569	17,687,825	16,841,333
Parks & Public Works	8,139,106	3,864,874	47.5%	51.4%	4,189,004	8,152,045	7,858,200
Library	2,700,802	1,404,285	52.0%	49.0%	1,446,308	2,952,802	2,854,192
Capital Outlay	138,384	-	-	-	-	-	-
<b>Total Department Expenditures</b>	<b>\$ 39,896,672</b>	<b>\$ 19,799,303</b>	<b>50%</b>	<b>51%</b>	<b>\$ 24,489,293</b>	<b>\$ 48,008,734</b>	<b>\$ 46,443,122</b>
Debt Service - <i>Entry Eliminated for CAFR</i>	\$ 1,905,024	\$ -	0.0%	0.0%	\$ -	\$ 1,908,494	\$ 1,908,494
Transfers Out	8,053,847	-	0.0%	0.0%	-	3,401,479	3,401,479
<b>Total Non-Departmental Expenditures</b>	<b>\$ 9,958,871</b>	<b>\$ -</b>	<b>0%</b>	<b>0%</b>	<b>\$ -</b>	<b>\$ 5,309,973</b>	<b>\$ 5,309,973</b>
<b>Total Operating Expenditures</b>	<b>\$ 49,855,543</b>	<b>\$ 19,799,303</b>	<b>40%</b>	<b>46%</b>	<b>\$ 24,489,293</b>	<b>\$ 53,318,707</b>	<b>\$ 51,753,095</b>
Allocate to Surplus Property Reserve							(1,200,000)
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 3,764,157</b>	<b>\$ (4,231,615) *</b>			<b>\$ (8,509,568) *</b>	<b>\$ 5,611</b>	<b>\$ (1,232,566)</b>

\*FY 2019/20 and FY 2020/21 Q2 Net Operating Revenues are negative because some revenues budgeted for the entire fiscal year are received in the third or fourth quarters and fund expended in the first or second quarters.

Financial Summaries of Other Funds

The group of financial summaries on the following pages present data by governmental, proprietary and fiduciary fund types. For each, the fund information starts with a beginning fund balance, adds current year revenues, and subtracts current year expenditures, resulting in an ending fund balance. Adopted budget amounts are provided as a basis for comparison of actuals to date.

Special Revenue Funds (Governmental Fund Type)

Special Revenue Funds account for the proceeds derived from specific revenue sources that are legally restricted or assigned to special purposes. The Town’s Special Revenue Funds are Community Development Block Grant Fund, Housing Conservation Program Fund, Urban Runoff Source Fund (Non-Point Source), and several Landscaping and Lighting District (LLD) Funds. Staff recommends revenue and expenditure budget decrease in the amount of 353,000 for the Town’s participation in the West Valley Clean Water Program. Upon creation of the West Valley Clean Water Program Authority, management of the program fees and expenditures was shifted to the Authority.

**Special Revenue Funds  
Budget to Actuals Comparisons**

	CDBG Grants	Non-Point Source	LLD's
<b>Beginning Fund Balance</b>	<b>\$ 166,653</b>	<b>\$ 237,936</b>	<b>\$ 190,250</b>
Budgeted Revenues	-	584,394	39,680
<b>Total Actual Revenues - 2nd Qtr</b>	<b>\$ -</b>	<b>\$ 125,912</b>	<b>\$ -</b>
Budgeted Expenditures	-	559,077	37,737
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>-</b>	<b>88,634</b>	<b>15,810</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ 166,653</b>	<b>\$ 275,214</b>	<b>\$ 174,440</b>



Capital Projects Funds (Governmental Fund Type)

Capital Projects Funds account for resources used for the acquisition and construction of capital facilities by the Town. Funds in this category are the GFAR (General Fund Appropriated Reserve) Fund, Traffic Mitigation Fund, Grant Funded CIP Projects Fund, Utility Underground Fund, Gas Tax Fund, and three Storm Drain Funds. Staff recommends budget transfer between capital projects and reducing both grant fund revenue and expenditure by \$307,194 to match funds received and awarded. Staff will continue to monitor these revenues and expenditures throughout the remainder of the year. The Grant Funded CIP fund displays a deficit balance because this grant fund expends Town dollars first, then provides documentation of these expenditures to the State of California or other granting agencies and is reimbursed for those costs. The reimbursements eventually result with the fund “breaking even” or a zero fund balance.

**Capital Project Funds  
Budget to Actuals Comparisons**

	GFAR* Fund	Traffic * Mitigation	Grant Funds* CIP	Storm Drains	Utility Undergd	Gas Tax
<b>Beginning Fund Balance</b>	<b>\$ 13,861,073</b>	<b>\$ 2,636,215</b>	<b>\$ (343,705)</b>	<b>\$ 2,760,276</b>	<b>\$ 3,118,174</b>	<b>\$ 290,370</b>
Budgeted Revenues	8,648,481	1,795,438	6,930,235	104,340	3,863,048	1,233,317
<b>Total Actual Revenues - 2nd Qtr</b>	<b>2,494,888</b>	<b>-</b>	<b>140,352</b>	<b>83,384</b>	<b>33,228</b>	<b>578,206</b>
Budgeted Expenditures	17,892,744	1,795,438	7,256,019	485,058	6,836,204	1,397,952
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>1,644,955</b>	<b>126,848</b>	<b>169,170</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ 14,711,006</b>	<b>\$ 2,509,367</b>	<b>\$ (372,523)</b>	<b>\$ 2,843,660</b>	<b>\$ 3,151,402</b>	<b>\$ 868,576</b>

*\* GFAR, Traffic Mitigation, and Grant Funds balances are combined in the CAFR. The combined balance of \$13,866,028 is presented as an Appropriated Reserve. The Traffic Mitigation Fund balance includes \$2,287,555 deferred revenue.*

Internal Service Funds (Proprietary Fund Type)

Internal Service Funds finance and account for special activities and services performed by a designated Town Department for other Town Departments on a cost reimbursement basis. Included in this fund type are the Equipment Replacement Fund, Workers' Compensation Fund, Joint Powers Authority Pooled Liability Network (PLAN) Self-Insurance Fund, Information Technology Fund, and the Facilities Maintenance Fund.

Staff recommends a \$58,970 expenditure budget adjustment to cover the Civic Center HVAC Cooling System repair, and \$33,000 transfer from the Equipment Replacement Fund for the Police Headquarter Surveillance Camera Update project. In addition, staff recommends expenditure adjustments in amount of \$65,000 from the available Workers' Compensation Fund to provide COVID 19 Testing for essential Town employees. Staff will continue to monitor expenditures and propose a revised cost allocation if needed during the FY 2021/22 budget preparation.

**Internal Service Funds  
Budget to Actuals Comparisons**

	Equipment Replacem t	Workers Compensation	Self Insurance	Information Technology	Facility Maint.
<b>Beginning Fund Balance</b>	\$ 1,925,054	\$ 1,808,740	\$ 1,290,614	\$ 2,604,203	\$ 102,469
Budgeted Revenues	297,546	1,185,906	418,135	917,219	1,148,757
<b>Total Actual Revenues - 2nd Qtr</b>	<b>191,768</b>	<b>698,452</b>	<b>205,763</b>	<b>484,004</b>	<b>456,916</b>
Budgeted Expenditures	1,523,121	1,835,050	668,059	1,070,891	1,169,722
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>87,134</b>	<b>576,940</b>	<b>501,245</b>	<b>212,915</b>	<b>517,241</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ 2,029,688</b>	<b>\$ 1,930,252</b>	<b>\$ 995,132</b>	<b>\$ 2,875,292</b>	<b>\$ 42,144</b>

Trust and Agency Funds (Fiduciary Fund Type)

Town Trust and Agency Funds have estimated fund balances as of December 31, 2020 of \$525,815 for the Library Trust Funds and \$229,795 for the Successor Agency (SA) Trust Fund. AB1x26 is the “Dissolution Bill” that eliminated the Town’s Redevelopment Agency effective February 1, 2012. AB 1484 is the “clean-up” bill that revised and attempted to clarify AB1x26. In accordance with the law, the Successor Agency continues to wind down the affairs and operations of the former Redevelopment Agency by implementing programs and activities in accordance with the State-approved Recognized Obligation payment Schedule (ROPS). The Successor Agency monies are now accounted for in a Private Purpose Trust fund and no longer part of the Town’s Financial Statements.

Staff recommends a \$44,500 revenue budget decrease and a \$65,500 expenditure budget decrease in the Library Trust since an expected donation was never received.

**Trust & Agency Funds  
Budget to Actuals Comparisons**

	<b>Library Trust</b>	<b>SA Trust</b>
<b>Beginning Fund Balance</b>	<b>\$ 526,815</b>	<b>\$ 229,905</b>
Budgeted Revenues	74,100	12,500
<b>Total Actual Revenues - 2nd Qtr</b>	<b>3,236</b>	<b>-</b>
Budgeted Expenditures	74,100	11,803
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>5,030</b>	<b>110</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ 525,021</b>	<b>\$ 229,795</b>

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**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/16/2021

ITEM NO: 12

ADDENDUM

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DATE: February 12, 2021  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Mid-Year Budget Report - July 1 - December 31, 2020.  
a. Receive FY 2020/21 Mid-Year Budget Report; and  
b. Authorize Budget Adjustments as Recommended in the Mid-Year Budget Report.

**REMARKS:**

Attachment 2 contains public comments received before 11:01 a.m. Friday, February 12, 2021.

**Attachment received with the Staff Report:**

1. Mid-Year Budget Report - July 1 - December 31, 2020.

**Attachment received with this Addendum:**

2. Public Comments received before 11:01 a.m. Friday, February 12, 2021.

**PREPARED BY:** Stephen Conway  
Finance Director

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

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**Subject:** 86% Increase in Net Governmental Expenditures - FY 2015 vs FY 2020  
**Attachments:** Pages from AgendaPacket-Finance Commission-February 8, 2021 5.00 PM (6).pdf; Achieving a Structurally Balanced Budget.pdf; TC response.pdf

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**From:** Phil Koen <[pkoen@monteropartners.com](mailto:pkoen@monteropartners.com)>  
**Sent:** Friday, February 12, 2021 8:35 AM  
**To:** Rob Rennie <[RRennie@losgatosca.gov](mailto:RRennie@losgatosca.gov)>; Matthew Hudes <[MHudes@losgatosca.gov](mailto:MHudes@losgatosca.gov)>; Marico Sayoc <[MSayoc@losgatosca.gov](mailto:MSayoc@losgatosca.gov)>; Maria Ristow <[MRistow@losgatosca.gov](mailto:MRistow@losgatosca.gov)>; Mary Badame <[MBadame@losgatosca.gov](mailto:MBadame@losgatosca.gov)>; Ron Dickel <[REDACTED]>; [REDACTED]; Rick Tinsley <[REDACTED]>; [REDACTED]  
**Cc:** Laurel Prevetti <[LPrevetti@losgatosca.gov](mailto:LPrevetti@losgatosca.gov)>; Arn Andrews <[aandrews@losgatosca.gov](mailto:aandrews@losgatosca.gov)>; Stephen Conway <[sconway@losgatosca.gov](mailto:sconway@losgatosca.gov)>; [REDACTED]; Lee Fagot <[REDACTED]>  
**Subject:** 86% Increase in Net Governmental Expenditures - FY 2015 vs FY 2020

Dear Council and Finance Commission Members,

I offer the attached with the hope you might find it useful information.

Phil Koen

ATTACHMENT 2



## Achieving a Structurally Balanced Budget

Adopt rigorous policies, for all operating funds, aimed at achieving and maintaining a structurally balanced budget

Most state and local governments are subject to a requirement to pass a balanced budget. However, a budget that may fit the statutory definition of a "balanced budget" may not, in fact, be financially sustainable. For example, a budget that is balanced by such standards could include the use of non-recurring resources, such as asset sales or reserves, to fund ongoing expenditures, and thus not be in structural balance. A true structurally balanced budget is one that supports financial sustainability for multiple years into the future. A government needs to make sure that it is aware of the distinction between satisfying the statutory definition and achieving a true structurally balanced budget.

**GFOA recommends that governments adopt rigorous policies, for all operating funds, aimed at achieving and maintaining a structurally balanced budget. The policy should include parameters for achieving and maintaining structural balance where recurring revenues are equal to recurring expenditures in the adopted budget.**

As a first step, the government should identify key items related to structural balance. These include: *recurring and non-recurring revenues, recurring and non-recurring expenditures, and reserves.*

*Recurring revenues* are the portion of a government's revenues that can reasonably be expected to continue year to year, with some degree of predictability. Property taxes are an example of recurring revenue. A settlement from a lawsuit is a good example of non-recurring revenue.

Some revenue sources may have both non-recurring and recurring components. These sources require finance officials to exercise judgment in determining how much of the source is truly recurring. For instance, a government may regularly receive sales tax revenues, but a large part of its base may be made up of retailers with highly volatile sales. In this case, it may be prudent to regard unusually high revenue yields as a non-recurring revenue under the assumption that such revenues are unlikely to continue, making it imprudent to use them for recurring expenditures. Another example might be building permit revenues in a period of high growth in the community. Governments should review their revenue portfolio to identify non-recurring revenues and revenues with potentially volatile components, such as the examples above.

*Recurring expenditures* appear in the budget each year. Salaries, benefits, materials and services, and asset maintenance costs are common examples of recurring expenditures. Capital asset acquisitions are typically not thought of as recurring because although some capital assets may be acquired every year, they are not the same assets year after year. In general, recurring expenditures should be those that you expect to fund every year in order to maintain current/status quo service levels. In general, a government has a greater degree of flexibility to defer non-recurring expenditures than recurring ones.

*Reserves* are the portion of fund balance that is set aside as hedge against risk. The government should define a minimum amount of

funds it will hold in reserve.<sup>2</sup> This serves as a "bottom line measure" to help determine the extent to which structural balance goals are being achieved. If reserves are maintained at their desired levels, it is an indication that the organization is maintaining a structurally balanced budget. If reserves are declining, it may indicate an imbalance in the budget (e.g., if reserves are being used to fund on-going expenditures). It should be noted that reserves levels are not a perfect measure of structural balance, but are a good and readily available measure.

With the forgoing terms defined, a government should adopt a formal policy calling for structural balance of the budget. The policy should call for the budget to be structurally balanced, where recurring revenues equal or exceed recurring expenditures. The policy should also call for the budget presentation to identify how recurring revenues are aligned with or not aligned with recurring expenditures.<sup>3</sup>

For a variety of reasons, true structural balance may not be possible for a government at a given time. In such a case, using reserves to balance the budget may be considered but only in the context of a plan to return to structural balance, replenish fund balance, and ultimately remediate the negative impacts of any other short-term balancing actions that may be taken. Further, the plan should be clear about the time period over which returning to structural balance, replenishing reserves, and remediating the negative impacts of balancing actions are to occur.<sup>4</sup>

Notes:

- Note that this Best Practice excludes non-operating funds like capital and debt funds. While governments should ensure that these funds are financially sustainable as well, the specific recommendations found in this Best Practice may not always be a match to the circumstances of non-operating funds.
- Please note that the best practice is not advocating that recurring revenues be formally allocated or "earmarked" to recurring expenditures, but rather is advocating that the budget presentation provide transparency as to whether recurring revenues and recurring expenditures are balanced.





**TOWN OF LOS GATOS  
FINANCE COMMISSION REPORT**

MEETING DATE: 02/08/2021

Item 3.

ITEM NO: 3

DESK ITEM

DATE: February 8, 2021  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Provide Advice to the Town Council Regarding Mid-Year Budget Options and Five-Year Forecast Scenarios

**REMARKS:**

Attachment 5 contains public comment received between 11:00 a.m. on February 5, 2021 and 11:01 a.m. on February 8, 2021.

A member of the public provided a communication to the Finance Commission (distributed as an Addendum on February 5, 2021) regarding the growth in net governmental expenses between FY 2014/15 and FY 2019/20, noting an 86% total increase from FY 2014/15 to FY 2019/20. In addition, the resident noted a lack of dedicated revenue sources for future capital project funding and had questions on the restricted pension trust activities. A Commission member subsequently asked if staff could provide a high-level response.

Staff response:

- To arrive at an 86% increase in Net Governmental Expenses, the resident selected FY 2014/15 as the base year. The resident selected a year when the Town recorded \$16.5M in program revenues versus 2020 when the Town recorded \$15.0M in program revenues. Base year selection is important in that the Statement of Activities presents program expense less program revenues. The higher the program revenues in a given year, the lower the net program expenses which also means lower net governmental expenses. Program revenues are increased in years when the Town receives substantial grants and/or donations on the capital side of the ledger, so program revenues vary by this key factor from year to year. The beginning base year selected was a year where there were an additional \$1.5M in program revenues than shown in 2020 (FY 14/15 had substantial grant revenues and \$450K in new library project donations), the result is to indicate a “growth” in

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

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

**REMARKS (continued):**

net governmental expenses that includes the \$1.5M gap between program revenues received in 2015 versus 2020 and thus impacting the percent growth of net governmental expenses from FY 2014/15 to the end of FY 2019/20.

- It is difficult to compare the growth of net governmental expenses due to the variability of program revenues received each fiscal year; therefore, it might be more relevant to compare the General Fund 2014/15 Adopted Operating Budget to the FY 2019/20 Adopted Operating Budget for a true percentage increase as shown below:

**General Fund Adopted Expenditure Budget Comparison FY 2014/15 to FY 2019/20**

	<b>FY 2014/15</b>	<b>FY 2019/20</b>	<b>Increase(Decrease)</b>
<b>Total Adopted Budget</b>	\$ 43,493,413	\$ 52,914,515	\$ 9,421,102
Less GFAR capital transfers	(6,991,491)	(6,681,884)	309,607
Less "one-time" capital transfers to Workers Comp Internal Service Fund		(1,061,256)	(1,061,256)
Less "one-time" capital transfers to Non-Point Source Fund		(100,000)	(100,000)
Less "one-time" capital transfers to Successor Agency RDA Housing	(50,200)		50,200
<b>Net Operating General Fund Budget</b>	<b>\$ 36,451,722</b>	<b>\$ 45,071,375</b>	<b>\$ 8,619,653</b>
Net General Fund Operating Expenditure Budget Growth Over 5 FY's			\$ 8,619,653
% Total Growth over 5 Years			23.65%
<b>% Average Annual Growth FY 2014/15 to FY 2019/20</b>			<b>4.73%</b>

- The resident's observations on the lack of dedicated capital funding are correct and have been well documented in the Town's Capital Improvement Plan (CIP) budget each year. Each year, the CIP notes that the Town continues to be challenged to find an ongoing reliable revenue to fund Town infrastructure projects and that this challenge remains a top priority. In addition, during discussions of the Measure G Sales Tax in 2018, staff documented over \$70 Million in unmet infrastructure needs for projects, such as pothole, street, and road repair.
- The resident had questions on the restricted pension trust activities. Staff's mid-year analysis focused on operating revenues and expenditures and did not include the revenues that relate to the restricted pension trust. The funds available either in the restricted pension fund or in the General Fund Pension/OPEB reserve are likely either to be sent directly to CalPERS or remain in the restricted asset account at the end of the current fiscal year pursuant to future Council action.

Dear Members of the Town Council and the Finance Commission:

I am writing to you to respond to the Staff memo (attached) that was submitted to the Finance Committee in response to my letter which discussed the 86% increase in Net Governmental Expenses over the past five years.

The Staff's response creates unnecessary confusion regarding the trend in total actual government expenditures. The Staff has previously acknowledged during the Joint Town Council/Finance Commission that the Net Total Governmental Expenses have increased, and the Town's auditors have raised a specific concern that the Town's current tax base is unable to provide sufficient revenue to fund the total net governmental expenditures. So, it is perplexing that the Staff is now trying to suggest that the 86% increase was not that large or worse is not a concern.

As to my specific comments:

- The Staff's assertion that it is difficult to compare growth in net governmental expenses due to variability of program revenue received is baseless. Comparing actual annual financial results is a very common financial analysis tool which is used to determine underlying trends in revenues and expenses. Just because there are fluctuations in revenue or expense elements in any one year, does not diminish the value of the comparison, it helps explain what has happened. While there were 10% more program revenues in FY 2015 than FY 2020, that does not change the fact that total net governmental expenses increased 86% over the five-year period.
- To be very clear, over the past five years the net total cost of government for the Town has risen at an extraordinary rate in both absolute dollar terms and relative to the growth in total tax revenues recognized. Even if you change the base year for the comparison, which was a concern of the Staff's, the answer does not change. Let us select 2016 as the base year, a year in which the Town received \$1.4m less in program revenue than in FY 2020 (just the opposite of FY 2015). Comparing FY 2016 to the FY 2020 Net Governmental Expense gives us a 71% increase over the four-year period vs. the 86% increase over the five-year period. The 71% equates to a compounded annual growth rate of 12.2%. Over that same four-year period total tax revenues increased 19% or at a compounded annual growth rate of 4.4%. My original conclusion that the cost to run the Town's government is increasing at a rate this is 3x the rate of increase in tax revenues is still valid. As this Council begins to debate a revised five-year forecast, please understand it is fiscally unsustainable to have the growth rate in net government expenses increasing at 3x the growth rate of tax revenues over a five-year period. This is a structural issue, not a one-year budget issue, that needs to be addressed as you discuss the next five years. I have also attached a best practices article published by the GFOA which I would encourage the Council to read.

- The Staff memo goes on to suggest that “it might be more relevant to compare the General Fund FY 2015 adopted budget to the FY 2020 adopted operating budget for a **TRUE** percentage increase”. The statement is incorrect and even more importantly does this Town a great disservice by distracting the reader from what has happened. Let me make several points:
  - a. A general fund budget does not reflect the **government wide financial activity**, nor does it reflect the **actual spending** that has occurred. The GASB in Statement 34 mandated that one of the basic financial statements for State and Local Governments is the Statement of Activities. This Statement brings together on a **government-wide basis** all the financial activity in one place and reports that activity on an accrual basis.
  - b. Using budget to budget comparisons to determine actual revenue and expenditure trends has been discussed numerous times and has been repeatedly criticized by many, including members of the old Finance Committee. And yet the Staff continues to put forth this analysis which can lead to wrong conclusions. The Staff’s memo seemingly suggests that the “true percentage increase” in total governmental expenses from FY 2015 to FY 2020 was only 23.6%. The problem is a) the General Fund represents only a portion of the total government wide activities not the total government wide activities; b) the General Fund budget does not reflect “actual results”; c) the General Fund budget is not developed using accrual accounting as required by the GASB in preparing the Statement of Activities; d) the General Fund budget does not include depreciation expense associated with the Town’s investment in infrastructure; and e) the General Fund budget reflects only what the Town is budgeting to **fund** pension and post retirement plans not the actual pension and benefit **expense recognized** as required to be reported by GASB. It provides no information when trying to understand the actual expenditure trends over the past five years. **But the real damage is if the Council were told, not knowing any better, that the “true percentage increase” in total net government spending over the past five years was 23.6% and they believed it, when it was 86%.** Based on this incorrect statement, there is considerable risk the Council could make bad policy decisions regarding adding new programs or increasing the cost base of the Town because they did not fully understand the actual financial trends.

In closing, over the past five years total net governmental expenditures have grown at a rate that is 3x the growth in total taxes, which is the primary source of revenue for this Town. In FY 2020, for the first time in the history of Los Gatos, total tax revenues were insufficient to fund the total net governmental expenditures. This is a structural issue which must be addressed as the Council begins its work on a five-year forecast.



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/16/2021

ITEM NO: 13

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**DATE:** February 10, 2021  
**TO:** Mayor and Town Council  
**FROM:** Laurel Prevetti, Town Manager  
**SUBJECT:** Discuss the Five-Year Forecast, Provide Direction on the Other Budget Assumptions, and Provide any Specific Direction for the Preparation of the Town's Fiscal Year 2021/22 Operating and Capital Budgets

**RECOMMENDATION:**

Discuss the Five-Year Forecast, provide direction on the other budget assumptions, and provide any specific direction for the preparation of the Town's Fiscal Year 2021/22 Operating and Capital Budgets.

**BACKGROUND:**

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 late fall 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.

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

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

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BACKGROUND (continued):

The initial Forecast is predicated on estimates derived from the Mid-Year Budget and includes updates to Town revenues and expenditures based on the Mid-Year end of year projections. Like any forecast the first year of the Forecast’s revenue estimates is the most critical in the process as they ultimately define the expenditure limitations for the upcoming budget year.

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 three of the major revenue assumptions and forecasted pension contributions. These additional forecast scenarios illustrate the effects on future budgets of a more optimistic scenario (“Greater Growth”) and a pessimistic one (“Lower Growth”). Comments from the Finance Commission are also provided for Council consideration.

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.

DISCUSSION:

The Pandemic’s Economic Impacts Informed an Updated Forecast Last Year

As we consider the development of the Five-Year Forecast, it is helpful to provide context on the development of the Forecast that informed the current adopted FY 2020/2021 Operating Budget. On January 21, 2020, the Town Council received the following initial Five-Year Forecast which became the basis of Strategic Priority planning and budgetary considerations. The development of that original forecast did not anticipate the unforeseen economic impacts associated with the local, national, and global effects of COVID-19.

Original 5 Year Forecast “Base Case”	2020/21 Forecast (\$M)	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)
Original Surplus/Deficit	\$0.5	\$1.7	\$1.6	\$2.3	\$3.1

On May 19, 2020, staff presented an updated Five-Year Forecast and the Proposed Operating Budget which included significant revisions to growth projections for the Town’s primary revenues of property tax, sales tax, and transient occupancy tax (TOT). The revised revenue projections were made in close consultation with the Santa Clara County Assessor, Town sales tax consultant MuniServices, and a review of national and regional hospitality research. The

DISCUSSION (continued):

net result of these revenue changes alone accounted for a \$1.8 million swing from the original FY 2020/21 base case revenue projections and an additional \$2.6 million revenue reduction in FY 2021/22 relative to the base case projection.

Net Changes in Revenues to Base Case	2020/21 Forecast (\$M)	2021/22 Forecast (\$M)
Sales Tax MuniServices COVID-19 Scenario	(\$0.98)	(\$1.02)
TOT Shock Scenario	(\$0.4)	(\$0.1)
Property Tax Slow/No Growth Scenario	(\$0.4)	(\$1.5)
Totals	(\$1.78)	(\$2.62)

In addition to reassessing revenue growth, the proposed Five-Year Forecast anticipated increases in the Town’s pension obligations. Given volatility in financial markets at the time, it was anticipated that CalPERS would not achieve its assumed investment rate of return of 7% in FY 2019/20. Staff assumed a 0% return for the updated Forecast. The combined effects of changing these budget assumptions in conjunction with others is illustrated in the following updated Five-year Forecast.

Updated COVID-19 Effects Scenario	2020/21 Forecast (\$M)	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)
Surplus/Deficit	\$0.0	\$0.0	(\$0.6)	(\$0.1)	(\$0.7)

The total Five-Year Forecast revisions resulted in an initial estimate of \$9.2 million in total surpluses through FY 2024/25 ultimately becoming \$1.4 million in deficits through FY 2024/25, for a total Forecast period reduction of \$10.6 million.

As the summary table on the next page shows, the Town’s financial condition continues to be impacted by the unprecedented effects of global, national, and regional pandemic mitigation measures. While the pandemic will continue to present a degree of uncertainty and complexity the Town has positioned itself well to address these challenges. Attachment 2 contains for the full Five-Year Forecast “Base Case” for revenues and expenditures.

DISCUSSION (continued):

Scenario Surplus/Deficit	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)
Greater Growth Scenario	(\$1.3)	\$0.8	\$1.6	\$2.4	\$3.1
Base Case Modest Growth	(\$2.0)	(\$0.4)	\$0.0	\$0.2	\$0.3
Less Growth Scenario	(\$2.7)	(\$1.4)	(\$1.5)	(\$1.7)	(\$2.0)

National and Local Economic Backdrop

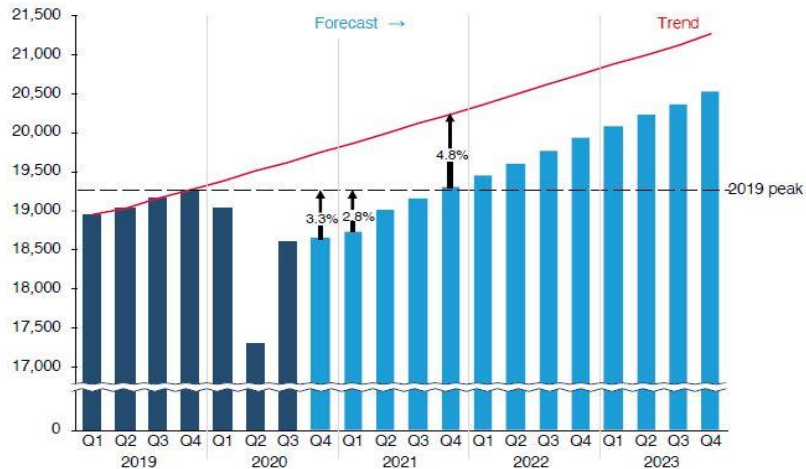
The UCLA Anderson School of Business publishes an annual economic forecast for the nation and California. The results of the forecast are utilized as a portion of the macroeconomic basis of the Five-Year Forecast development. The December 2020 report establishes data for a 2020-2023 forecast period (see Attachment 3).

Because of rising COVID infections and continued social distancing, the UCLA Anderson Forecast is projecting slower growth in real Gross Domestic Product (GDP) for Quarter (Q) 4 2020 and Q1 2021, of 1.2% and 1.8% seasonally adjusted annual rate (SAAR), respectively. According to its Forecast, this would leave the economy 3.3% and 2.8%, respectively, below its peak in Q4 2019. With the introduction of mass vaccinations, the forecast assumes robust growth in Q2 2021 of 6.0% SAAR, and then consistent growth above 3% well into 2023. The UCLA Anderson Forecast is expecting the economy to reach its previous peak by the end of 2021. It is important to note that even with growth accelerating in Q2 2021, this still leaves GDP 4.8% below the trend of where the economy likely would have been without the COVID shock (UCLA Forecast, Attachment 2 Exhibit 2).



DISCUSSION (continued):

Exhibit 2 Real GDP levels and trends, \$ Billions SAAR

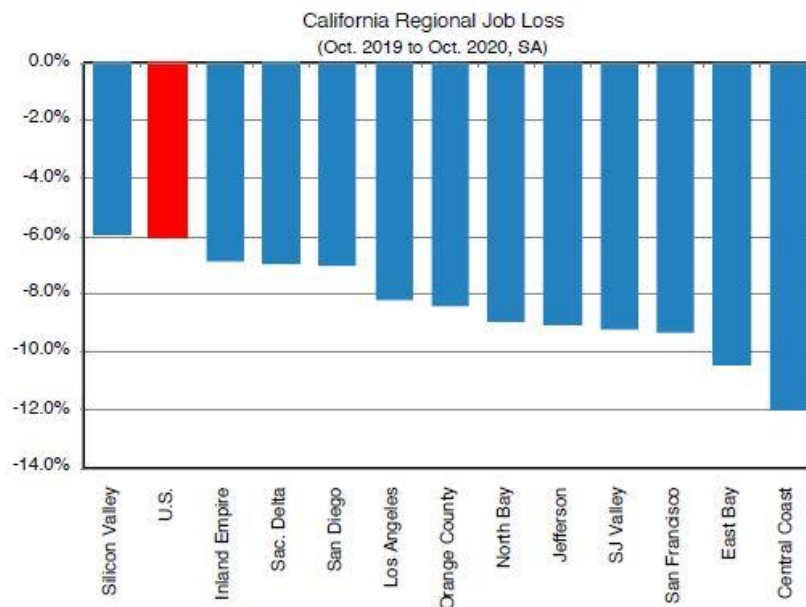


Source: U.S. Department of Commerce, Bureau of Economic Analysis and UCLA Anderson Forecast  
 Notes: Real GDP growth rate, seasonally adjusted annual rate.

The Report notes that for California, the impacts of the COVID led recession and subsequent job losses have not been equally distributed throughout the State. Regionally, areas less exposed to losses in tourism and with greater adaptability to remote work have been less impacted.

As the Forecast chart below illustrates, Silicon Valley had the lowest regional job losses in the State.

California Regional Jobs Loss



DISCUSSION (continued):

In addition, the Forecast states that “Looking to the future, the forecast for the state is for the technology sectors, residential construction, and logistics to lead the recovery, and for California post-pandemic to grow faster than the U.S.” This assessment should continue to bode well for economic recovery in Silicon Valley and Los Gatos. While much of the nation and the region has experienced significant financial hardship as a result of the pandemic, the Report notes that “...For those fortunate to maintain employment and income during this pandemic, their financial situation is better than before. Home values have increased, equity values have increased, and limited consumption opportunities during the past nine months mean that these households have been able to accumulate at least an additional \$1.6 trillion in savings.” Given the socioeconomic composition of Los Gatos, the Town should benefit from the Report’s forecasted trends.

Operating Revenue Trends and Five-Year Forecast Scenarios

The Town is highly dependent on three economically sensitive revenues comprising 65% of General Fund forecasted revenues. Following are summaries of the Town’s major revenues of property tax, sales tax, and transient occupancy tax (TOT). To provide context for the development of the FY 2021/22 Five-Year Forecast, the prior year’s growth assumptions and resulting revenue projections are provided. 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 will be developed for these three revenue streams. Please see Attachment 4 for a description of all revenue categories with a comprehensive listing of revenue forecast assumptions.

*Finance Commission Comments*

On February 8, 2021, the Finance Commission had an opportunity to review the base case revenue growth assumptions and subsequent projections as presented below. At the Commission meeting, there was considerable discussion about the amount of uncertainty that still exists due to the vagaries of continued COVID spread, variant mutations, vaccination supply, and public health mitigation responses. Two Commissioners felt the base case growth assumptions reflected reasonable conservatism. Two other Commissioners thought that while the base assumptions are potentially reasonable, they would continue to err on the side of additional conservatism.

DISCUSSION (continued):

Property Tax

Property tax is the single largest revenue source for the Town and comprised approximately 28% of total Town projected revenues for FY 2020/21. 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 2011. For the 10-year period, the average annual growth rate was 6.10%.

*Los Gatos Assessment Roll Growth*  
(values in billions)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Roll</b>	8.37	8.68	9.46	9.99	10.63	11.54	12.29	13.15	13.84	14.90
<b>Percent Growth</b>	1.30	3.67	9.06	5.62	6.40	8.56	6.54	6.95	5.23	7.70

Source: Santa Clara County Assessors Annual Reports

The County of Santa Clara provides property tax collection updates and projections throughout the year. The following table illustrates the most recent estimates relative to the Adopted FY 2020/21 Budget and 2019 actuals. The current County estimate indicates a modest deviation from budget of approximately \$700,000 (3.74%) unrelated to COVID which is primarily the result of the Redevelopment Agency (RDA) residual payment decrease, which the County has already retained, and staff modeling a 50% reduction in Educational Revenue Augmentation Fund (ERAF) payments from the County estimate.

	FY 2019 Actual	FY 2020-21 Adopted Budget	County Estimate with ERAF	County Estimate 50% ERAF
Property Tax Revenue & Vehicle License Fee Backfill	\$18.4 M	\$18.7 M	\$18.9 M	\$18.00 M

The Town has been monitoring developments regarding the normal 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 for years that is now being contested by the State. The Town's Adopted FY 2020/21 Budget had ERAF base revenue estimated at \$433,000. However, the most recent County property tax estimate included \$1.8 million of additional excess ERAF funds. If the State is successful in contesting

DISCUSSION (continued):

ERAF distribution of excess funds, the result would be a negative impact on budgeted revenues. Given that the distribution of the excess ERAF funds is a binary outcome, staff is modeling a 50% reduction in ERAF into yearend.

The following table illustrates the growth projections utilized for development of the FY 2020/21 Five-Year Forecast for property tax and corresponding estimated revenues. In addition, the Forecast estimated additional property taxes of \$350,000 in FY 2021/22 and \$700,000 per year thereafter from Phase One development of the North 40 starting in year 2022/23 of the Forecast.

Property Tax	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Proposed Growth	0%	3%	3%	3%	3%
Estimated Revenues	\$19.1 M	\$19.9 M	\$20.4 M	\$21.0 M	\$20.8 M

Given the continued low supply of housing inventory and the unanticipated residual benefits of remote workers relocating to less urban environments, staff is anticipating continued modest growth in property tax in the coming year and years ahead.

The UCLA Anderson Forecast provided the following assessment of the housing market: “We forecast that housing will remain strong well into 2023. Home builder confidence is at a record, and permits and housing starts continue to increase. Underlying this are five factors.

First, interest rates are likely to remain low for an extended period of time, which will fuel demand for home purchases. Second, without COVID concerns, sellers who were reluctant to put their homes on the market this past year may enter the market and relieve current inventory constraints. This is likely to be a case where supply begets demand, and the increased options induce more people to become buyers.

Third, we’ll have more clarity on whether working from home will be sustainable over the longer-term once pandemic constraints are no longer binding. This clarity is likely to induce additional rounds of people relocating away from urban cores to suburbs and larger homes. Fourth, there’s a demographic bubble of millennials aging into their prime earning and home-buying years. This demographic shift will continue to fuel higher demand for home purchases.

And fifth, as unemployment begins to come down and there’s less economic uncertainty, buyers who were reluctant to enter the market this past year may be more likely to enter to

DISCUSSION (continued):

take advantage of continued low mortgage rates. As for where housing markets will be red-hot, there are a lot of unknowns. Once the economy fully reopens, urban cores will regain some of the amenity value lost during the pandemic, but demographic shifts, with millennials starting families, and continued opportunities to work from home will make the suburbs more attractive.”

The following table illustrate the growth factors recommended for development of the FY 2021/22 Five-Year Forecast.

Property Tax	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Proposed Growth	2.5%	2.5%	3%	3%	3%

For purposes of the Forecast, the “Base Case” utilizes a growth factor of 2.5% to 3.0% and the “Greater Growth” and “Lower Growth” scenarios utilize a 2% differential from the Base Case. In addition to the growth factor, staff continues to assume \$350,000 additional North 40 revenue in FY 2021/22 and an additional \$700,000 in FY2022/23 due to the project’s construction and sales schedule. Base non-residual excess ERAF revenue is forecasted at \$400,000 annually until further direction received from the County. FY 2022/23 also anticipates an additional \$500,000 RDA residual allocation representing the current allocation calculation of Santa Clara County.

Property Tax (Property Tax & VLF)	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)
Greater Growth Scenario	\$18.6	\$20.2	\$21.2	\$22.4	\$23.5
Base Case Modest Growth	\$18.3	\$19.5	\$20.0	\$20.7	\$21.3
Less Growth Scenario	\$17.9	\$18.7	\$18.	\$19.1	\$19.2

Sales Tax

Sales tax is the second largest revenue source for the Town and comprised approximately 12% of total Town projected revenues for FY 2020/21. The table on the next page illustrates the most recent projections from the Town’s sales tax consultant MuniServices relative to the Adopted FY 2020/21 budget and 2019 actuals.

DISCUSSION (continued):

	FY 2019/20 Actual	FY 2020/21 Adopted Budget	January 26, 2021 MuniServices Estimate
Base Sales Tax & District Tax	\$7.5 M	\$8.0 M	\$7.7 M

The current estimate indicates a deviation from budget of approximately \$300,000 (3.75%); however, staff will continue to monitor MuniServices updates into the close of the year and adjust as appropriate. The table below provides the MuniServices forecasted COVID growth factor used for development of the FY 2020/21 Five-Year Forecast.

Base Sales Tax & District Tax	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)
MuniServices COVID Scenario	\$8.10	\$8.20	\$8.40	\$8.50	\$8.60

For the FY 2021/22 Five-Year Forecast, staff is utilizing the MuniServices Conservative scenario. The Conservative scenario assumes that approved vaccines become available on a limited basis 2021 Q1, and treatment options will improve. In addition, the scenario assumes more cases and more fatalities, delays in approving and distributing vaccines, problems with vaccines, and partial modified Stay-At-Home orders stay in effect until 08/31/21. The tables below have been segregated between estimates for the base sales tax and the Town’s dedicated District Tax to better illustrate the variability between them.

Base Sales Tax	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)
Conservative	\$ 7.26	\$7.48	\$7.64	\$7.79	\$7.93
Most Likely	\$7.38	\$7.61	\$7.78	\$7.94	\$8.09
Optimistic	\$7.49	\$7.74	\$7.92	\$8.09	\$8.25

DISCUSSION (continued):

Measure G 1/8 District Tax	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)
Conservative	\$1.00	\$1.03	\$1.05	\$1.07	\$1.09
Most Likely	\$1.02	\$1.04	\$1.07	\$1.09	\$1.11
Optimistic	\$1.04	\$1.06	\$1.09	\$1.11	\$1.13

While staff doesn't necessarily concur with some of MuniServices vaccination and Shelter-In-Place duration assumptions, given the significant unknowns related to the pandemic, staff believes it is appropriate to default to the most conservative scenario. The UCLA Andersen Forecast notes "...our assumption is that households will not only resume their consumption of services, but those that accumulated savings during the pandemic will overcompensate for the past year by consuming more services than they normally would. We expect a significant surge in spending on restaurants, recreation, travel, and accommodation..." Again, given the socioeconomic composition of Los Gatos, the Town should benefit from the Report's forecasted trends.

Transient Occupancy Tax

TOT is an important revenue source for the Town and comprised approximately 3.4% of total Town projected revenues of \$2.3 million for FY 2020/21. The following table illustrates TOT year-end collection estimates, the Adopted FY 2020/21 Budget, and FY 2019/20 actuals.

	FY 2019/20 Actual	FY 2020/21 Adopted Budget	Year-end Estimate
TOT	\$1.87 M	\$2.30 M	\$0.7 M

As the table illustrates, to date TOT has experienced the most significant percentage decline relative to Budget. The FY 2020/21 Five-Year Forecast modeled a steep contraction with subsequent rebound for a net 15% reduction in TOT revenues from the prior January 21, 2020 initial forecast projection over the course of the year. However, in addition to the initial Shelter-in-Place (SIP) and Stay-at-Home restrictions instituted on March 17, 2020, on November 28, 2020, Santa Clara County issued new mandatory directives which included that hotels and other lodging facilities will be open only for essential travel and for use to facilitate isolation or

DISCUSSION (continued):

quarantine. Given that the November restrictions remain as of this writing, staff anticipates that the current Health Order will continue to degrade TOT revenues for the remainder of the year resulting in year-over-year (YOY) declines of 69%.

The table below illustrates the growth projections utilized for development of the FY 2020/21 Five-Year Forecast for TOT and corresponding estimated revenues.

TOT	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Proposed Growth	-5%	0%	0%	0%	0%
Estimated Revenues	\$2.2 M	\$2.2 M	\$2.2 M	\$2.2 M	\$2.2 M

Unlike sales tax forecasts which predict an acceleration of revenues tied to pent up consumer demand, the Town’s TOT revenue has historically been primarily driven by business travel. Given the uncertainty around physical business travel resuming at prior levels, as opposed to a continuation of remote work and online meeting forums, staff is recommending modest growth for base case development of the FY 2021/22 Five-Year Forecast. However, given the significant reduction to the revenue base compared to prior revenue history staff is providing a base growth scenario and an additional more optimistic growth scenario.

TOT	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Base Growth Scenario	30%	20%	5%	5%	5%
Estimated Revenues	\$0.8 M	\$0.9 M	\$1.0 M	\$1.0 M	\$1.1 M
Base Growth Scenario	50%	20%	5%	5%	5%
Estimated Revenues	\$1.1 M	\$1.3 M	\$1.3 M	\$1.4 M	\$1.5 M

Operating Expense Trends and Five-Year Forecast Scenarios

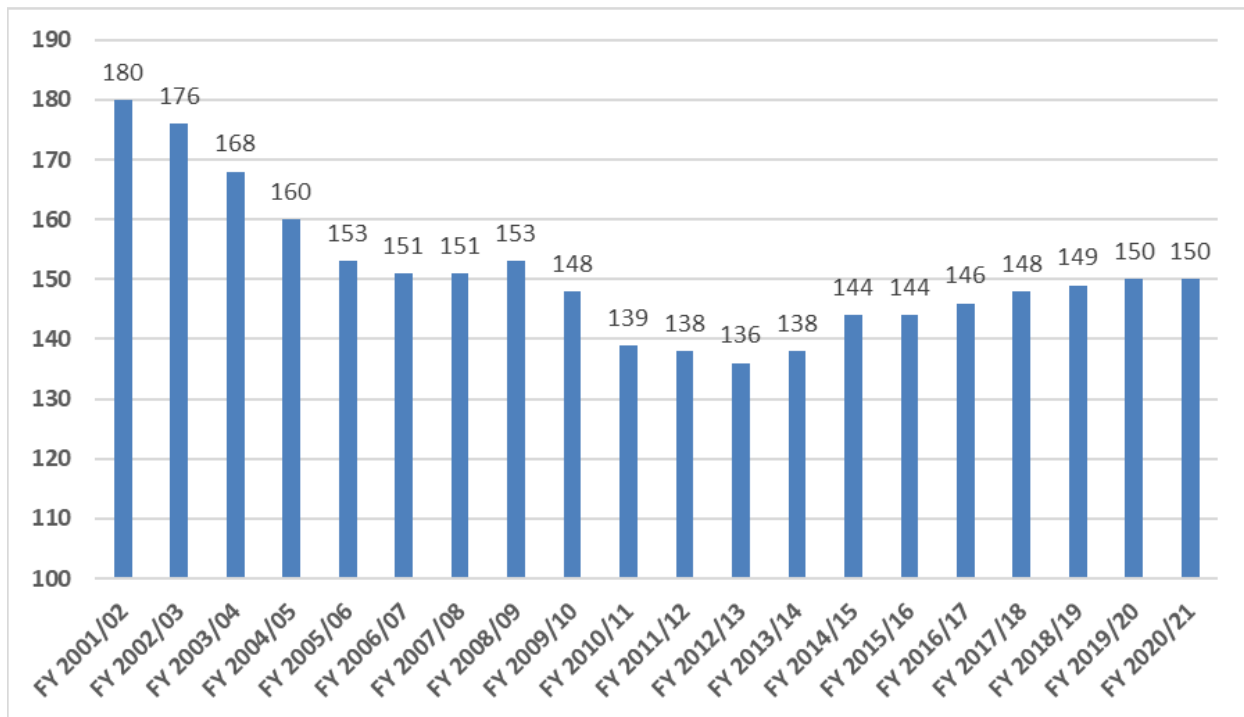
Forecasts of future operating expenditures take into account two key factors: cost escalation and new operating expenditures. New operating expenditures refer to costs created by new or enhanced service programs approved during the annual budget process.



DISCUSSION (continued):

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) and the unrepresented Management and Confidential groups.

For FY 2020/21, General Fund Operating expenditures (not including debt payment and transfers out) were programmed at \$47.9 million. The delivery of Town services is highly dependent on labor which comprises 59.5% of budgeted General Fund expenditures and 41% of budgeted total expenditures for FY 2020/21. 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. As the table below illustrates, since 2001 the Town has reduced its full-time employees by 16.7% to 150 FTE employees.



In addition, the Town's bargaining groups have helped manage employee costs as evidenced by participating in wage freezes and unpaid furloughs for several years to assist in achieving balanced budgets after the 2008 recession. It should also be noted that since 2000 the Town's bargaining groups have received salary increases of 51.50% (AFSME), 56.00% (TEA), 56.00%

DISCUSSION (continued):

(Confidential), 61.25% (POA), 46.00% (Management), respectively. This compares to inflation in the San Francisco Statistical Area of 66.84% over the same time period.

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 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 OPEB obligations for the Town. To address the escalation in pension costs, previous Councils have allocated additional discretionary pension funding totaling \$12,800,000 million. These additional discretionary payments will ultimately yield an approximate additional \$11,700,000 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 Council's and the Town's bargaining groups have worked to curb cost escalation in Other Post-Employment Benefits (OPEB). In 2009, the Town initiated prefunding of the retiree healthcare benefit and has since established approximately \$23.5 million in OPEB assets 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 5.

DISCUSSION (continued):

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 2020/21 salaries were budgeted at actual salary plus a one step increase, which was a significant budgeting methodology change from previous practice. This methodology will be continued for the development of FY 2021/22.

For the Forecast, positions are budgeted at the actual rate of pay of employees including benefits as of December 2020. 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, 2021. POA’s MOU will expire on September 30, 2021. 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. As is the Town’s practice, no general wage adjustments are included in the Forecast starting in 2021/22 due to the expiration of bargaining group MOUs. The Forecast will be updated accordingly based on labor negotiations with the Town’s unions at that time.

(values in millions)

Salaries (Current MOUs)	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)
Base Case	\$19.7	\$19.7	\$19.9	\$20.1	\$20.2

*Pension and Other Benefits*

For purposes of the Forecast, staff utilizes data provided by CalPERS in the annual actuarial valuations and then in consultation with the Town’s Actuary (Bartel Associates) and CalPERS updates the projections to include data not included. Given that actuarial valuations lag by

DISCUSSION (continued):

about a year the CalPERS 2019 valuation would not have captured the 4.7% CalPERS investment return for FY 2019/20, the current CalPERS investment return year to date, or the Town's \$3.5 million additional discretionary payment from July 2020. The following table illustrates the forecast for pension and other benefits. The projections for the Town's OPEB payments are derived from Bartel Associates.

Pension & Other Benefits	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)
Base Case	\$11.4	\$11.4	\$11.2	\$11.5	\$11.8

As we move closer to the final development of the Proposed FY 2021/22 Operating Budget, staff will generate an updated pension forecast utilizing an investment return which more closely approximates CalPERS returns at that time versus the plans current 7.0% assumed return. Any update will not impact the initial years of the forecast due to lags in actuarial reporting but will be exhibited starting in the third year of the forecast.

Given that investment returns have one of the largest impacts contribution variability CalPERS provides projected employer Unfunded Actuarial Liability (UAL) contributions under alternate investment returns. As the table below illustrates returns higher than the expected return of 7% result in lower UAL contributions and returns lower than 7% result in higher UAL contributions.

UAL Town Contributions	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
<b>(Misc &amp; Safety)</b>					
Greater Investment Return Scenario (12%)	N/A	\$5,004,000	\$4,971,000	\$4,751,000	\$3,860,000
Base Investment Return Case (7%)	\$4,756,698	\$5,172,000	\$5,476,000	\$5,783,000	\$5,626,000
Less Investment Return Scenario (1%)	N/A	\$5,392,000	\$6,138,000	\$7,110,000	\$7,838,000

CalPERS Actuarial Valuations as of June 30, 2019

For the year ending June 30, 2019, the Public Employees Retirement Fund (PERF) returned 6.7%. The table below illustrates the historic investment returns for five years, ten years, twenty years, and thirty years.

DISCUSSION (continued):

CalPERS Compound Annual Rates of Return	5 Years	10 Years	20 Years	30 Years
Geometric Return	5.8%	9.1%	5.8%	8.1%

Five-Year Financial Forecast Alternative Scenarios

The tables below present the “Base Case” forecast contrasted against the two alternative scenarios of “Greater Growth” and “Lower Growth.” 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.

(values in millions)

Original 5 Year Forecast “Base Case”	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)
Total Revenues, Transfers & Use of Reserves	\$42.7	\$44.2	\$45.1	\$46.1	\$47.2
Total Expenses & Allocations	\$44.7	\$44.6	\$45.1	\$45.9	\$46.9
Original Surplus/Deficit	(\$2.0)	(\$0.4)	\$0.0	\$0.2	\$0.3

Alternative Scenario “Greater Growth”	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)
Total Revenues & Transfers	\$43.4	\$45.4	\$46.7	\$48.3	\$50.0
Total Expenses & Allocations	\$44.7	\$44.6	\$45.1	\$45.9	\$46.9
New Surplus/Deficit	(\$1.3)	\$0.8	\$1.6	\$2.4	\$3.1

DISCUSSION (continued):

Alternative Scenario "Lower Growth"	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)
Total Revenues & Transfers	\$42.0	\$43.2	\$43.6	\$44.2	\$44.9
Total Expenses & Allocations	\$44.7	\$44.6	\$45.1	\$45.9	\$46.9
New Surplus/Deficit	(\$2.7)	(\$1.4)	(\$1.5)	(\$1.7)	(\$2.0)

CONCLUSION:

The Town Council should review and discuss the elements and assumptions of the initial Five-Year Forecast and other budget considerations. While the "Base Case" Forecast estimates deficits at this time, it is based on assumptions that are subject to change given the significant unknowns related to COVID and as shown with the alternative growth scenarios. As the Forecast is not a budget, there are no specific budget balancing recommendations being proposed at this time. The Town Manager will bring forward for Council consideration in May a balanced proposed FY 2021/22 budget.

At this time, the preparation of the FY 2021/22 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;
- Position for multi-year recession
- Continue to make progress on Strategic Priorities identified by the Town Council; and
- Identify opportunities to enhance service delivery through new revenue sources, technology, and open government.

Staff looks forward to answering the Town Council's questions and receiving any direction for the preparation of the proposed FY2021/22 Operating and Capital Budgets that results from the discussion. The Council may also discuss budget assumptions. For reference, the current status of the Town's Capital Improvement projects are contained in Attachment 6. The Draft FY 2021/22 Operating and Capital Budgets will be available in May with the budget hearing tentatively scheduled for May 18, 2021.

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**SUBJECT: FY 2021/22 Initial Five-Year Forecast**

**DATE: February 10, 2021**

**COORDINATION:**

This Report was prepared by the Town Manager's Office in coordination with the Finance Department.








**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. UCLA Anderson School 2020/23 Economic Forecast
4. Forecast Revenue Assumptions
5. Forecast Expense Assumptions
6. Capital Improvement Project Status

# TOWN OF LOS GATOS ANNUAL BUDGET/CAFR CYCLE

	Prior FY (2019/2020)	Current FY (2020/2021)	Next FY (2021/2022)
 December	<p><b>June 30, 2020 CAFR</b> finalized and presented for Council approval.</p> <p><b>CAFR</b> surpluses assigned per the Council Reserve Policy as of June 30, 2020</p>		
 January		<p>Council deliberates <b>Strategic Priorities</b> and <b>Budget</b> direction for FY 2021/2022.</p> <p>Review of Five-year Forecast and assumptions.</p> <p>Council determines if previously assigned surpluses should be reallocated for FY 2021/2022</p>	
 February		<p>Council considers <b>Mid-Year Budget</b> adjustments through 12/31/2020 for FY 2020/2021 Budget.</p>	
 May		<p>Public hearing on FY 2021/2022 <b>Operating &amp; Capital Budgets</b></p>	
 June		<p>Council adoption of the FY 2021/2022 <b>Operating &amp; Capital Budgets</b></p>	<p>End of <b>June 30, 2021 CAFR</b> period</p>
 July			<p>Start of new FY 2021/2022 <b>Operating Budget</b> year</p>
 December			<p><b>June 30, 2021 CAFR</b> finalized and presented for Council approval.</p> <p><b>CAFR</b> surpluses assigned per the Council Reserve Policy as of June 30, 2021</p>



BASE CASE

Town of Los Gatos General Fund 5-Year Forecast (in \$ million)								
Account	Revenue Category	2020/21 Budget	2020/21 Estimates	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
4100	Property Tax	\$ 14.7	\$ 13.9	\$ 14.1	\$ 15.2	\$ 15.6	\$ 16.2	\$ 16.6
4110	VLF Backfill Property Tax	4.0	4.1	4.2	4.3	4.4	4.5	4.7
4200	Sales & Use Tax	7.0	6.7	7.3	7.5	7.7	7.8	7.9
4200	Measure G District Sales Tax	1.0	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	2.8
4251	Transient Occupancy Tax	2.3	0.7	1.0	1.1	1.2	1.2	1.3
4400	Business License Tax	1.3	1.1	1.2	1.2	1.2	1.2	1.2
4400	Licenses & Permits	3.1	3.0	2.9	2.9	3.0	3.1	3.1
4500	Intergovernmental	1.0	1.3	0.7	0.8	0.8	0.8	0.9
4600	Town Services	4.0	3.8	3.5	3.5	3.5	3.5	3.6
4700	Fines & Forfeitures	0.4	0.1	0.3	0.3	0.3	0.3	0.3
4800	Interest	0.6	0.6	0.5	0.3	0.2	0.2	0.3
4850	Other Sources	2.3	3.5	2.3	2.3	2.3	2.3	2.3
4900	Fund Transfers In	0.6	0.6	0.5	0.5	0.5	0.5	0.5
<b>TOTAL OPERATING REVENUES &amp; TRANSFERS*</b>		<b>\$ 44.8</b>	<b>\$ 42.9</b>	<b>\$ 42.1</b>	<b>\$ 43.6</b>	<b>\$ 44.5</b>	<b>\$ 45.5</b>	<b>\$ 46.6</b>
	Use of Capital/Special Project Reserve - Capital	3.4	3.4	0.6	0.6	0.6	0.6	0.6
	Use of Pension/OPEB Reserve	4.2	4.5	0	0	0	0	0
	Use of Capital/Special Project Reserve - Other	0.9	0.9	0	0	0	0	0
<b>TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES</b>		<b>\$ 53.3</b>	<b>\$ 51.7</b>	<b>\$ 42.7</b>	<b>\$ 44.2</b>	<b>\$ 45.1</b>	<b>\$ 46.1</b>	<b>\$ 47.2</b>
Account	Expenditure Category	2020/21 Budget	2020/21 Estimates	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
5110	Salary	20.2	20.3	19.7	19.7	19.9	20.1	20.2
5120	CalPERS Benefits	7.3	6.4	7.5	7.5	7.2	7.5	7.6
5200	All Other Benefits	4.1	3.7	3.9	3.9	4.0	4.1	4.2
6211	OPEB Pay as You Go	1.3	1.3	1.4	1.4	1.4	1.5	1.8
6000	Operating Expenditures	6.7	6.1	5.4	5.4	5.6	5.7	5.8
7200	Grants & Awards	0.2	0.2	0.2	0.2	0.2	0.2	0.3
7400	Utilities	0.6	0.6	0.6	0.6	0.6	0.6	0.6
8060	Internal Service Charges	2.4	2.4	2.6	2.6	2.8	3.0	3.2
8900	Debt Service	1.9	1.9	1.9	1.9	1.9	1.9	1.9
<b>TOTAL OPERATING EXPENDITURES</b>		<b>\$ 44.7</b>	<b>\$ 42.8</b>	<b>\$ 43.1</b>	<b>\$ 43.1</b>	<b>\$ 43.7</b>	<b>\$ 44.6</b>	<b>\$ 45.7</b>
	GASB 45 Retiree Medical Actuarial	0.6	0.6	0.6	0.5	0.4	0.3	0.2
	Additional Discretionary Payment - Pension	4.6	4.9	0.4	0.4	0.4	0.4	0.4
<b>TOTAL OPERATING &amp; DISCRETIONARY EXPENDITURES</b>		<b>\$ 49.9</b>	<b>\$ 48.3</b>	<b>\$ 44.1</b>	<b>\$ 44.0</b>	<b>\$ 44.5</b>	<b>\$ 45.3</b>	<b>\$ 46.3</b>
	Capital Transfers Out to GFAR	3.4	3.4	0.6	0.6	0.6	0.6	0.6
	Transfer to Internal Service Funds	0	0	0	0	0	0	0
	Pension/OPEB Transfer to Pension Trust Fund	0	0	0	0	0	0	0
	Allocate to Compensated Absences	0	0	0	0	0	0	0
	Allocate to Vehicle Maintenance and Stores Surplus	0	0	0	0	0	0	0
	Allocate to Property Surplus Reserve	0	1.2	0	0	0	0	0
<b>TOTAL EXPENDITURES &amp; RESERVE ALLOCATIONS</b>		<b>\$ 53.3</b>	<b>\$ 52.9</b>	<b>\$ 44.7</b>	<b>\$ 44.6</b>	<b>\$ 45.1</b>	<b>\$ 45.9</b>	<b>\$ 46.9</b>
<b>NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES &amp; RESERVE ALLOCATIONS</b>		<b>\$ -</b>	<b>\$ (1.2)</b>	<b>\$ (2.0)</b>	<b>\$ (0.4)</b>	<b>\$ -</b>	<b>\$ 0.2</b>	<b>\$ 0.3</b>

\* Due to rounding of individual categories FY 2020/21 Total Expenditures and Reserve Allocations omits \$0.1 million.

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# THE UCLA ANDERSON FORECAST FOR THE NATION AND CALIFORNIA

December 2020 Report

Forecast: 2020 - 2023

69<sup>th</sup> Year

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The Quarterly Forecast:

*"Climate Change | Business Change"*

Upcoming Events:

Spring Quarterly Conference	March 2021
Orange County Regional Economic Outlook	TBA
Summer Conference	June 2021
Fall Quarterly Conference	September 2021
UC Hastings/UCLA Anderson Forecast Joint Conference	TBA
Winter Quarterly Conference	December 2021

# THE UCLA ANDERSON FORECAST FOR THE NATION AND CALIFORNIA

December 2020 Report

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# THE UCLA ANDERSON FORECAST FOR THE NATION

## DECEMBER 2020 REPORT

A Gloomy COVID Winter and an Exuberant Vaccine Spring

Trends in Solar Panel Adoption: The Role of Costs, Benefits, Weather, and Peers

*Cathay Bank | UCLA Anderson Forecast | U.S.-China Economic Report - Fourth Quarter Update*  
Uncertainty in the Post-Election and COVID-19 World



# A Gloomy COVID Winter and an Exuberant Vaccine Spring

Leo Feler

Senior Economist, UCLA Anderson Forecast

December 2020

- 
- Because of rising COVID infections and increased social distancing, we're forecasting slower growth in real GDP for Q4 2020 and Q1 2021, of 1.2% and 1.8% SAAR, respectively.
  - With mass vaccinations, we forecast robust growth in Q2 2021 of 6.0% SAAR, and then consistent growth above 3% well into 2023. We expect the economy will reach its previous peak by the end of 2021.
  - These headline numbers don't capture the economic misery that so many are experiencing. Currently, 20.5 million Americans are receiving some form of unemployment insurance benefit. Nearly nine percent of Americans live in households that are not current on rent or mortgage, 12 percent live in households where there was either sometimes or often not enough food to eat, and about one-third live in households where it has been somewhat or very difficult to pay for usual household expenses during the pandemic.
  - We expect the housing market to remain hot through at least 2023, with housing starts at their highest levels since 2007.
  - Even with a strong recovery beginning in Q2 2021, we expect only modest core inflation, around 2.1–2.2% per year, and gradual improvement in unemployment. We forecast that unemployment will remain above 5% through 2021 and will only fall to 4% by 2023.
- 

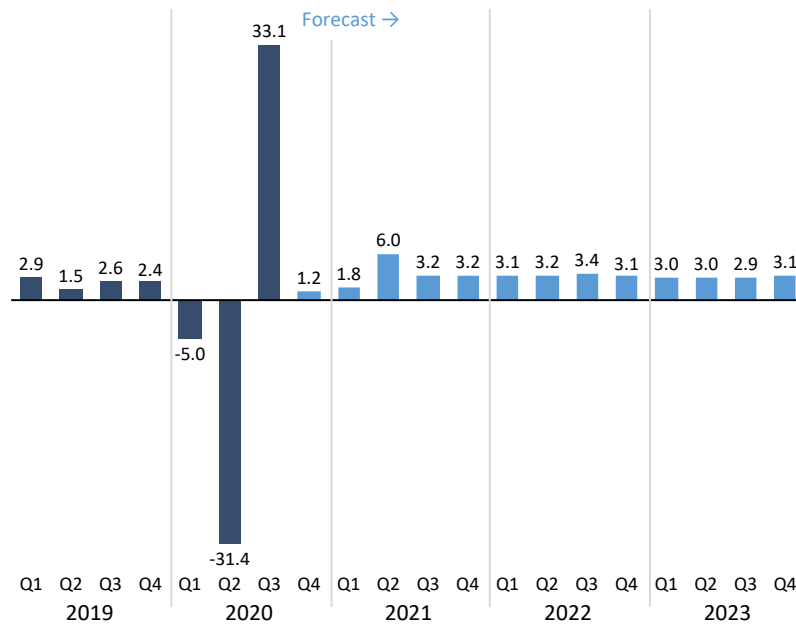
1. Mass vaccinations and a release of pent-up demand will lead to a boom in economic activity beginning in the second quarter of 2021, but until then, there will be a lot of unnecessary hardship

Following a record 33.1% annualized growth rate of real GDP in Q3 2020, we are forecasting a weak 1.2% annualized growth rate in Q4 2020 and 1.8% in Q1 2021 (see Exhibit 1). This leaves the economy 3.3% and 2.8%, respectively,

below its peak in Q4 2019. Based on recent vaccine news, we expect limited vaccinations to begin in mid-December for health care workers, frontline workers, and vulnerable populations and for vaccines to be widely available for the general population beginning early in Q2 2021. With mass vaccinations, we forecast robust growth in Q2 2021 of 6.0% at an annualized rate, and then consistent growth above 3% well into 2023. We expect the economy will reach its previous peak by the end of 2021. This, however, will still leave it 4.8% below the trend of where the economy likely would have been without the COVID shock (see Exhibit 2).

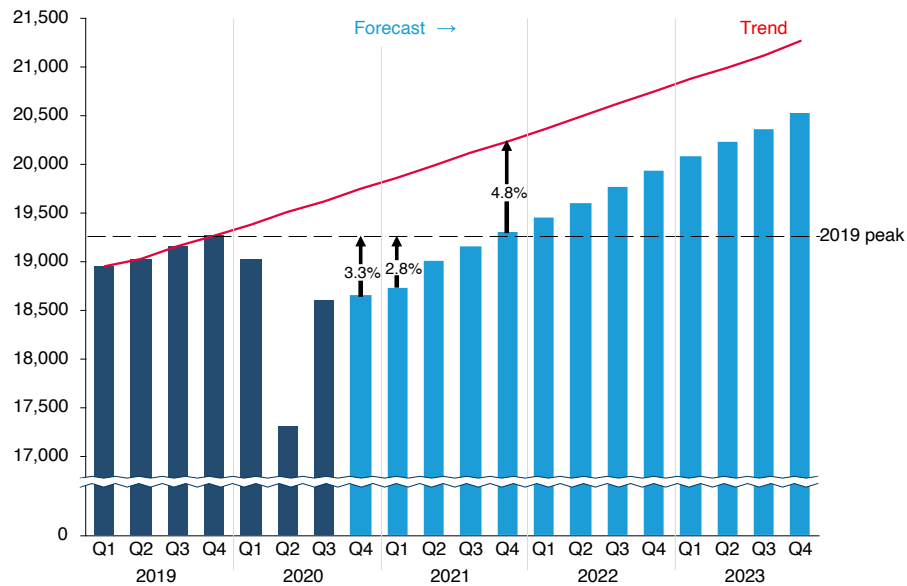
# A GLOOMY COVID WINTER AND AN EXUBERANT VACCINE SPRING

Exhibit 1 Real GDP growth rate, SAAR



Source: U.S. Department of Commerce, Bureau of Economic Analysis and UCLA Anderson Forecast  
 Notes: Real GDP growth rate, seasonally adjusted annual rate.

Exhibit 2 Real GDP levels and trends, \$ Billions SAAR



Source: U.S. Department of Commerce, Bureau of Economic Analysis and UCLA Anderson Forecast  
 Notes: Real GDP growth rate, seasonally adjusted annual rate.

With COVID infections surging and people social distancing more—either by their own choosing or because of renewed government restrictions—consumption of services has fallen and we expect it will continue to fall through the end of the year and early into next year. Emergency social assistance programs, including extended unemployment insurance and eviction, foreclosure, and student loan moratoria, are set to expire at the end of the year. Without renewed fiscal relief, we expect households that are currently receiving these social assistance benefits will cut expenditures and forgo their usual holiday shopping in anticipation of more severe hardship once these programs end. Currently, 20.5 million Americans are receiving some form of unemployment insurance benefit, compared to 1.5 million this time last year.<sup>1</sup> Nearly nine percent of Americans live in households that are not current on rent or mortgage, of which nearly one-third say that eviction or foreclosure in the next two months is either very likely or somewhat likely, and 12 percent live in households where there was either sometimes or often not enough food to eat.<sup>2</sup> About one-third of Americans live

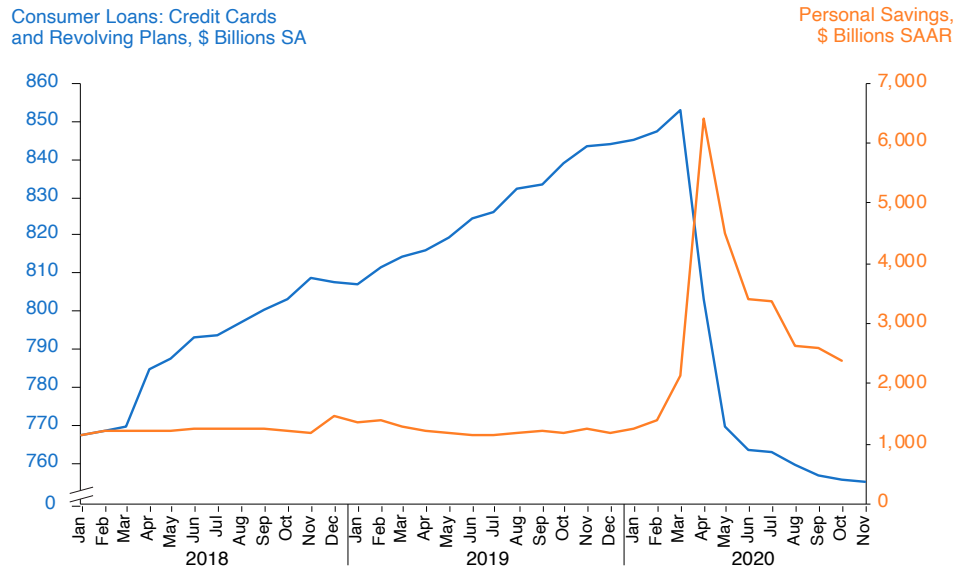
in households where it has been somewhat or very difficult to pay for usual household expenses during the pandemic.<sup>3</sup>

On the other end of the spectrum are households that have seen their savings and asset values swell. For those fortunate to maintain employment and income during this pandemic, their financial situation is better than before. Home values have increased, equity values have increased, and limited consumption opportunities during the past nine months mean that these households have been able to accumulate at least an additional \$1.6 trillion in savings.

2. Limited holiday celebrations, with more “stuff” and fewer “experiences”

In aggregate, consumers have more spending power now heading into the holidays than they normally would. Credit card and revolving balances are down and personal savings are up (see Exhibit 3). But surging COVID cases and the need to social distance will limit consumers’ ability to spend

Exhibit 3 Credit card and revolving balances are down, personal savings are up

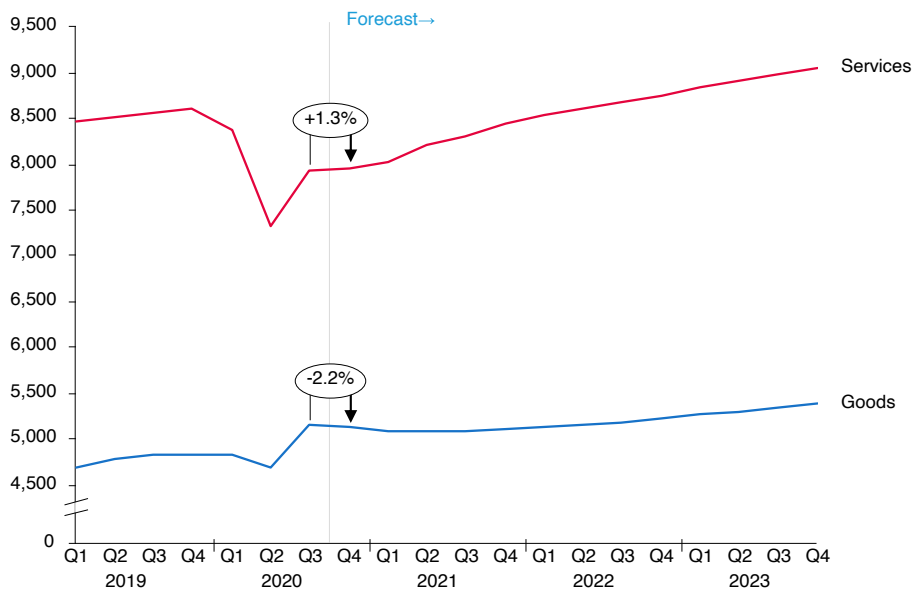


Source: U.S. Department of Commerce, Bureau of Economic Analysis and Federal Reserve Board  
 Notes: \$ billions. Credit card and revolving balances are seasonally adjusted. Personal savings are seasonally adjusted and annualized.

1. Department of Labor, Unemployment Insurance Weekly Claims, November 25, 2020, p. 4, available at: <https://www.dol.gov/sites/dolgov/files/OPA/newsreleases/ui-claims/20202177.pdf>.  
 2. United States Census Bureau, Household Pulse Survey, “Housing Insecurity,” “Likelihood of Eviction or Foreclosure,” and “Food Scarcity,” Week 18, available at: <https://www.census.gov/data-tools/demo/hhp/#/>.  
 3. United States Census Bureau, Household Pulse Survey, “Difficulty Paying for Usual Household Expenses,” Week 18, available at: <https://www.census.gov/data-tools/demo/hhp/#/>.

# A GLOOMY COVID WINTER AND AN EXUBERANT VACCINE SPRING

Exhibit 4 Real consumption of goods and services, \$ Billions SAAR



Source: U.S. Department of Commerce, Bureau of Economic Analysis and UCLA Anderson Forecast  
 Notes: Real consumer spending in 2012 \$ billions, seasonally adjusted annual rate. Annualized % change shown between Q3 and Q4 2020.

on services such as restaurants, vacations, and entertainment, which are labor-intensive. Instead, gift-giving this year will be about buying more “stuff.”<sup>4</sup> The only difference this year compared to past years is that Americans have been buying more “stuff” for the past nine months. A key question is whether there’s saturation in consumption of goods or whether it’s possible for goods consumption to increase even further, given that consumers can’t spend as easily on experiences. Our forecast is that services consumption will increase slightly from a low base and goods consumption will decline modestly from a high base between Q3 and Q4 (see Exhibit 4).

Continued weak spending on services and a shift to online purchases of goods will dampen employment gains, especially relative to the usual holiday increase in retail and services employment. In addition, sustained higher goods purchases mean more imports, but this doesn’t have as big of an effect on employment gains as services consumption. We expect only modest reductions in the unemployment rate for the remainder of the year and early into 2021, with unemployment averaging 6.8% in Q4 and 6.6% in Q1.

### 3. More fiscal relief and government spending on vaccine distribution will prop-up a weak economy in the first quarter of 2021

With rising COVID cases following holiday gatherings and continued social distancing, we expect the economy will limp into 2021, with unemployment remaining high. Our assumption is that Congress will pass an additional \$1 trillion in fiscal relief in January or early February, with this money entering the economy in Q1 and Q2. Even with additional government support, our forecast is for anemic growth of 1.8% annualized in Q1 2021.

We also assume \$200 billion in federal transfers to state and local governments and \$50 billion of direct federal spending to support mass vaccination campaigns. This is our estimate for the all-in cost for end-to-end distribution, storage, handling, administration, and outreach associated with mass vaccination.

Both fiscal relief and government spending on vaccinations will help prop-up a weak economy early in 2021. Without additional fiscal relief, the economy may teeter into reces-

4. For a discussion on how the purchase of “stuff” represents “millions of dollars and countless jobs,” see <https://youtu.be/Yj8mHwvFxMc>.

sion in Q1 2021 depending on the prevalence of COVID infections and on the need to continue social distancing.

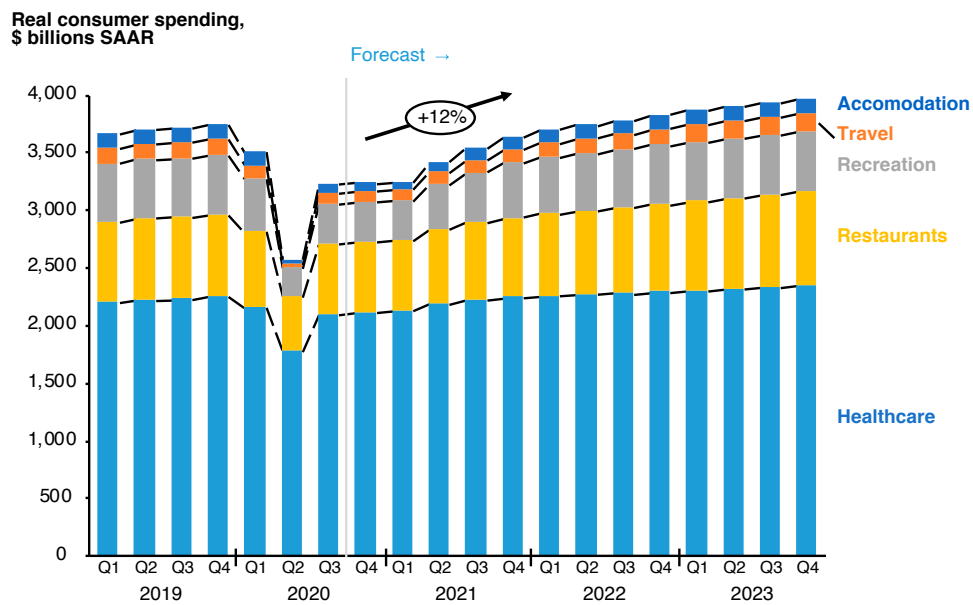
4. With mass vaccinations by mid-2021, we expect a boom in services, led by leisure, hospitality, entertainment, and recreation

Once vaccines are widely available, our assumption is that households will not only resume their consumption of services, but those that accumulated savings during the pandemic will overcompensate for the past year by consuming more services than they normally would. We expect a significant surge in spending on restaurants, recreation, travel, and accommodation, as well as in healthcare services, as people resume non-urgent and elective healthcare visits (see Exhibit 5). We also expect an increase in clothing purchases

as individuals adjust to going out once again. But following a year of higher goods purchases, we expect consumers will reduce consumption of recreational goods, household goods, electronics, and other durable goods (see Exhibit 6).

These changes represent a return to our former habits, and in our forecast, it means a reversion to long-run trends. What we did less of during the pandemic, we'll do more of once the pandemic is over. That includes activities involving in-person interaction. What we did more of during the pandemic, we'll do less of once it's over. That includes the stay-at-home purchases of the past year. We may never fully return to pre-pandemic habits, but without the constraints imposed by the pandemic, we'll adjust our consumption behaviors to be more like before.

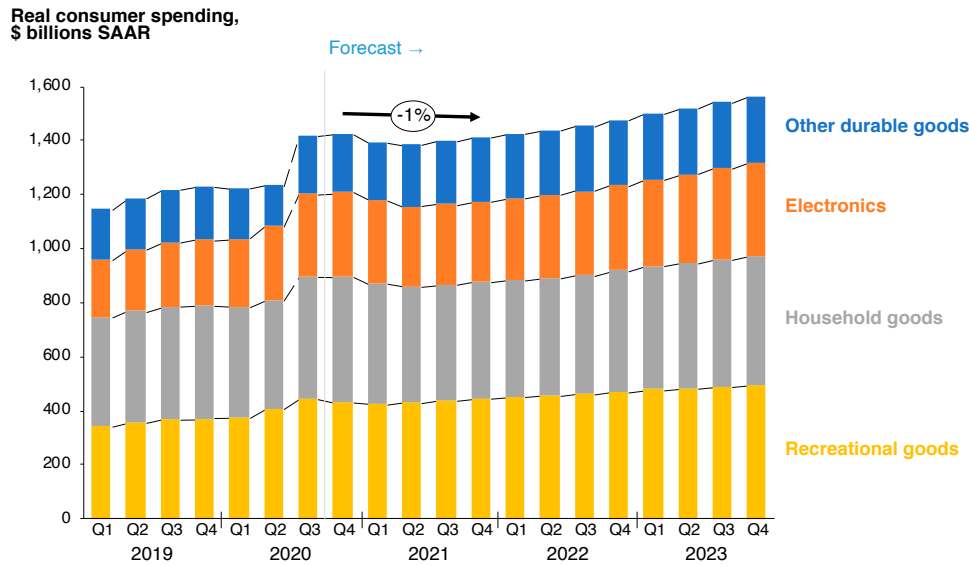
Exhibit 5 Higher spending on restaurants, recreation, travel, accomodation, and healthcare services



Source: U.S. Department of Commerce, Bureau of Economic Analysis and UCLA Anderson Forecast  
 Notes: Real consumer spending in 2012 \$ billions, seasonally adjusted annual rate. Increase of 12% between 2020 Q4 and 2021 Q4.

# A GLOOMY COVID WINTER AND AN EXUBERANT VACCINE SPRING

Exhibit 6 Lower spending on recreational goods, household goods, electronics, and other durable goods



Source: U.S. Department of Commerce, Bureau of Economic Analysis and UCLA Anderson Forecast  
 Notes: Real consumer spending in 2012 \$ billions, seasonally adjusted annual rate. Decrease of 1% between 2020 Q4 and 2021 Q4.

## 5. Housing will likely remain red-hot well into 2023, mitigating weak construction investment in commercial, state and local, and mines and wells

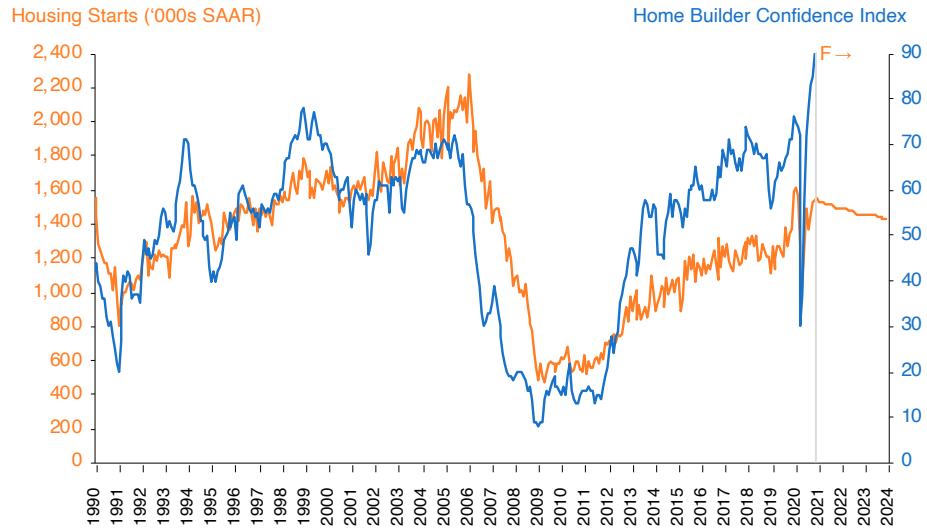
We forecast that housing will remain strong well into 2023. Home builder confidence is at a record, and permits and housing starts continue to increase (see Exhibit 7). Underlying this are five factors. First, interest rates are likely to remain low for an extended period of time, which will fuel demand for home purchases. Second, without COVID concerns, sellers who were reluctant to put their homes on the market this past year may enter the market and relieve current inventory constraints. This is likely to be a case where supply begets demand, and the increased options induce more people to become buyers. Third, we'll have more clarity on whether working from home will be

sustainable over the longer-term once pandemic constraints are no longer binding. This clarity is likely to induce additional rounds of people relocating away from urban cores to suburbs and larger homes. Fourth, there's a demographic bubble of millennials aging into their prime earning and home-buying years (see Exhibit 8).<sup>5</sup> This demographic shift will continue to fuel higher demand for home purchases. And fifth, as unemployment begins to come down and there's less economic uncertainty, buyers who were reluctant to enter the market this past year may be more likely to enter to take advantage of continued low mortgage rates. As for where housing markets will be red-hot, there are a lot of unknowns. Once the economy fully reopens, urban cores will regain some of the amenity value lost during the pandemic, but demographic shifts, with millennials starting families, and continued opportunities to work from home will make the suburbs more attractive.

5. See Tim Duy, Fed Watch, "Quick Note on Demographics," December 1, 2020, available at: <https://blogs.uoregon.edu/timduyfedwatch/2020/12/01/quick-note-on-demographics/>.

# A GLOOMY COVID WINTER AND AN EXUBERANT VACCINE SPRING

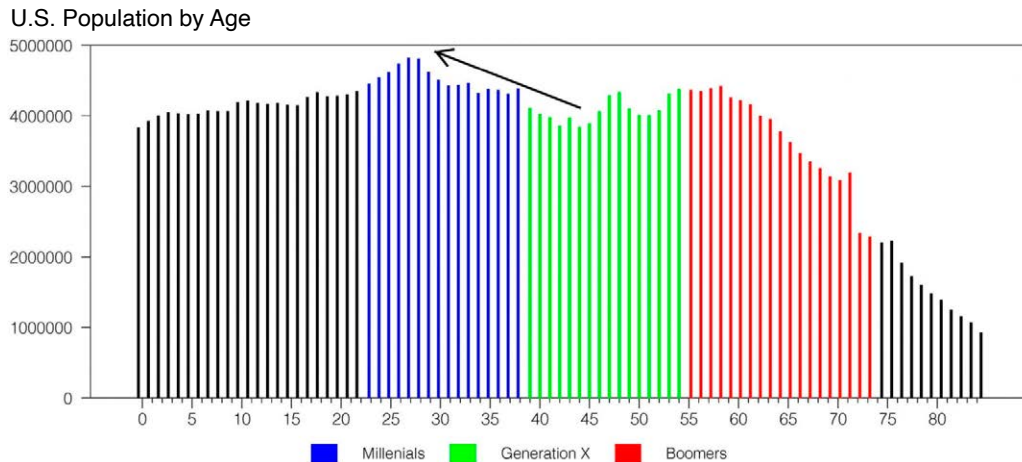
Exhibit 7 The housing market shows continued strength, propelled by record-low mortgage rates and working-from-home: NAHB/Wells Fargo Housing Market Index reaches new highs and housing starts expected to remain high through 2023



Source: U.S. Census Bureau, U.S. Department of Housing and Urban Development, National Association of Home Builders, and UCLA Anderson Forecast

Notes: The NAHB/Wells Fargo Housing Market Index measures home builder confidence. Data are available through November 2020. Housing starts data are available through October 2020. Forecasts for housing starts are for November 2020 and onwards.

Exhibit 8 Demographic bubble: millennials are aging into their prime earning and home-buying years



Source: Tim Duy, Fed Watch, "Quick Note on Demographics," December 1, 2020, available at: <https://blogs.uoregon.edu/timduyfedwatch/2020/12/01/quick-note-on-demographics/>.

The flip-side of strong residential investment will be weak investment in commercial, state and local, and oil wells. If the higher rates of working-from-home and online shopping persist to a moderate extent after the pandemic is over, we'll be over-supplied on office and retail space, and there will be little demand for additional commercial investment, at least in urban cores. State and local construction is likely to take a hit as state and local governments reduce infrastructure budgets in response to lower tax revenues and the need to replenish rainy-day funds. Finally, the domestic oil industry has been decimated by low oil prices, and we foresee diminished ongoing investment in oil wells for the next several years.

#### 6. Brick-and-mortar retail and commercial offices will need to adapt to survive and become more about providing experiences

The pandemic has taught us that we can run many of our errands online and we can do much of our work productively from home. This requires rethinking how we use our retail and commercial spaces. In order to compete with online retailers, brick-and-mortar retailers will need to differentiate themselves and provide not just a means to fulfill necessities, but also a shopping experience. This requires providing the ability to sample products (e.g., Apple Stores, Ulta Beauty, Sephora, Costco), offering assistance and recommendations (e.g. Ace Hardware, BestBuy), and cultivating a sense of community engagement (e.g., Lululemon, independent book stores). With the accelerated adoption of e-commerce, brick-and-mortar retailers will need to innovate so that their physical locations focus more on providing experiences while their online marketplaces fulfill necessities.

Similarly, commercial offices are likely to become spaces tailored for interaction and collaboration. Early in the pandemic, there was much discussion about how the open-

office concept would revert to workers having dividers or individual offices to allow for separation.<sup>6</sup> But the success of working-from-home has revealed that, for moments when workers require separation for health or individual productivity reasons, they can work effectively from home, and when they need to interact with colleagues, they can go into the office. This past year of working remotely has revealed that there's most likely an optimal mix of in-office and at-home work. This will have important implications for all the businesses that support urban core workers as urban cores are unlikely to achieve the daily density and volume of workers they had before.

#### 7. Even with a strong recovery beginning in Q2 2021, we expect only modest inflation and gradual improvement in unemployment and trade

Our forecast is that core inflation will average 1.8% for 2020 and remain muted through 2023, hovering around 2.1–2.2% per year (see Exhibit 9). There is considerable excess capacity to absorb a surge in consumer demand without leading to an increase in prices. This also means there is little risk of the Federal Reserve needing to increase rates to contain inflation, and the Fed Funds Rate is likely to remain near zero at least through the end of 2023.

We forecast that the unemployment rate will decline gradually as the economy picks up and people re-enter the labor force (see Exhibit 10). Nearly 1 million women exited the labor force this fall because of home schooling and caregiving necessities, and more than 2 million have left the labor force since the beginning of the year.<sup>7</sup> Their re-entry into the labor force will mitigate how quickly the unemployment rate will decline. We don't expect the economy will reach 4.0% unemployment until the end of 2023.

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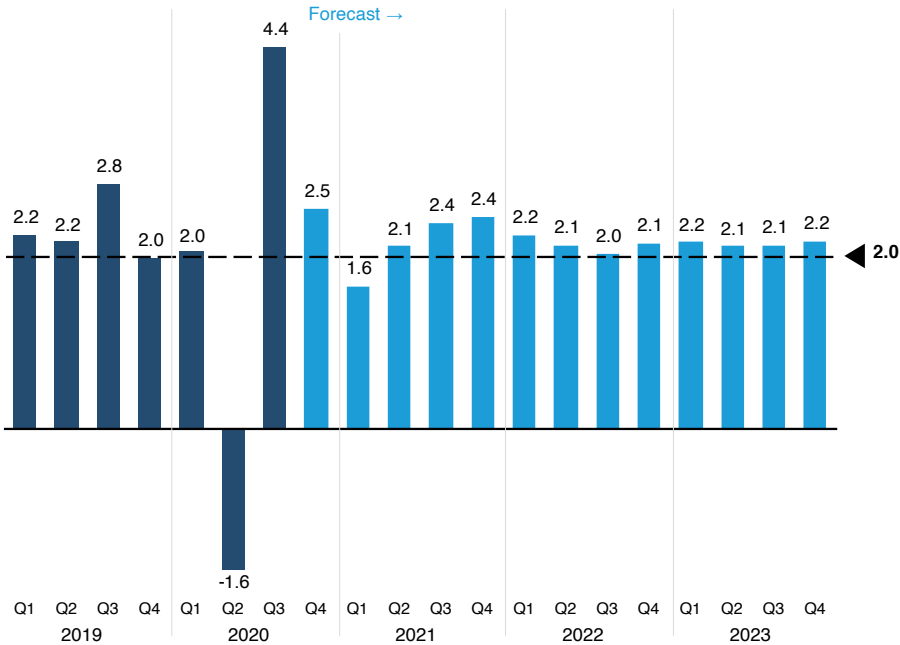
6. See, for example, Matt Richtel, "The Pandemic May Mean the End of the Open-Floor Office," *New York Times*, May 4, 2020, available at: <https://www.nytimes.com/2020/05/04/health/coronavirus-office-makeover.html>.

7. See Kathryn A. Edwards, "Sitting it Out? Or Pushed Out? Women Are Leaving the Labor Force in Record Numbers," *RAND*, October 23, 2020, available at: <https://www.rand.org/blog/2020/10/sitting-it-out-or-pushed-out-women-are-leaving-the.html>.



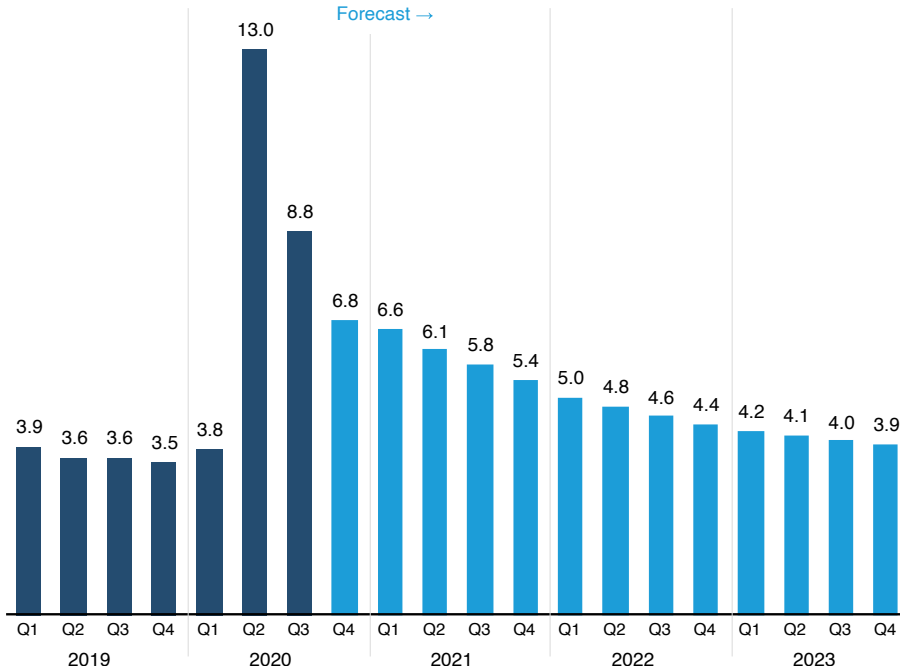
A GLOOMY COVID WINTER AND AN EXUBERANT VACCINE SPRING

Exhibit 9 Core inflation: CPI excluding food and energy



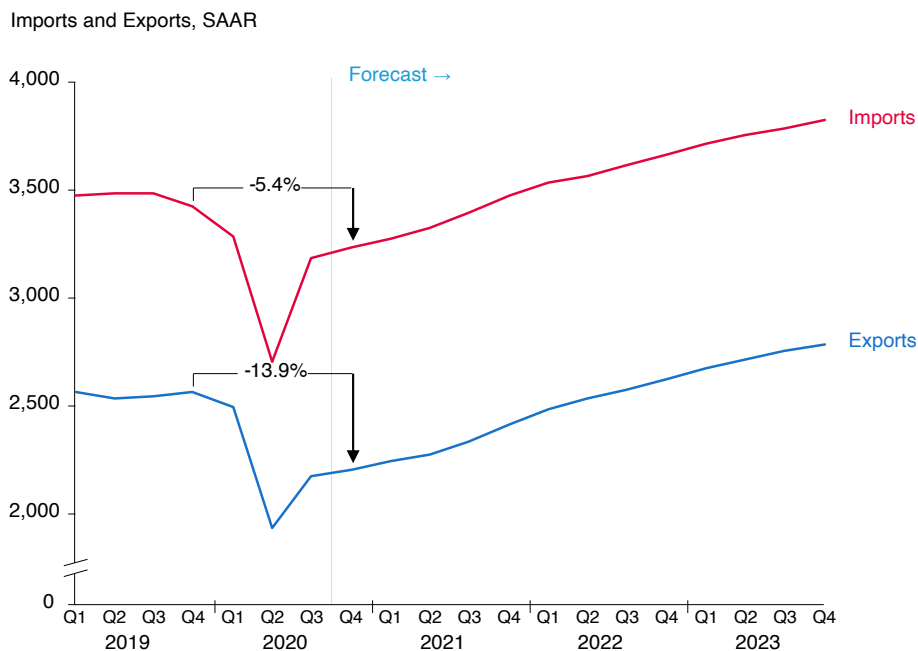
Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items Less Food and Energy in U.S. City Average and UCLA Anderson Forecast  
 Notes: % change, seasonally adjusted annual rate.

Exhibit 10 Unemployment rate



Source: U.S. Bureau of Labor Statistics and UCLA Anderson Forecast

Exhibit 11 Recovering imports, struggling exports



Source: U.S. Department of Commerce, Bureau of Economic Analysis and UCLA Anderson Forecast  
 Notes: 2012 \$ billions, seasonally adjusted annual rate.

The pandemic has also exacted a greater economic toll on the U.S.’s main trading partners and on the sectors where the U.S. has a comparative trading advantage. Our imports are recovering, but our exports are likely to remain suppressed for some time (see Exhibit 11). Even as the dollar loses value—in response to greater global economic stability and the reversal of the flight to safety—export growth is likely to remain weak.

### 8. The ‘20s will be roaring, but with several months of hardship first

With a vaccine and the release of pent-up demand, the next few years will be roaring as the economy accelerates and returns to previous growth trends. We expect a surge in services consumption and continued strength in housing markets to propel the economy forward. There will be a few areas of weakness as the economy adjusts to a post-pandemic

normal with more working-from-home and online commerce than we had before, and for better and worse, some parts of the economy will never be the same. For better, the pandemic has accelerated technological disruptions that have made education and healthcare more accessible, through online courses and telehealth. For worse, it has permanently eliminated many service and retail sector jobs and made the economy more unequal.

Right now, the key issue is how we will make it through to an exuberant spring. These next few months will be dire, with rising COVID infections, continued social distancing, and the expiration of social assistance programs. Additional timely fiscal relief would prevent unnecessary hardship and allow the economy to maintain the structural relationships that will help us recover more quickly once vaccines become widely available.

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# Trends in Solar Panel Adoption: The Role of Costs, Benefits, Weather, and Peers

Leila Bengali  
Economist, UCLA Anderson Forecast  
December 2020

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## Summary

- Solar panel system installations have increased over time in the U.S.
  - Falling costs (such as lower installation costs and higher electricity prices) and rising benefits (such as gains in solar panel efficiency) can help explain the trends in system installations.
  - This report also assesses whether local weather patterns and information from peers influence installations.
  - While recent local weather patterns do not have a significant effect, there is evidence that peers do have an influence on installations. The magnitude of the estimated relationship rivals that of the relationship between installations and some of the monetary installation costs and benefits.
- 

Adaptation to, and actions to mitigate, climate change takes and will take many forms. One of those forms is turning to sources of renewable energy to generate electricity, as both an adaptation and mitigation strategy. Encouraging a transition towards renewables is a policy objective at both the state and federal level. California has SB 100 passed in 2018 (the goal of which is to reach 100% of retail end-use electricity generation from renewable and zero-carbon sources) and president elect Biden has indicated that investing in renewable energy will be one of his administration's policy goals. The focus of this report is one form of renewable energy for generating electricity: solar energy generated by photovoltaic panels. This report examines what factors, such as economic costs and benefits, weather patterns, and peers' decisions, predict residential solar panel adoption in the U.S.

Solar energy is a small, but growing source of electricity in the U.S. For some perspective, the most recent data from September 2020 indicate that about 3.3% of net electricity generation in the U.S. came from solar energy. California produces and consumes more solar energy than most other states. During the same month, about 19.8% of net electricity generated in the state came from solar.<sup>1</sup> While solar still generates a relatively small fraction of the nation's energy needs, installation costs have come down, panel efficiency has increased, and the ability to store solar energy for later using batteries has become more available. For these and other reasons, the number of solar panel systems has increased over time.

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1. <https://www.eia.gov/state/?sid=CA#tabs-4>.  
U.S. Energy Information Administration Electric Power Monthly Tables 1.1, 1.3A, and 1.17A.

The decision to install a solar panel system is at part an economic one, weighing the costs (such as installation prices) and benefits (such as electricity prices that panel owners can avoid paying). In addition to objective facts about costs and benefits, learning about the suitability of the local area for solar and gathering information from peers could also play a role. This report considers these components (costs, benefits, local weather, and peers), aiming to give some perspective about the role of each in a predictive model of solar panel adoption.

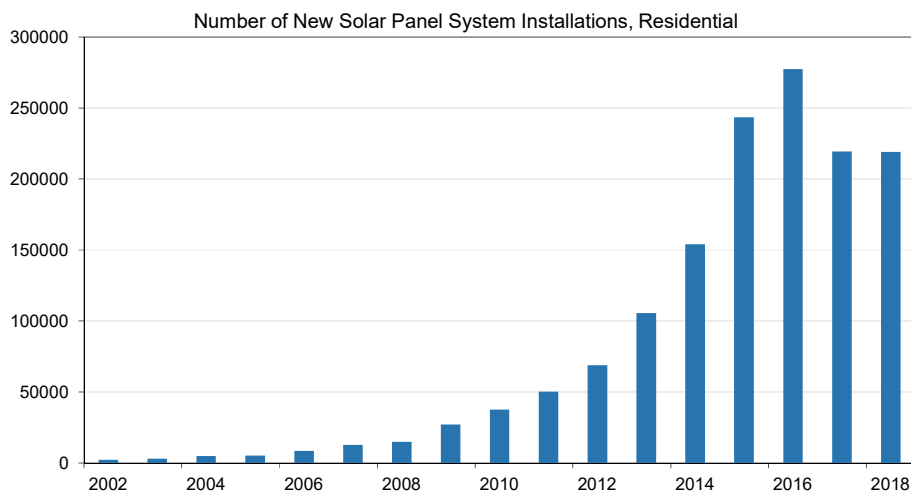
## Trends in Residential Solar Panel Installations

The number of new solar panel systems installed each year in the U.S. has grown over time. Figure 1 shows an estimate of new annual installations in the residential segment (which represent the bulk of installations). These estimates are based on data compiled by the Lawrence Berkeley National Labo-

ratory from state agencies and utility companies and cover about 80% of all installations in the U.S.<sup>2</sup> These systems are not evenly spread around the U.S. California has more solar panel systems than any other state, about seven times more than Arizona (a distant second) and about 8 times more than New Jersey (third).

The goal of this report is to understand the forces behind this increase in installations. Looking at aggregate trends in costs and benefits over time can help understand the motivations to install solar panel systems. Natural contenders are factors that affect the economic costs and benefits of solar panel systems, such as the cost of buying and installing panels, up-front subsidies or grants to offset these costs, the cost of electricity from the grid (a substitute for electricity produced by solar panels), panel efficiency, and how favorable the local area is to solar production. These factors are shown in Figures 2 and 3, Table 1, and in the map in Figure 4.<sup>3</sup>

Figure 1 New Installations



Source: Lawrence Berkeley National Laboratory and author's calculations.

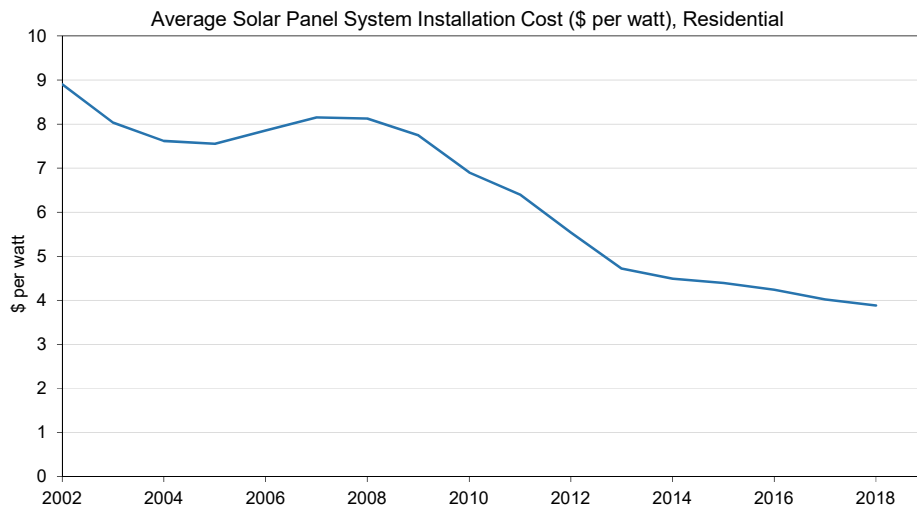
2. The data on solar panel systems in this report come from Lawrence Berkeley National Laboratory's Tracking the Sun project. The data cover photovoltaic solar installations that are connected to the electrical grid and exclude utility scale installations. This dataset is not a perfect record of every system installed in the U.S., but the data represent about 80% of solar installations. Most installations are in CA, AZ, MA, NJ, NY. See <https://emp.lbl.gov/tracking-the-sun> for more details.

3. These are certainly not the only factors that matter. Others include compensation for electricity generated but not used through programs such as net metering and power purchase agreements.

Based on comparisons of costs and benefits, as factors on the cost side of solar panel system installations fall and benefits rise, there should be more installations. Fitting this broad prediction, installation costs have fallen over time: the total installation cost per unit of electricity produced (measured as watts of direct-current the installed system could output in standard test conditions) went from about \$9 in 2002 to just under \$4 in 2018 (Figure 2). Moving against this pattern, up-front rebates and grants to individuals installing solar panel systems were high during the early 2000's, but have fallen as large incentive programs like the California Solar Initiative wound down and ended in 2016 (Figure 3). This timing may help account for the drop in the number of new systems installed in 2017 and 2018 relative to the level in 2016 (see Figure 1). (Note that the federal Solar Investment Tax Credit which was in place through most of the time period shown, is not included in these tabulations because it offers a reduction in federal taxes owed, rather than an

up-front rebate.) On the benefits side, some of the economic benefits of solar are on upward trajectories: panels continue to become more efficient (measured as the fraction of energy captured by the panels that is converted into usable electricity), and the price of electricity from the grid (a substitute) has increased, which should increase demand for solar panel systems (Table 1). Solar panel production potential is also an important factor in the cost-benefit analysis. Installing a solar panel system is more lucrative if you live in Arizona than if you live in Maine. Differences in solar potential are driven in large part by latitude and longitude, and thus do not change as much over time. Figure 4 shows global horizontal solar irradiance (the kind of energy that photovoltaic solar panels can convert to electricity) across the U.S. Both California and Arizona tend to get more global horizontal solar radiance and are also the two states with the most solar panel systems. Taking all of this information on costs and

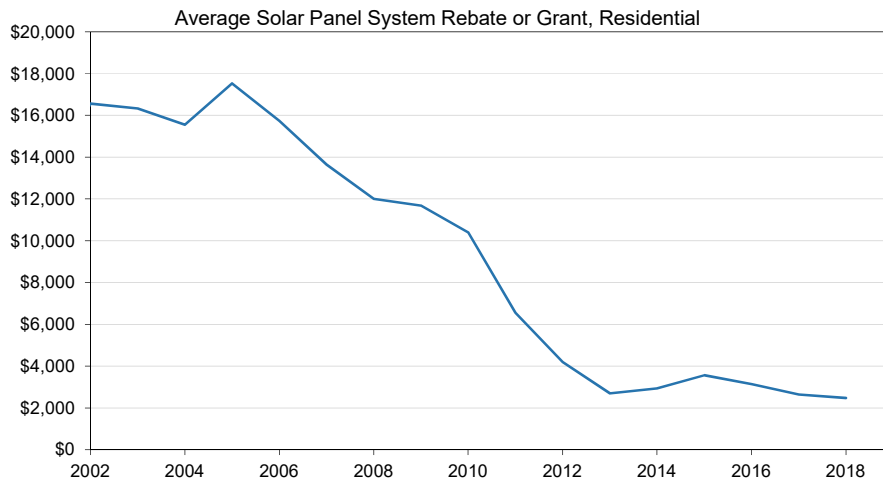
Figure 2 Installation Price



Source: Lawrence Berkeley National Laboratory and author's calculations.

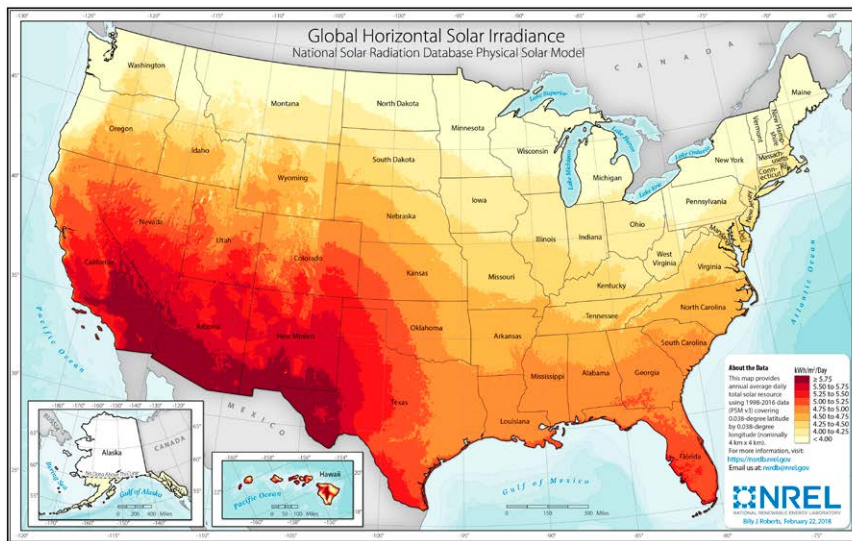
# TRENDS IN SOLAR PANEL ADOPTION

Figure 3 Up-Front Rebates and Grants



Note: Average is over non-zero rebates.  
 Source: Lawrence Berkeley National Laboratory and author's calculations.

Figure 4 Usable Solar Energy



Source: <https://www.nrel.gov/gis/solar.html>.

Table 1 Average Solar Panel Efficiency and Electricity Prices (Residential)

	Solar Panel Energy Conversion Efficiency (Percent Converted to Usable Energy)	Electricity Price (Cents per kWh)
2002	13.7%	8.4
2009	14.8%	11.5
2018	18.8%	12.9

Sources: Lawrence Berkeley National Laboratory, author's calculations, and U.S. Energy Information Administration.

benefits together, the patterns over time and across space generally fit with predictions of how consumers would be expected to respond to changes in the costs and benefits of installing solar panel systems.

### Explaining Solar Panel System Installations

To provide a more precise test of these predictions, we can use regression models that yield estimates of the relationship between each factor and the number of new installations. To start, consider a model that examines patterns in the U.S. over time at the county level to estimate the relationship between the number of new residential solar panel installations each month and each of the factors in Figures 2 – 4 and Table 1: installation costs, rebates, efficiency, electricity prices, and solar radiation:<sup>4</sup>

$$\text{new installations} = B_0 + B_1 (\text{average solar radiation}) + B_3 (\text{electricity price}) + B_4 (\text{system installation cost per watt}) + B_5 (\text{panel efficiency}) + B_6 (\text{grants and rebates}) + (\text{state*month fixed effects}),$$

where the B's are the coefficients, or relationships, to be estimated. The state\*month fixed effects are variables included to control for seasonal variation in panel installations, where the seasonality is allowed to be different for each state – March in Arizona is different from March in New Jersey.

The results are much in line with intuition (Table 2; statistically significant coefficients are bold). Areas that are generally more suitable for solar electricity production (areas that have more solar radiation) tend to have more installations each month, though this relationship is only significant at the 10% level, not quite reaching accepted levels of statistical significance. System installations also respond in predicted ways to prices: lower installation costs and higher electricity prices are associated with more installations. Improvements in panel efficiency, which increase the benefit a consumer gets from installing a panel system, are also associated with more installations. The regression model indicates that the relationship between up-front rebates and grants and installations is far from being statistically significant, perhaps reflecting the phase-out of many rebates over time at the same time as installations were generally on an upward trend.

Economic costs and benefits are not the only factors that influence choices. The actions of and ideas provided by a consumer's peers, specifically their friends, and the consumer's own learning about the suitability of solar in their area (by observing local weather trends, for example) could factor into the decision to install solar panels. Existing research supports the idea that local weather patterns affect decisions about solar installations (Lamp 2018, Liao 2020), and another line of research finds that the actions and experiences of one's friends affect consumers' decisions in domains such as real estate (Bailey et al. 2018). Separating the influence of friends from the influence of personal observations of the local weather is difficult because friends

Table 2 Results: Costs, Benefits, and Installations

An increase in ...	... is associated with
average solar radiation of one MJ per m <sup>2</sup>	36.6 more installations
electricity price of one cent per kWh	<b>17.7 more installations</b>
system installation cost of one dollar per watt	<b>11.7 fewer installations</b>
panel efficiency of one percentage point	<b>3.8 more installations</b>
grants and rebates of one dollar	0.0002 fewer installations

4. See the data glossary at the end of the report for details about the variables used in the analysis.



often live in the same area and experience the same local weather, thus a consumer's actions could be attributed either to friends or the weather.

One solution is to look at the actions of geographically distant friends. Doing so reduces the chance that the friends experienced the same recent local weather patterns. Following an idea from Bailey et al. (2018), I use published data from Facebook, the Social Connectedness Index, to calculate a friend-weighted-average of the number of solar panel system installations in counties connected by friendship links on Facebook. To reduce the chance that friends experience similar local weather, I only use friend connections to out-of-state counties. For example, say the Social Connectedness Index between county A (in state S) and county B (in state T) is 5, and between county A and county C (in state E) is 15. If there are 10 solar panel system installations in B and 4 in C in a given month, then the friend-weighted-average number of installations for someone in county A for that month is:

$$[5 / (5 + 15)] * 10 + [15 / (5 + 15)] * 4 = 5.5.^5$$

To account for recent trends in local weather, I include a measure of solar radiation in the current and six most recent months. I use the concept of a 'weather anomaly' for this measure. There are a number of different ways to measure the 'weather anomaly.' Following a suggestion in Liao (2020), I compare average solar radiation over all days in the current month (June 2015, for example) to the historical average for that time of the year (all days in June from 1980 to 2000). I then transform the difference into standard deviations away from the historical average for that month of the year as a normalization.

Broadly, the results indicate that friends matter more than weather. Current and recent solar radiation does not have a statistically significant effect on solar panel system installations.<sup>6</sup> On the other hand, the actions of consumers in counties where more friends live do appear to make a difference. If the friend-weighted-average number of solar installations increases by one in the current month, the associated increase in own-county installations is about 18 (a relationship that is

statistically significant). This estimated relationship is not a trivial size. For comparison, the relationship between a one cent increase in electricity prices and monthly installations is also about 18. The magnitude (and statistical significance) of the relationship between own and friend-county installations falls when comparing the current month's own county installations to the friend-weighted-average number of installations in past months, going from about 18 (same month) to about seven (one month ago) to about one (two months ago, and no longer statistically significant). Since there is typically a delay between the time a consumer decides to install solar panels and the actual installation date, one interpretation of this pattern of magnitude decay is that a consumer's actions are swayed more by friends' plans and ideas than by friends' actions. If actions mattered, then lags of friend-weighted-average installations rather than friend-weighted-average installations in the same month should have more predictive power. An important caveat is that this analysis cannot rule out an alternative interpretation in which friends independently and simultaneously decide to install solar panels at the same time. The story here is that people often choose friends that are similar to themselves in some ways, and those similarities, not the actions or information exchanged between friends, drive the observed relationship between own-county panel installations and installations in counties connected by friendships. So, while the evidence is consistent with friends playing a role in installation decisions, the analysis cannot prove decisively that this is the case.

Taken together, economic costs and benefits and perhaps the information and ideas provided by friends help predict solar panel system installations in the U.S. Since capturing solar energy is often cited as a way to increase society's ability to use renewable energy, these results provide some evidence on how to encourage solar panel adoption in instances where doing so is a policy goal. In addition to focusing on technological advancements that increase efficiency and bring down prices, encouraging installations in one county or state could encourage installations in other areas through networks of friends and the spread of information.

5. The Social Connectedness Index between pairs of counties does not change over time, while the number of installations in connected counties does. The Index is based on data as of August 2020, and thus an implicit assumption in the analysis is that the friendship network is stable over time.

6. Though other research finds that recent local weather does affect choices about residential solar installations, the findings in this report do not necessarily conflict with the existing research. The evidence in this report does not support the interpretation that there is an effect of recent local weather on installations, but also cannot rule out that there is no effect.



## Data appendix

Lawrence Berkeley National Laboratory, Tracking the Sun Data project compiles data on solar panel system installations. The data run from 1998 through 2018. The original data were aggregated to be used in the analysis in this report as follows:

- » Panel system installations: the number of systems installed by county and month-year
- » Installation price per watt: the average system installation price per watt of power output, by state and month-year
- » Efficiency: the average percent of solar energy that panels convert into usable electricity, by state and month-year
- » Rebates and grants: the average pre-tax value of up-front grants or rebates for installing a solar panel system in dollars, by state and month-year

Historical weather data are from the Oak Ridge National Laboratory (<https://daymet.ornl.gov/>). The latitude and longitude coordinates from the center of each county were used to extract the weather data.

- » Historical average daily solar radiation: the average of daily total solar radiation over all days between 1980 and 2000, by county
- » Solar radiation: the average of daily solar radiation over each day in a given month, by county and month-year

Other variables:

- » Electricity price: residential electricity prices reported by the U.S. Energy Information Administration in cents per kWh, by state and month-year (<https://www.eia.gov/electricity/data.php#sales>, Monthly Form EIA-861M)
- » The Social Connectedness Index, provided by Facebook, gives a measure of the number of friendship links between pairs of counties in the U.S.

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Cathay Bank | UCLA Anderson Forecast | U.S.-China Economic Report - Fourth Quarter Update

# Uncertainty in the Post-Election and COVID-19 World

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December 2020

The election is over with and there will be a change in administrations come January 20th. However, that does not eliminate all of the uncertainty with respect to U.S. economic policy. There could well be a divided Congress, and the outgoing administration may have some new directives that were not previously forecast. However, over the past two years, in a country that has harbored divided views on domestic policy, a rare consensus on a fundamentally changed view of U.S. economic engagement with Beijing has developed.

As we mentioned in previous reports, the U.S. and China are unlikely to go back to the past era of strategic engagement. What a Biden Administration would change with respect to economic policy towards China is in style and method, not substance. The U.S. is more likely to confront and contain China by leveraging more multilateral frameworks with its allies than unilateral ones. One example is that U.S. could re-enter the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) to bolster its leadership

and to expand its interests in Asia. The U.S. could also re-join the WHO and make the WTO more functional as well. And the President-Elect has stated that America would return to the Paris Accord and seek cooperation on climate change issues with China. Though China was the largest CO<sub>2</sub> emitter in the world in 2020, it recently committed to carbon neutrality prior to 2060. This is a rare space for increased cooperation in alternative energy and propulsion.

To be sure, there will be more dialogues and efforts between the U.S. and China to address further escalating tensions. In the presidential campaign, however, President-Elect Biden committed to bringing manufacturing, particularly with respect to technologically advanced goods and renewable energy equipment back to the U.S.<sup>1</sup> Thus, a continuation of the intention, if not the method of the past four years of partial economic disengagement should be expected. In this update report, we will discuss trade relations and technology competition between the U.S. and China.

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1. *In an interview with the New York Times on December 2, 2020, Biden said: "I want to make sure we're going to fight like hell by investing in America first."*

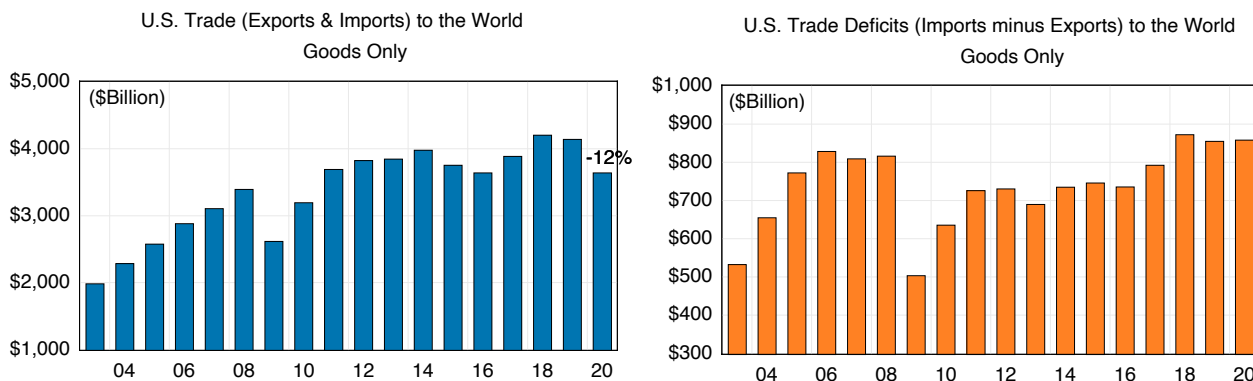
## The Slowly Decoupling U.S.-China Trade and “Just-In-Case” Global Supply Chains

Figure 1 (left) shows U.S. nominal goods trade with the rest of the world (imports plus exports). Figure 1 (right) shows U.S. nominal goods trade deficits with the rest of the world (imports minus exports). The numbers in 2020 are based on Anderson Forecast projections. Due to the global pandemic induced recession, it is not surprising to see that U.S. total international trade is estimated to decline by 12% in 2020. In the 2008/2009 recession, the comparable decline in total trade was 19.8%. In both recessions, the circumstances of the downturn interrupted trade flows. In the latest, imports from China to the U.S. plummeted as Chinese factories shutdown and did not pick up until both they and U.S. factories began to reopen. Consequently, the slight decline in the U.S. goods

trade deficit should not be taken as an indicator of a trend. Indeed, the deficit widened in the third quarter of 2020.

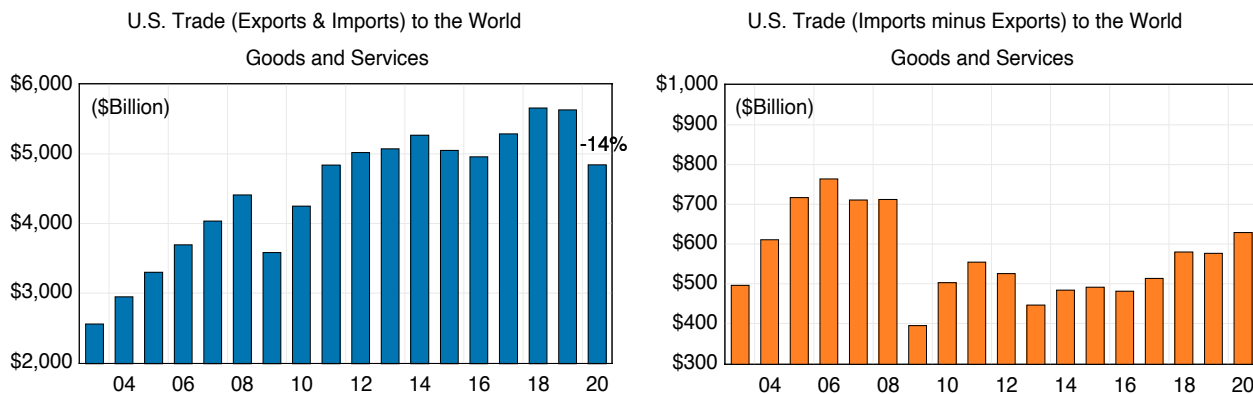
Note that trade data in Figure 1 only includes goods. We use it for convenience for Figures 1 through 4 because data from the U.S. Bureau of the Census on monthly trade flows by country is available through September 2020, while the net export component of GDP that includes trade in services is only available by country with a considerable lag. For a more comprehensive picture of international trade, we should, of course, also examine trade in services including travel, education, and intellectual property transactions. We do not expect this to show a qualitative difference, however, as the estimated total trade of goods and services should decline by 14% in 2020, similar to the goods only decline (Figure 1A). The trade deficit in goods and services is estimated to have increased by 9% in 2020 with the difference being largely the collapse of international travel and the restrictions on international students coming to the U.S.

Figure 1 U.S. Total Goods Trade and Deficits



Sources: U.S. Census and UCLA Anderson Forecast

Figure 1A U.S. Total Goods and Services Trade and Deficits



Sources: U.S. Census and UCLA Anderson Forecast

Figure 2 (left) shows total U.S. nominal goods trade with China and Figure 2 (right) shows the U.S. goods trade deficit with China. We can see a clear turn in 2019. U.S. total goods trade with China declined by 15% in 2019, and we estimate that it will decline by another 8% in 2020. U.S. trade deficits with China contracted by a greater amount (-18% in 2019 and an estimated -15% in 2020). The main driver of the differential from the decline in world trade in 2019 and to some extent in 2020 is in the reduction of U.S. imports from China due to tariffs, non-tariff restrictions on trade, and a shift of low-cost labor manufacturing out of the now higher cost China. U.S. imports from China peaked in

2018 at \$538 billion, dropped to \$452 billion in 2019 (-18%), and to an estimated \$402 billion in 2020 (-15%). It should be noted that weak U.S. holiday spending could further the reduction in imports into 2021.

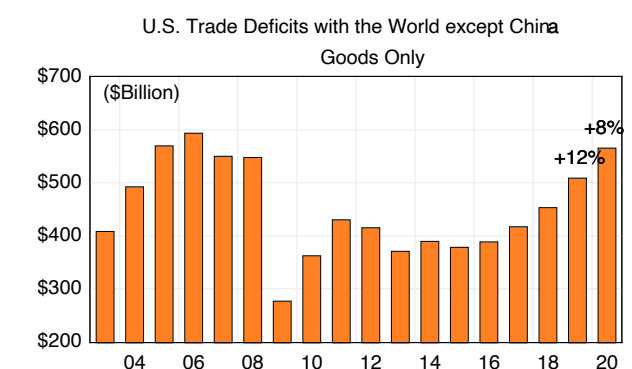
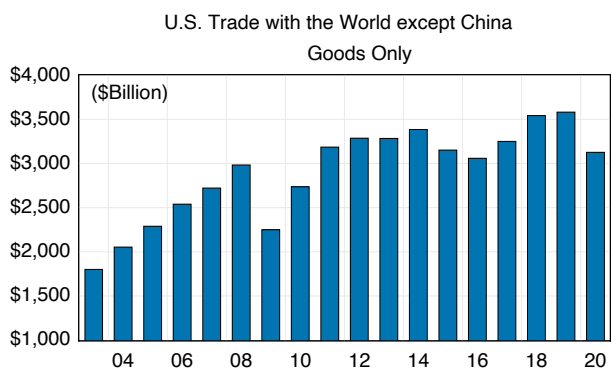
While the total U.S. goods trade deficits decreased slightly (Figure 1), the deficit with China decreased significantly (Figure 2). In contrast to consecutive annual declines in the goods trade deficit with China, U.S. goods trade deficits increased with all other countries by growth rates of 12% in 2019 and 8% in 2020 (Figure 3). This is evidence of U.S.-China decoupling since 2019.

Figure 2 U.S. Total Goods Trade and Deficits to China



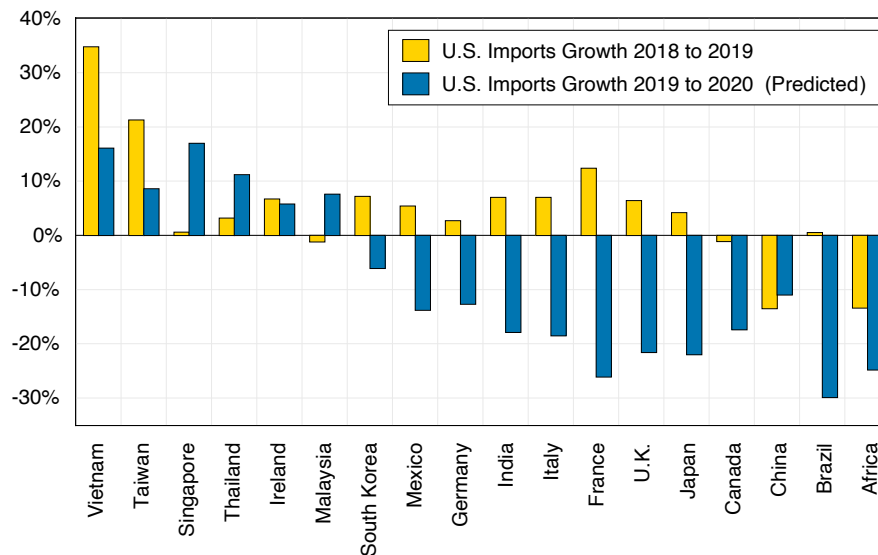
Sources: U.S. Census and UCLA Anderson Forecast

Figure 3 U.S. Total Goods Trade and Deficits to the World (Except China)



Sources: U.S. Census and UCLA Anderson Forecast

Figure 4 U.S. Import Growth from Major Trading Partners, 2018 and 2019



Source: U.S. Census and UCLA Anderson Forecast

Figure 4 presents U.S. import growth from its major trading partners in 2019 (yellow bar) and 2020 (blue bar, estimated). The two gaining the most are Vietnam and Taiwan, both of which have experienced positive export growth to the U.S., including during the current pandemic induced recession year. Singapore, Thailand and Malaysia also have had some modest positive growth in 2020. Much has been said about India becoming the next China due to its reinforced strategic alliance with the U.S. and much lower labor and land costs.<sup>2</sup> But U.S. imports from India declined in 2020. Fundamental change in supply chains take time, and we still expect a China to India shift as part of the decoupling.

Globalization has been long praised by Wall Street, Chambers of Commerce, and economists with its “just-in-time” supply chains providing low inventory costs, maximizing shareholder value, and generating more affordable products.<sup>3</sup> The global pandemic led many to realize that just-in-time global supply chains are fragile, and that they can potentially lead to national security and public health consequences. Though having a higher marginal cost, “just-in-case” supply

chains are risk reducing with larger inventories and alternative domestic sources of production inputs. It is then natural to expect both China and the U.S. to enact policy to make sure there will be sufficient products and capacity at home in case of crises, disasters, conflicts, and/or another pandemic.

### Technology Competition between the U.S. and China

In late October 2020, the Chinese Government published the major economic development targets in the 14th Five-Year Plan (2021-2025). Among many goals is “technology self-reliance.” This is both in response to escalating U.S.-China rivalry, various U.S. sanctions on Chinese tech companies, and as part of China’s 2016 “Made in China 2025” initiative. The strategic goals of “Made in China 2025” and “China Standards 2035” have China making major public investments in domestic technology and innovation including advanced technologies such as AI, quantum computing, semiconductor, life science, and aerospace.

2. For instance, Govindarajan and Bagla suggest that India would replace China, if China falls in attractiveness in “As Covid-19 Disrupts Global Supply Chains, Will Companies Turn to India?” *Harvard Business Review* (May 2020).

3. For example, see Fullerton, McWatters, and Fawson, “An Examination of the Relationships between JIT and Financial Performance,” *Journal of Operations Management*, (2003), 21:4, pp 383-404. Kannan and Tan, “Just In Time, Total Quality Management, and Supply Chain Management: Understanding Their Linkages and Impact on Business Performance,” *Omega*, (2005), 33:2, pp 153-162. Thomas Friedman, “The World is Flat.” (2005), Farrar, Straus, and Giroux. In Jagdish Bhagwati ed., “In Defense of Globalization: With A New Afterword.” (2004), Oxford University Press.

Recently, President Trump issued an executive order banning U.S. residents from investing in 31 Chinese companies that are purported to engage in “military-civil fusion” activity. The order is to take effect in January 2021. Existing American investment will need to be divested by November 2021. These 31 companies include Huawei, China Mobile, Hikvision, and Aviation and Industry Corporation of China (AVIC). Several of these companies are already in the Department of Commerce’s Entity List and 13 of them are publicly traded.

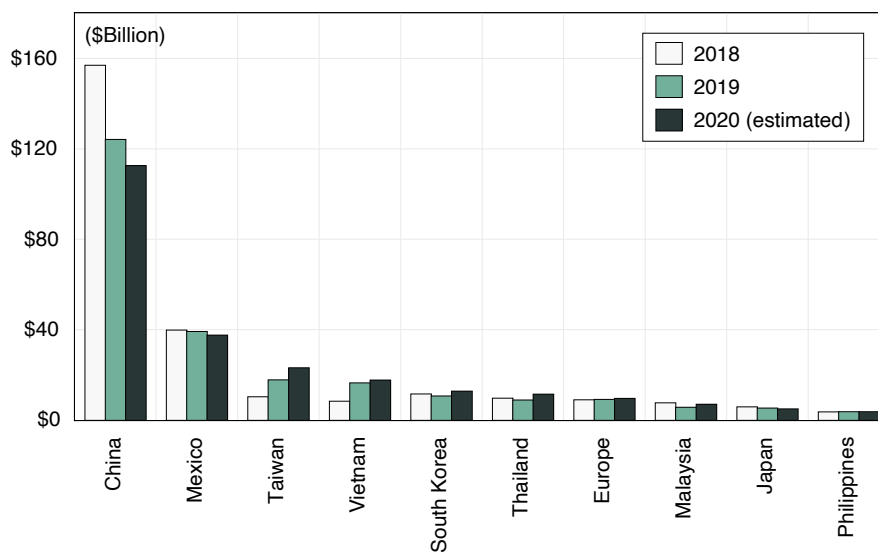
In a report sponsored by the Hinrich Foundation<sup>4</sup> entitled “Strategic U.S.-China Decoupling in the Tech Sector,” Alex Capri (2020)<sup>5</sup> suggests six major trends that will emerge from the tech competition between the U.S. and China:

- 1) Certain strategic value chains will decouple, restructure and diversify out of China.
- 2) The U.S., EU, and other countries will focus more on countering Beijing’s economic nationalism with technological initiatives of their own.
- 3) Re-shoring and ring-fencing of some critical manufacturing.

- 4) New public-private partnerships, and alliances to compete with China.
- 5) Multinationals will adjust to a world of increasingly fragmented and localized value chains.
- 6) Businesses will adopt “in-China-for-China” business models in order to access the Chinese market.

What is the early evidence on Points 1 and 3? About 500 of some 22,000 commodity classifications in U.S. merchandise trade are identified as advanced technology.<sup>6</sup> Focusing on two specific sectors: (1) imports of information and communication products, and (2) exports of aerospace, have the largest trade values among all the advanced technology products. Figure 5 lists the top 10 trading regions for U.S. import sources of information and communication products in 2018, 2019, and 2020.<sup>7</sup> The U.S.’ top source of information and communication products is China. The trade war, tariffs, and Great Powers competition in the past two years have started a U.S.-China decoupling, in which U.S. imports from China declined from \$157 billion in 2018 to \$124 billion in 2019, and to \$113 billion in 2020. At the same time, U.S. imports from Vietnam, Taiwan, South Korea, and Thailand all increased.

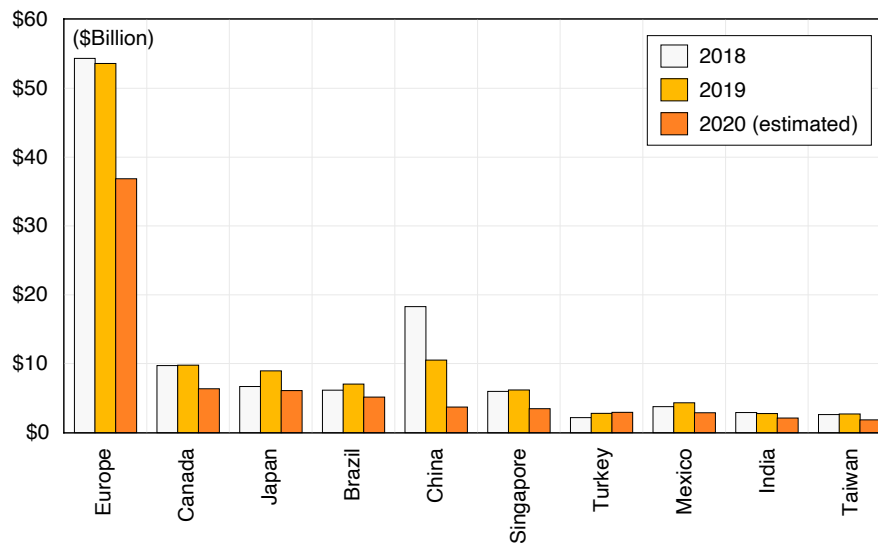
Figure 5 U.S. Imports of Advanced Technology Products--Information & Communications from 10 Major Trading Regions from 2018 to 2020



Source: U.S. Census

4. An Asia-based philanthropic organization that works to advance mutually beneficial and sustainable global trade.  
 5. A global value chain and international trade scholar and visiting senior fellow at National University of Singapore.  
 6. There are 10 major sectors: biotechnology, life science, opto-electronics, information & communications, electronics, flexible manufacturing, advanced materials, aerospace, weapons, and nuclear technology.  
 7. The annual number in 2020 is estimated based on the growth rate in the first nine months of 2020 compared to the first nine months of 2019, seasonally adjusted.

Figure 6 U.S. Exports of Advanced Technology Products--Aerospace to 10 Major Trading Regions from 2018 to 2020



Source: U.S. Census

Figure 6 illustrates the top 10 trading regions for U.S. exports of aerospace products in 2018, 2019, and 2020. In 2020, due to the pandemic and disruption of the airline industry, we see across-the-board decline of U.S. exports. China was a major purchaser of Boeing airplanes before the 737 MAX grounding and the COVID-19 pandemic. We can see a dramatic decline of exports to China from \$18 billion in 2018 to \$11 billion in 2019, and \$3.7 billion in 2020. Though the 2020 decline is across all regions, the 2019 is more specifically a decline in exports to China.

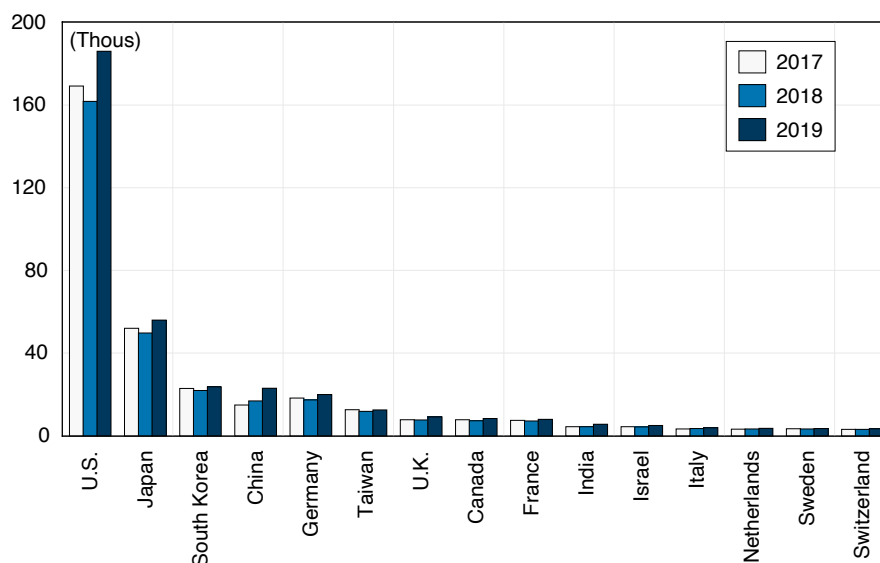
### The State of Technology Competitiveness: Intellectual Property and R&D

Although it is generally recognized that the U.S. is further along in technology development and innovation than China, that gap has been closing. The number of patents is one way to measure innovation and technology advances of a country. Figure 7 lists the number of patents granted by the U.S.

Patent and Trademark Office to individuals or companies by their country of origin. The U.S. is, of course, at the top with the most patents granted (186,000 in 2019), followed by Japan with 56,000, South Korea with 23,600, and China with 23,000. Although China’s number is low compared to the U.S., it has had historically high growth rates. From 2017 to 2019 filings at the U.S. Patent Office grew from 14,900 to 23,000: a 55% increase. Over the past two years, China surpassed Germany in the of number of patents issued in the U.S.. Beyond the U.S. market, through Patent Cooperation Treaty System (PCT) at World Intellectual Property Organization (WIPO), China (58,990) has surpassed the U.S. (57,840) as the top country for international patent applications in 2019. Recent moves to restrict Chinese technology exports to the U.S. is expected to reverse the trend in patents filed in the U.S. by Chinese companies, but not the trend in the number of patents issued beyond the world market. The reversal will be exacerbated if the implementation of “China Standards 2035” results different technology protocols than are used in the U.S.



Figure t Number of Total Patents Granted in the U.S. by Country of Origin



Source: U.S. Patent and Trademark Office

One area where China is lagging the U.S. in technology development is in R&D expenditures. To be sure, local cost differentials make comparisons of R&D across countries only suggestive. However, the 14th Five Year Plan explicitly recognizes the differential illustrated below. Figure 8 lists the top 20 companies in the U.S. with the most R&D expenditures in 2016. The top American companies were Alphabet (Google), Microsoft, Intel, and Apple.

Figure 9 shows the top 20 Chinese companies with the most R&D expenditures in 2016. The top four are Huawei, Alibaba, ZTE, and Tencent. However, besides Huawei<sup>8</sup> and PetroChina, the technology prowess in terms of R&D in these top 20 Chinese firms are still lagging far behind top 20 in the U.S.. Note that these numbers only reflect company R&D, not reflective of government R&D. According to OCED, R&D expenditures in whole China in 2018 was about \$468 billion, still lower than \$582 billion of the U.S., but higher than \$465 billion of whole 28 EU countries.

How this will change in the coming years is well illustrated by the case of Huawei. Huawei is the leading tech company

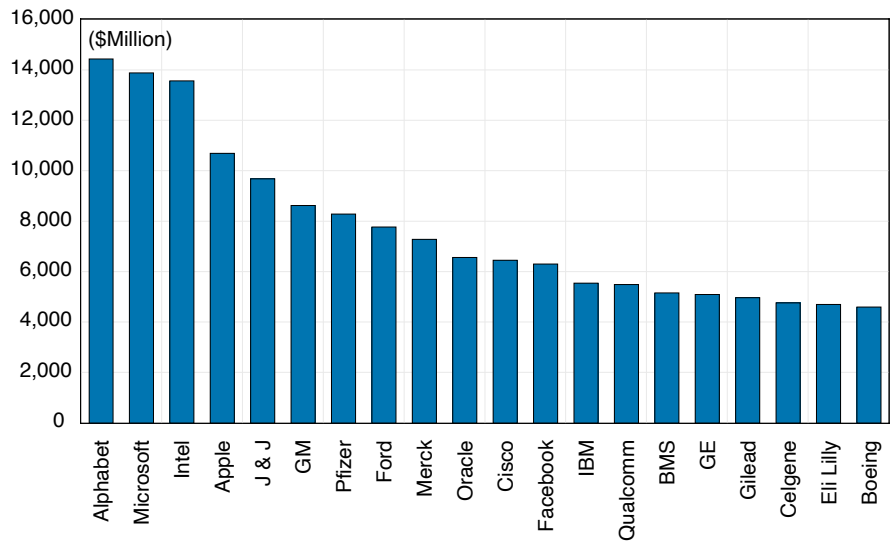
in China and the largest communication equipment maker in the world, and it has become a target of U.S. actions. Following an accusation of Huawei stealing trade secrets from six American companies, the U.S. with its allies, Australia, U.K., Japan, India, and Brazil, have banned or restricted Huawei’s communication equipment because of security concerns. In addition, the U.S. expanded its export control requirements, the Foreign Direct Product Rule (FDPR) in May 2020. Now, foreign companies are required to get a license before selling finished products if the manufacturing process involves certain American software, designs, tooling and equipment.

The action involves a crucial player in the tech/semiconductor supply chain: Taiwan Semiconductor Manufacturing Company (TSMC), the world’s largest contract chipmaker. If TSMC is not allowed to sell to Chinese companies such as Huawei, there would be a big hole in China’s tech value supply chain and its technology ambitions. As yet there are no Chinese semiconductor companies that can produce the required high-quality microchips. HiSilicon, Huawei’s fabless chip designer for smartphones and 5G infrastruc-

8. Huawei’s R&D spending (US\$15.3 billion) in 2019 might have surpassed Apple, Intel, and Microsoft.

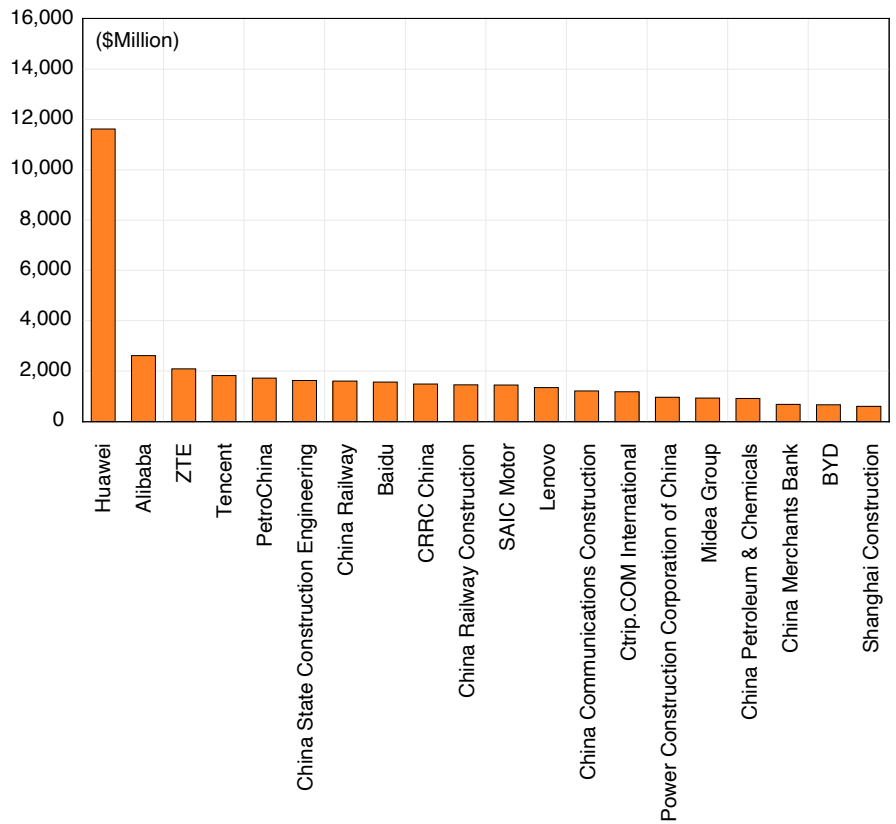


Figure 8 Top 20 U.S. Companies in terms of R&D Expenditures



Source: OECD

Figure 9 Top 20 Chinese Companies in terms of R&D Expenditures



Source: OECD

ture, relies on TSMC for chips. According to Capri (2020), TSMC depends on U.S. semiconductor manufacturing technology from Applied Materials, LAM research, KLA Tenor, Synopsys, and Cadence Design Systems; companies that control a majority of the global market. With the U.S. imposed FDPR, TSMC cannot make cutting edge chips for HiSilicon and Huawei.

Note that TSMC currently makes computer chips used in Lockheed Martin F-35 fighter jet and is a key supplier for Apple, AMD, Qualcomm, Broadcom, and Nvidia. Washington has pressured TSMC to produce the chips that are used inside U.S. military hardware within the U.S. in order to ensure U.S. tech supply chains are free from any Chinese interference. TSMC has decided to invest \$12 billion to set up a wholly-owned subsidiary in Arizona in 2021. This is a further example of manufacturers diversifying supply chains from “just-in-time” to include “just-in-case”, and though it involves a Taiwanese company, it has direct implications for China as well.

## Conclusions

- The U.S. is expected to change its economic policy toward China in style but not in substance under the new Biden administration.
- U.S./China decoupling of trade with China has begun, is ongoing, and is expected to continue. This decoupling will speed the development of self-sufficiency in contested sectors in both the U.S. and China.
- Tech competition is the leading edge of both the U.S. and China decoupling strategy. As this can be justified by both countries as a strategic necessity, we expect technology related goods and services to bear the brunt of the decoupling, but consumer non-durable goods, to the extent that they can still be produced cost effectively in China, to continue to be imported into the U.S., and machinery, aircraft and agricultural products, to the extent that they do not involve excluded sensitive technology, to continue to be imported into China.

# THE UCLA ANDERSON FORECAST FOR THE NATION

DECEMBER 2020 REPORT

Tables

**Table 1: Summary of the UCLA Anderson Forecast for the Nation**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>GDP and Monetary Aggregates (% Ch.)</b>												
Real GDP	2.2	1.8	2.5	3.1	1.7	2.3	3.0	2.2	-3.7	3.6	3.4	3.1
GDP Price Index	1.9	1.8	1.8	1.0	1.0	1.9	2.4	1.8	1.2	1.9	2.1	2.1
Money Supply (M1)	12.9	8.3	9.9	5.7	9.1	8.1	3.0	6.1	42.0	-6.5	4.0	5.1
Money Supply (M2)	7.6	6.1	5.8	5.7	7.3	4.9	3.5	6.7	24.2	-9.0	-3.5	-0.8
<b>Interest Rates (%) on:</b>												
Federal Funds	0.1	0.1	0.1	0.1	0.4	1.0	1.8	2.2	0.4	0.1	0.1	0.1
90-day Treasury Bill	0.1	0.1	0.0	0.1	0.3	0.9	1.9	2.1	0.4	0.1	0.1	0.1
10-yr Treasury Bond	1.8	2.4	2.5	2.1	1.8	2.3	2.9	2.1	0.9	1.1	1.3	1.5
30-yr Treasury Bond	2.9	3.4	3.3	2.8	2.6	2.9	3.1	2.6	1.6	1.9	2.2	2.4
Moody's AAA Corp. Bond	3.7	4.2	4.2	3.9	3.7	3.7	3.9	3.4	2.5	2.1	2.1	2.3
30-yr Bond Less Inflation	1.0	2.1	1.9	2.6	1.6	1.1	1.0	1.1	0.4	0.1	0.3	0.5
<b>Federal Fiscal Policy (% Ch.)</b>												
Defense Purchases												
Current \$	-2.4	-6.1	-2.7	-1.8	-0.1	2.5	6.3	7.3	3.5	3.5	2.4	-0.3
Constant \$	-3.4	-6.7	-4.1	-2.1	-0.5	0.8	3.3	5.6	3.2	1.6	0.1	-2.4
Other Expenditures												
Transfers to Persons	-1.1	1.9	4.4	5.2	3.2	2.9	4.6	5.4	45.5	-13.2	-6.9	3.2
Grants to S&L Govt	-5.9	1.3	10.0	7.7	4.5	0.5	4.1	4.4	44.3	-8.6	-10.3	-0.1
<b>Billions of Current Dollars, Unified Budget Basis, Fiscal Year</b>												
Receipts	2509	2825	3093	3275	3242	3344	3330	3497	3424	3613	3792	4034
Outlays	3570	3384	3581	3750	3824	4025	4203	4520	6746	5295	4912	4948
Surplus or Deficit (-)	-1061	-560	-487	-475	-582	-681	-873	-1022	-3321	-1682	-1120	-914
<b>As Shares of GDP (%), NIPA Basis</b>												
Revenues	16.7	18.7	18.8	18.9	18.5	18.0	17.3	17.3	17.5	17.5	17.4	17.5
Expenditures	23.3	22.5	22.2	22.0	22.0	21.7	21.8	22.2	32.2	25.2	22.4	21.6
Defense Purchases	5.0	4.6	4.2	4.0	3.9	3.8	3.9	4.0	4.2	4.1	4.0	3.8
Transfers to Persons	14.2	13.9	13.9	14.1	14.1	14.0	13.8	14.0	20.9	17.2	15.2	14.9
Surplus or Deficit (-)	-6.6	-3.8	-3.4	-3.1	-3.6	-3.7	-4.5	-4.9	-14.7	-7.7	-5.0	-4.1
<b>Details of Real GDP (% Ch.)</b>												
Real GDP	2.2	1.8	2.5	3.1	1.7	2.3	3.0	2.2	-3.7	3.6	3.4	3.1
Final Sales	2.1	1.6	2.7	2.8	2.4	2.4	2.8	2.2	-3.0	2.7	3.3	3.1
Consumption	1.5	1.5	3.0	3.8	2.8	2.6	2.7	2.4	-4.1	3.9	3.8	3.3
Nonres. Fixed Investment	9.5	4.1	7.2	2.3	0.5	3.7	6.9	2.9	-4.9	1.9	5.8	5.4
Equipment	11.0	4.7	7.0	3.0	-1.7	3.2	8.0	2.1	-5.7	6.6	4.5	3.4
Intellectual Property	5.0	5.4	4.8	3.8	7.6	4.2	7.8	6.4	0.0	0.9	7.4	7.3
Structures	13.0	1.3	11.0	-0.9	-4.4	4.2	3.7	-0.6	-10.9	-6.0	5.8	6.3
Residential Construction	13.2	12.5	3.7	10.2	6.6	3.9	-0.6	-1.8	5.0	8.7	-1.9	-0.9
Exports	3.4	3.6	4.2	0.4	0.3	3.9	3.0	-0.1	-13.7	5.3	10.2	7.0
Imports	2.7	1.5	5.0	5.2	1.7	4.7	4.1	1.1	-10.5	8.5	6.8	4.9
Federal Purchases	-1.9	-5.5	-2.6	-0.0	0.6	0.3	2.8	4.0	4.2	0.1	-0.4	-1.9
State & Local Purchases	-2.2	-0.3	0.2	2.9	2.6	1.2	1.2	1.3	-0.9	0.8	-0.2	2.1
<b>Billions of 2012 Dollars</b>												
Real GDP	16197	16495	16912	17432	17731	18144	18688	19092	18384	19040	19683	20290
Final Sales	16126	16387	16826	17295	17706	18128	18634	19043	18467	18958	19580	20187
Inventory Change	71	109	86	138	25	16	53	49	-83	82	103	103

## FORECAST TABLES - SUMMARY

**Table 2: Summary of the UCLA Anderson Forecast for the Nation**

Nation	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Industrial Production and Resource Utilization</b>												
Production (% Ch.)	3.0	2.0	3.1	-1.0	-2.0	2.3	3.9	0.9	-7.5	1.9	3.8	3.4
Capacity Util. Manuf. (%)	74.5	74.4	75.2	75.3	74.2	75.1	76.6	75.6	69.5	71.5	73.3	74.5
Real Bus. Invest. (% of GDP)	15.7	16.3	17.0	17.1	17.1	17.3	17.7	17.7	17.8	17.8	17.9	18.0
Nonfarm Employment (mil.)	134.2	136.4	138.9	141.8	144.3	146.6	148.9	150.9	142.4	147.2	151.9	155.1
Unemployment Rate (%)	8.1	7.4	6.2	5.3	4.9	4.4	3.9	3.7	8.1	6.0	4.7	4.1
<b>Inflation (% Ch.)</b>												
Consumer Price Index	2.1	1.5	1.6	0.1	1.3	2.1	2.4	1.8	1.3	2.2	2.6	2.2
CPI less Food & Energy	2.1	1.8	1.8	1.8	2.2	1.8	2.1	2.2	1.8	2.2	2.2	2.1
Consumption Chain Index	1.9	1.3	1.5	0.2	1.0	1.8	2.1	1.5	1.2	1.8	1.9	1.9
GDP Chain Index	1.9	1.8	1.8	1.0	1.0	1.9	2.4	1.8	1.2	1.9	2.1	2.1
Producers Price Index	0.5	0.6	0.9	-7.2	-2.7	4.4	4.3	-1.0	-3.0	4.8	2.4	3.0
<b>Factors Related to Inflation (% Ch.)</b>												
Nonfarm Business Sector												
Total Compensation	2.6	1.3	2.8	3.1	1.1	3.5	3.4	3.6	5.9	0.5	1.4	3.1
Productivity	0.9	0.5	0.9	1.6	0.3	1.2	1.4	1.7	2.4	-0.8	0.2	1.5
Unit Labor Costs	1.8	0.8	1.9	1.5	0.7	2.2	1.9	1.9	3.5	1.3	1.1	1.6
Farm Price Index	3.2	1.4	1.1	-11.9	-9.6	3.1	-0.6	0.4	-3.8	0.2	1.8	4.2
Crude Oil Price (\$/barrel)	94.2	97.9	93.3	48.7	43.2	51.0	64.9	57.0	38.6	43.9	52.6	56.2
New Home Price (\$1000)	242.1	265.1	283.2	293.7	306.5	321.6	323.1	319.3	339.0	359.4	369.4	383.7
<b>Income, Consumption and Saving (% Ch.)</b>												
Disposable Income	5.3	0.0	5.6	4.4	3.0	4.9	5.8	3.7	6.7	-0.9	2.7	4.9
Real Disposable Income	3.3	-1.3	4.1	4.2	2.0	3.1	3.6	2.2	5.4	-2.6	0.8	2.9
Real Consumption	1.5	1.5	3.0	3.8	2.8	2.6	2.7	2.4	-4.1	3.9	3.8	3.3
Savings Rate (%)	8.9	6.4	7.4	7.6	6.9	7.2	7.9	7.6	15.9	10.4	7.8	7.4
<b>Housing and Automobiles (Millions of Units)</b>												
Housing Starts	0.784	0.928	1.000	1.107	1.177	1.207	1.248	1.295	1.382	1.512	1.472	1.446
Auto & Light Truck Sales	14.4	15.5	16.5	17.4	17.5	17.1	17.2	17.0	14.3	15.8	16.2	16.1
<b>International Trade (% Ch.)</b>												
Nominal												
U.S. Dollar												
Industrial Countries	3.6	3.0	3.1	15.7	1.2	-0.5	-2.3	3.5	-1.1	-6.2	-2.6	-0.7
Developing Countries	2.6	-0.5	3.0	10.6	8.0	-0.1	0.7	3.1	5.5	-3.6	-3.4	-0.6
Exports	4.2	3.7	4.3	-4.5	-1.7	6.6	6.5	-0.6	-16.2	7.4	12.0	8.5
Imports	2.9	0.2	4.2	-3.0	-1.9	6.9	7.1	-0.4	-12.4	10.3	8.1	5.8
Net Exports (bil. \$)	-568.6	-490.8	-507.7	-526.6	-512.5	-555.5	-609.5	-610.5	-628.9	-756.3	-729.3	-702.2
Real												
U.S. Dollar												
Industrial Countries	7.6	5.1	5.1	18.6	2.6	0.1	-0.2	6.7	0.7	-7.0	-3.3	-0.8
Developing Countries	6.6	1.6	5.0	13.5	9.5	0.9	2.7	6.5	6.6	-3.5	-3.8	-1.6
Exports	3.4	3.6	4.2	0.4	0.3	3.9	3.0	-0.1	-13.7	5.3	10.2	7.0
Imports	2.7	1.5	5.0	5.2	1.7	4.7	4.1	1.1	-10.5	8.5	6.8	4.9
Net Exports (bil. i12\$)	-568.6	-532.8	-577.2	-719.5	-763.6	-816.8	-877.7	-917.6	-901.5	-1047.7	-1042.4	-1040.4

FORECAST TABLES - QUARTERLY SUMMARY

**Table 3: Summary of the UCLA Anderson**

**Forecast for the Nation** 2020Q1 2020Q2 2020Q3 2020Q4 2021Q1 2021Q2 2021Q3 2021Q4 2022Q1 2022Q2 2022Q3 2022Q4 2023Q1 2023Q2 2023Q3 2023Q4

	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4
<b>GDP and Monetary Aggregates (Annualized % Ch.)</b>																
Real GDP	-5.0	-31.4	33.1	1.2	1.8	6.0	3.2	3.2	3.1	3.2	3.4	3.1	3.0	3.0	2.9	3.1
GDP Price Index	1.4	-1.8	3.6	2.0	1.7	2.5	1.8	1.6	2.3	2.4	1.9	2.0	2.1	2.0	2.1	2.1
Money Supply (M1)	13.8	128.9	35.1	15.5	-10.3	-7.7	-5.0	-2.9	2.2	4.5	4.5	4.8	5.8	4.3	5.5	5.0
Money Supply (M2)	10.3	64.6	18.7	10.5	-12.8	-7.5	-6.6	-9.1	-5.4	-3.9	-2.7	-1.8	-1.7	-1.1	-0.8	0.6
<b>Interest Rates (%) on:</b>																
Federal Funds	1.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
90-day Treasury Bill	1.1	0.1	0.1	0.1	-0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
10-year Treasury Bond	1.4	0.7	0.7	0.9	0.9	1.0	1.1	1.2	1.2	1.3	1.4	1.4	1.5	1.5	1.5	1.6
30-year Treasury Bond	1.9	1.4	1.4	1.6	1.7	1.9	2.0	2.1	2.1	2.2	2.3	2.3	2.4	2.4	2.4	2.4
Moody's Corp. Aaa Bond	2.9	2.4	2.2	2.5	2.4	2.1	2.0	2.0	2.0	2.0	2.1	2.1	2.2	2.2	2.3	2.4
30-yr Bond Less Inflation	0.6	3.0	-2.3	-0.1	0.4	-0.2	-0.1	-0.1	0.4	0.4	0.5	0.2	0.4	0.6	0.5	0.5
<b>Federal Fiscal Policy (Annualized % Ch.)</b>																
Defense Purchases																
Current \$	-0.4	1.2	5.0	2.2	4.9	3.4	3.4	2.4	2.6	2.1	2.5	-1.0	-1.0	-1.1	-1.1	0.6
Constant \$	-0.3	3.8	3.0	-0.5	2.8	1.4	1.2	-0.0	0.2	-0.2	0.2	-3.1	-3.1	-3.1	-3.1	-1.5
Other Expenditures																
Transfers to Persons	12.4	1535.6	-77.8	-43.4	32.5	-3.2	-32.4	-6.3	-1.5	-1.2	-1.6	2.7	7.3	3.0	3.2	3.1
Grants to S&L Govt	8.3	2351.0	-92.6	17.7	15.3	35.4	-9.7	-31.7	0.0	-12.4	-14.3	2.5	3.9	4.4	2.6	2.1
<b>Billions of Current Dollars, Unified Budget Basis, Fiscal Year</b>																
Receipts	797	657	1160	811	790	1064	891	868	837	1107	929	920	895	1163	1000	976
Outlays	1184	2657	1548	1357	1406	1361	1270	1258	1272	1219	1220	1201	1249	1222	1251	1226
Surplus or Deficit ( - )	-387	-2001	-388	-546	-616	-297	-379	-390	-435	-112	-291	-281	-354	-59	-251	-249
<b>As Shares of GDP (%), NIPA Basis</b>																
Revenues	17.4	17.7	17.6	17.2	17.7	17.5	17.4	17.4	17.4	17.4	17.4	17.4	17.5	17.5	17.6	17.5
Expenditures	22.7	46.7	34.1	26.7	27.0	26.4	24.3	23.3	22.9	22.5	22.2	21.9	21.9	21.7	21.5	21.3
Defense Purchases	4.1	4.5	4.2	4.2	4.2	4.1	4.1	4.1	4.1	4.0	4.0	4.0	3.9	3.8	3.8	3.7
Transfers to Persons	14.5	32.2	20.4	17.6	18.7	18.2	16.3	15.8	15.5	15.3	15.0	14.9	15.0	14.9	14.9	14.8
Surplus or Deficit ( - )	-5.3	-28.9	-16.5	-9.5	-9.3	-8.8	-7.0	-6.0	-5.6	-5.2	-4.8	-4.5	-4.3	-4.2	-4.0	-3.8
<b>Details of Real GDP (Annualized % Ch.)</b>																
Real GDP	-5.0	-31.4	33.1	1.2	1.8	6.0	3.2	3.2	3.1	3.2	3.4	3.1	3.0	3.0	2.9	3.1
Final Sales	-3.3	-28.0	24.6	0.3	1.7	5.1	2.9	3.2	3.2	3.2	3.2	3.1	3.1	3.0	3.1	3.2
Consumption	-6.9	-33.2	40.7	0.1	1.2	6.1	3.6	5.3	3.2	2.9	3.2	3.6	3.4	3.1	3.2	3.2
Nonres. Fixed Investment	-6.7	-27.2	20.3	2.3	0.2	0.1	5.8	5.8	6.8	6.6	6.1	4.7	5.2	5.5	5.3	5.6
Equipment	-15.2	-35.9	70.1	9.4	-1.2	-0.3	9.1	4.9	5.3	3.4	2.9	3.5	4.2	4.0	1.8	2.7
Intellectual Property	2.4	-11.4	-1.0	1.3	0.6	0.6	7.4	6.2	9.1	8.6	7.3	7.0	7.2	7.2	7.2	7.3
Structures	-3.7	-33.6	-14.6	-10.3	2.7	0.1	-3.9	7.2	6.0	10.0	11.1	3.2	4.0	5.6	9.2	8.4
Residential Construction	19.3	-36.0	59.9	24.2	5.2	4.4	-3.9	-3.2	-3.5	-0.2	-0.3	-1.8	-1.0	-0.8	-0.3	-0.3
Exports	-9.5	-64.4	59.7	6.7	6.2	7.2	10.5	14.6	11.3	8.0	7.1	8.1	7.3	6.3	5.7	5.8
Imports	-15.0	-54.1	91.1	7.3	4.4	6.6	8.2	9.9	7.1	4.3	5.0	6.1	5.6	4.1	3.8	3.8
Federal Purchases	1.6	16.4	-6.2	-3.2	1.1	1.2	0.7	-0.7	-0.4	-0.9	-0.5	-2.2	-2.2	-2.4	-2.4	-1.4
State & Local Purchases	1.1	-5.4	-3.3	-3.0	5.1	8.3	-0.6	-8.8	1.7	2.1	1.8	2.0	2.1	2.4	2.2	2.3
<b>Billions of 2012 Dollars (SAAR)</b>																
Real GDP	19011	17303	18584	18639	18721	18996	19145	19298	19448	19600	19766	19918	20067	20215	20360	20517
Final Sales	19092	17590	18585	18600	18680	18911	19045	19197	19350	19504	19657	19808	19959	20107	20261	20421
Inventory Change	-81	-287	-1	39	41	84	100	101	98	96	109	110	108	107	100	96

# FORECAST TABLES - QUARTERLY SUMMARY

**Table 4: Summary of the UCLA Anderson Forecast for the Nation**

	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4
<b>Industrial Production and Resource Utilization</b>																
Production (Ann. % Ch.)	-6.8	-42.9	39.8	1.3	-2.1	6.2	2.5	2.6	4.1	4.5	4.5	3.4	3.5	3.0	2.5	3.0
Capacity Util. Manuf. (%)	73.9	63.1	70.3	70.6	70.0	71.7	72.0	72.2	72.5	73.0	73.5	73.9	74.2	74.5	74.6	74.7
Real Bus. Invest. (% GDP)	17.8	17.9	17.7	18.0	18.0	17.8	17.8	17.8	17.8	17.9	17.9	17.9	18.0	18.0	18.1	18.1
Nonfarm Emp. (mil.)	151.9	133.7	140.8	143.1	144.9	146.5	147.9	149.2	150.5	151.6	152.4	153.3	154.1	154.8	155.5	156.0
Unemployment Rate (%)	3.8	13.0	8.8	6.8	6.6	6.1	5.8	5.4	5.0	4.8	4.6	4.4	4.2	4.1	4.0	3.9
<b>Inflation (Annualized % Ch.)</b>																
Consumer Price Index	1.2	-3.5	5.2	2.3	1.4	2.4	3.0	3.0	2.4	2.5	2.3	2.4	2.2	1.8	2.1	2.1
Total less Food & Energy	2.0	-1.6	4.4	2.5	1.6	2.1	2.4	2.4	2.2	2.1	2.0	2.1	2.2	2.1	2.1	2.2
Consumption Chain Index	1.3	-1.6	3.7	1.7	1.3	2.0	2.1	2.3	1.7	1.8	1.8	2.1	2.0	1.8	1.9	1.9
GDP Chain Index	1.4	-1.8	3.6	2.0	1.7	2.5	1.8	1.6	2.3	2.4	1.9	2.0	2.1	2.0	2.1	2.1
Producers Price Index	-4.5	-18.6	13.7	8.1	6.2	5.3	2.6	2.6	1.9	1.7	2.3	3.6	3.4	2.8	3.2	2.5
<b>Factors Related to Inflation (Annualized % Ch.)</b>																
Nonfarm Business Sector																
Total Compensation	9.2	20.0	-4.4	-0.1	-0.0	-0.4	0.1	0.9	1.7	1.9	2.1	2.7	3.3	3.6	3.8	4.0
Productivity	-0.3	10.6	4.9	-7.8	-3.0	2.6	-1.0	-0.4	-0.5	0.8	1.6	1.0	1.5	1.6	1.8	2.3
Unit Labor Costs	9.6	8.5	-8.9	8.4	3.1	-2.9	1.2	1.3	2.2	1.1	0.4	1.7	1.8	1.9	2.0	1.7
Farm Price Index	-14.0	-43.8	48.3	32.1	-28.3	11.8	-2.6	6.8	-1.7	2.3	0.8	1.9	13.4	0.7	1.0	2.0
Crude Oil Price (\$/barrel)	45.8	27.8	40.9	39.8	40.1	41.4	45.4	48.6	49.9	51.7	53.5	55.2	56.3	55.8	56.3	56.6
New Home Price (\$1000)	329.6	322.8	326.4	377.2	353.9	361.5	361.0	361.2	365.4	370.9	370.3	371.3	374.4	385.7	386.8	388.1
<b>Income, Consumption and Saving (Annualized % Ch.)</b>																
Disposable Income	3.9	44.3	-13.2	-12.5	5.6	0.5	-3.8	3.1	4.0	4.2	4.3	4.4	5.4	5.0	5.1	5.1
Real Disposable Income	2.6	46.6	-16.3	-14.0	4.2	-1.5	-5.8	0.8	2.3	2.4	2.4	2.3	3.3	3.2	3.2	3.1
Real Consumption	-6.9	-33.2	40.7	0.1	1.2	6.1	3.6	5.3	3.2	2.9	3.2	3.6	3.4	3.1	3.2	3.2
Savings Rate (%)	9.6	25.7	15.8	12.4	12.9	11.2	9.2	8.2	8.0	7.9	7.7	7.5	7.4	7.4	7.4	7.4
<b>Housing and Automobiles (Millions of Units, SAAR)</b>																
Housing Starts	1.484	1.079	1.430	1.535	1.526	1.515	1.513	1.493	1.489	1.480	1.464	1.455	1.458	1.455	1.441	1.431
Auto & Light Truck Sales	15.0	11.3	15.3	15.4	15.6	15.7	15.8	16.0	16.2	16.2	16.2	16.3	16.4	16.2	16.1	15.9
<b>International Trade (Annualized % Ch.)</b>																
Nominal																
U.S. Dollar																
Industrial Countries	3.4	4.0	-17.1	-8.6	-4.9	-1.4	-6.1	-5.0	-1.6	-0.8	-0.2	-2.9	-0.1	0.1	-0.4	-0.1
Developing Countries	6.0	28.0	-10.8	-5.7	-6.1	-0.1	-5.7	-5.6	-5.2	-1.2	-0.5	-0.4	-0.8	-1.3	0.1	0.4
Exports	-11.7	-71.1	80.2	11.9	8.4	8.4	12.3	17.1	13.3	9.6	8.6	9.7	8.8	7.8	7.2	7.2
Imports	-16.2	-59.9	108.3	10.8	5.1	7.1	12.1	14.9	6.3	2.7	7.1	8.1	6.4	4.4	4.2	4.3
Net Exports (bil. \$)	-494	-545	-731	-745	-738	-744	-764	-780	-753	-717	-721	-726	-722	-708	-695	-683
Real																
U.S. Dollar																
Industrial Countries	6.1	7.4	-17.5	-9.9	-6.4	-3.3	-5.4	-5.2	-2.5	-2.1	-1.3	-3.6	-0.1	0.6	0.3	0.5
Developing Countries	6.2	29.5	-9.9	-9.0	-4.6	0.8	-5.4	-5.9	-5.8	-2.1	-1.2	-1.2	-1.8	-2.3	-1.0	-0.9
Exports	-9.5	-64.4	59.7	6.7	6.2	7.2	10.5	14.6	11.3	8.0	7.1	8.1	7.3	6.3	5.7	5.8
Imports	-15.0	-54.1	91.1	7.3	4.4	6.6	8.2	9.9	7.1	4.3	5.0	6.1	5.6	4.1	3.8	3.8
Net Exports (bil. i12\$)	-788	-775	-1011	-1032	-1034	-1047	-1056	-1055	-1050	-1039	-1039	-1042	-1045	-1042	-1039	-1036

**Table 5A: Gross Domestic Product**

Product	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Billions of Current Dollars</b>												
Gross Domestic Product	16197	16785	17527	18238	18745	19543	20612	21433	20891	22053	23272	24488
Personal Consumption Expenditures	11007	11317	11823	12297	12770	13340	13993	14545	14124	14943	15805	16638
Durable Goods	1144	1189	1242	1308	1350	1411	1482	1534	1615	1688	1703	1740
Autos and Parts	397	418	442	475	486	504	523	522	535	577	587	598
Nondurable Goods	2494	2541	2621	2615	2648	2762	2890	2978	3032	3111	3239	3362
Services	7369	7587	7960	8374	8772	9168	9621	10032	9477	10143	10863	11536
Gross Private Domestic Investment	2622	2826	3044	3237	3188	3351	3633	3751	3566	3918	4165	4384
Residential	432	510	560	634	699	760	798	807	876	987	1000	1020
Nonres. Structures	479	493	578	584	560	599	631	650	586	563	615	672
Equipment	983	1027	1092	1119	1089	1122	1213	1241	1170	1254	1326	1378
Intellectual Property	656	692	730	763	812	853	932	1004	1012	1031	1116	1205
Change in Inv.	71	105	84	137	28	16	58	49	-78	82	107	108
Net Exports	-569	-491	-508	-527	-513	-556	-609	-610	-629	-756	-729	-702
Exports	2191	2273	2372	2266	2227	2375	2529	2515	2107	2263	2535	2750
Imports	2760	2764	2879	2792	2740	2930	3138	3125	2736	3020	3264	3453
Government Purchases	3137	3132	3168	3230	3299	3407	3595	3748	3829	3948	4033	4168
Federal	1287	1227	1215	1221	1235	1264	1339	1419	1482	1522	1537	1541
Defense	814	764	743	730	729	747	794	852	882	914	935	932
Other	472	462	472	491	506	517	545	567	599	608	602	608
State and Local	1850	1906	1953	2009	2065	2143	2256	2329	2348	2427	2495	2627
<b>Billions of 2012 Dollars</b>												
Gross Domestic Product	16197	16495	16912	17432	17731	18144	18688	19092	18384	19040	19683	20290
Personal Consumption Expenditures	11007	11167	11497	11934	12265	12587	12928	13240	12704	13205	13703	14154
Durable Goods	1144	1214	1302	1401	1482	1585	1693	1775	1883	1976	2017	2098
Autos & Parts	397	415	439	473	489	513	535	532	534	556	557	564
Nondurable Goods	2494	2538	2605	2694	2762	2834	2910	3001	3072	3126	3176	3247
Services	7369	7415	7595	7849	8036	8195	8367	8521	7887	8238	8626	8928
Gross Private Domestic Investment	2622	2801	2959	3122	3075	3183	3385	3443	3227	3489	3639	3776
Residential	432	485	504	555	592	616	612	602	632	686	674	668
Nonres. Structures	479	485	539	534	510	532	551	548	488	459	485	516
Equipment	983	1029	1101	1135	1115	1150	1242	1268	1196	1275	1332	1378
Intellectual Property	656	691	725	752	810	844	910	968	968	977	1049	1125
Change in Inv.	71	109	86	138	25	16	53	49	-83	82	103	103
Net Exports	-569	-533	-577	-720	-764	-817	-878	-918	-901	-1048	-1042	-1040
Exports	2191	2270	2365	2375	2382	2476	2550	2547	2198	2314	2549	2727
Imports	2760	2802	2942	3095	3146	3292	3427	3464	3099	3362	3592	3767
Government Purchases	3137	3061	3033	3088	3144	3172	3230	3304	3338	3354	3345	3365
Federal	1287	1215	1184	1184	1191	1194	1228	1277	1331	1331	1326	1300
Defense	814	760	728	713	710	715	739	780	805	818	818	798
Other	472	456	455	470	480	478	488	497	525	514	508	502
State and Local	1850	1845	1849	1903	1952	1976	2000	2026	2008	2023	2020	2063



FORECAST TABLES - DETAILED

**Table 5B: Gross Domestic Product**

Product	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Annual Rates of Change of Current Dollar GDP Components (%)</b>												
Gross Domestic Product	4.2	3.6	4.4	4.1	2.8	4.3	5.5	4.0	-2.5	5.6	5.5	5.2
Personal Consumption												
Expenditures	3.4	2.8	4.5	4.0	3.8	4.5	4.9	3.9	-2.9	5.8	5.8	5.3
Durable Goods	4.6	3.9	4.4	5.3	3.3	4.5	5.0	3.6	5.3	4.5	0.8	2.2
Autos and Parts	8.6	5.3	5.9	7.5	2.1	3.7	3.9	-0.3	2.6	7.9	1.6	1.9
Nondurable Goods	2.8	1.9	3.2	-0.2	1.3	4.3	4.7	3.0	1.8	2.6	4.1	3.8
Services	3.5	3.0	4.9	5.2	4.7	4.5	4.9	4.3	-5.5	7.0	7.1	6.2
Gross Private Domestic												
Investment	12.4	7.8	7.7	6.3	-1.5	5.1	8.4	3.3	-4.9	9.9	6.3	5.3
Residential	14.0	18.0	9.8	13.2	10.4	8.7	5.0	1.1	8.5	12.7	1.3	2.0
Nonres. Structures	18.5	2.7	17.3	1.2	-4.1	6.9	5.4	3.0	-9.8	-4.0	9.2	9.2
Equipment	11.6	4.4	6.3	2.5	-2.8	3.1	8.1	2.3	-5.7	7.2	5.8	3.9
Intellectual Property	5.5	5.5	5.6	4.4	6.4	5.1	9.2	7.7	0.9	1.9	8.2	8.0
Exports	4.2	3.7	4.3	-4.5	-1.7	6.6	6.5	-0.6	-16.2	7.4	12.0	8.5
Imports	2.9	0.2	4.2	-3.0	-1.9	6.9	7.1	-0.4	-12.4	10.3	8.1	5.8
Government Purchases	-0.4	-0.1	1.1	2.0	2.1	3.3	5.5	4.2	2.2	3.1	2.1	3.4
Federal	-1.0	-4.7	-0.9	0.5	1.1	2.4	6.0	6.0	4.4	2.7	1.0	0.2
Defense	-2.4	-6.1	-2.7	-1.8	-0.1	2.5	6.3	7.3	3.5	3.5	2.4	-0.3
Other	1.6	-2.1	2.0	4.1	3.1	2.1	5.5	4.0	5.7	1.5	-1.0	1.1
State and Local	0.1	3.0	2.5	2.9	2.7	3.8	5.3	3.2	0.8	3.4	2.8	5.3
<b>Annual Rates of Change of Constant Dollar GDP Components (%)</b>												
Gross Domestic Product	2.2	1.8	2.5	3.1	1.7	2.3	3.0	2.2	-3.7	3.6	3.4	3.1
Personal Consumption												
Expenditures	1.5	1.5	3.0	3.8	2.8	2.6	2.7	2.4	-4.1	3.9	3.8	3.3
Durable Goods	6.0	6.1	7.2	7.6	5.8	6.9	6.8	4.8	6.1	4.9	2.1	4.0
Autos & Parts	7.2	4.7	5.8	7.6	3.3	5.0	4.3	-0.5	0.2	4.2	0.1	1.3
Nondurable Goods	0.4	1.8	2.6	3.4	2.5	2.6	2.7	3.1	2.4	1.8	1.6	2.2
Services	1.2	0.6	2.4	3.3	2.4	2.0	2.1	1.8	-7.4	4.5	4.7	3.5
Gross Private Domestic												
Investment	11.0	6.9	5.6	5.5	-1.5	3.5	6.3	1.7	-6.3	8.1	4.3	3.8
Residential	13.0	12.4	3.8	10.2	6.6	4.0	-0.6	-1.7	5.1	8.6	-1.8	-0.8
Nonres. Structures	13.0	1.3	11.0	-0.9	-4.4	4.2	3.7	-0.6	-10.9	-6.0	5.8	6.3
Equipment	11.0	4.7	7.0	3.0	-1.7	3.2	8.0	2.1	-5.7	6.6	4.5	3.4
Intellectual Property	5.0	5.4	4.8	3.8	7.6	4.2	7.8	6.4	0.0	0.9	7.4	7.3
Exports	3.4	3.6	4.2	0.4	0.3	3.9	3.0	-0.1	-13.7	5.3	10.2	7.0
Imports	2.7	1.5	5.0	5.2	1.7	4.7	4.1	1.1	-10.5	8.5	6.8	4.9
Government Purchases	-2.1	-2.4	-0.9	1.8	1.8	0.9	1.8	2.3	1.0	0.5	-0.3	0.6
Federal	-1.9	-5.5	-2.6	-0.0	0.6	0.3	2.8	4.0	4.2	0.1	-0.4	-1.9
Defense	-3.4	-6.7	-4.1	-2.1	-0.5	0.8	3.3	5.6	3.2	1.6	0.1	-2.4
Other	0.9	-3.5	-0.1	3.3	2.2	-0.5	2.1	1.8	5.7	-2.2	-1.2	-1.1
State and Local	-2.2	-0.3	0.2	2.9	2.6	1.2	1.2	1.3	-0.9	0.8	-0.2	2.1

**Table 6: Employment**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Employment (Millions)</b>												
Total	142.5	143.9	146.3	148.8	151.4	153.3	155.8	157.5	148.0	153.9	158.0	160.5
Nonagricultural	134.2	136.4	138.9	141.8	144.3	146.6	148.9	150.9	142.4	147.2	151.9	155.1
Natural Res. & Mining	0.8	0.9	0.9	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Construction	5.6	5.9	6.2	6.5	6.7	7.0	7.3	7.5	7.3	7.3	7.5	7.6
Manufacturing	11.9	12.0	12.2	12.3	12.4	12.4	12.7	12.8	12.3	12.2	12.5	12.7
Trans. Warehous. Util	5.0	5.0	5.2	5.4	5.6	5.7	6.0	6.2	5.9	6.0	6.3	6.5
Trade	20.4	20.7	21.1	21.4	21.6	21.7	21.6	21.5	20.7	21.6	21.5	20.7
Financial Activities	7.8	7.9	8.0	8.1	8.3	8.4	8.6	8.7	8.7	8.8	9.3	9.5
Information	2.7	2.7	2.7	2.8	2.8	2.8	2.8	2.9	2.7	2.8	2.9	2.9
Professional & Bus.	18.0	18.6	19.1	19.7	20.1	20.5	21.0	21.3	20.4	21.4	23.2	24.2
Education & Health	20.8	21.1	21.4	22.0	22.6	23.2	23.6	24.2	23.2	24.1	24.4	24.9
Leisure & Hospitality	13.8	14.3	14.7	15.2	15.7	16.1	16.3	16.6	13.3	14.6	15.2	16.2
Other Services	5.4	5.5	5.6	5.6	5.7	5.8	5.8	5.9	5.4	5.7	6.1	6.3
Government	21.9	21.8	21.9	22.0	22.2	22.3	22.4	22.6	21.9	21.9	22.5	23.1
Federal	2.8	2.8	2.7	2.8	2.8	2.8	2.8	2.8	2.9	2.9	2.9	2.9
State & Local	19.1	19.1	19.1	19.3	19.4	19.5	19.6	19.8	18.9	19.0	19.6	20.2
<b>Population and Labor Force (Millions)</b>												
Population aged 16+	249.2	251.4	253.7	255.9	258.3	260.4	262.2	264.0	265.9	268.1	270.3	272.6
Labor Force	155.0	155.4	155.9	157.1	159.2	160.3	162.1	163.5	161.0	163.6	165.8	167.3
Unemployment (%)	8.1	7.4	6.2	5.3	4.9	4.4	3.9	3.7	8.1	6.0	4.7	4.1

**Table 7: Personal Income and Its Disposition**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Billions of Current Dollars</b>												
Personal Income	14010	14181	14992	15724	16161	16949	17852	18552	19625	19583	20176	21210
Wages & Salaries	6927	7113	7475	7859	8089	8471	8894	9309	9289	9786	10278	10832
Other Labor Income	1126	1195	1227	1271	1294	1346	1431	1474	1453	1494	1550	1610
Nonfarm Income	1286	1315	1378	1367	1389	1467	1543	1608	1612	1558	1651	1777
Farm Income	61	88	70	56	36	42	43	50	54	41	47	61
Rental Income	518	557	605	649	683	722	759	787	805	841	898	963
Dividends	835	793	953	1033	1077	1161	1305	1290	1261	1236	1317	1415
Interest Income	1331	1273	1349	1439	1474	1578	1642	1677	1640	1597	1589	1590
Transfer Payments	2363	2424	2542	2685	2777	2855	2970	3125	4283	3833	3684	3843
Contributions for Soc. Ins.	-437	-578	-607	-635	-658	-693	-735	-770	-771	-802	-839	-882
Pers. Tax & Nontax Payments	1510	1676	1785	1940	1958	2047	2085	2203	2188	2300	2423	2593
% of Pers. Income	10.8	11.8	11.9	12.3	12.1	12.1	11.7	11.9	11.1	11.7	12.0	12.2
Disposable Income	12501	12505	13207	13784	14203	14902	15767	16349	17437	17283	17753	18617
Consumption	11007	11317	11823	12297	12770	13340	13993	14545	14124	14943	15805	16638
Interest Payments	232	230	244	265	273	297	333	362	306	339	348	370
Transfers To Gov. & Foreigners	155	158	170	183	185	193	203	210	203	206	217	226
Personal Saving	1107	800	971	1039	975	1071	1237	1231	2804	1795	1383	1383
Personal Saving Rate (%)	8.9	6.4	7.4	7.6	6.9	7.2	7.9	7.6	15.9	10.4	7.8	7.4

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**Table 8: Personal Consumption Expenditures By Major Types**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Billions of Current Dollars</b>												
Personal Consumption	11007	11317	11823	12297	12770	13340	13993	14545	14124	14943	15805	16638
Durable Goods	1144	1189	1242	1308	1350	1411	1482	1534	1615	1688	1703	1740
Autos and Parts	397	418	442	475	486	504	523	522	535	577	587	598
Nondurable Goods	2494	2541	2621	2615	2648	2762	2890	2978	3032	3111	3239	3362
Services	7369	7587	7960	8374	8772	9168	9621	10032	9477	10143	10863	11536
<b>Billions of 2012 Dollars</b>												
Personal Consumption	11007	11168	11502	11943	12279	12614	12970	13297	12842	13340	13820	14273
Durable Goods	1144	1214	1302	1401	1482	1585	1693	1775	1883	1976	2017	2098
Autos and Parts	397	415	439	473	489	513	535	532	534	556	557	564
Nondurable Goods	2494	2538	2605	2694	2762	2834	2910	3001	3072	3126	3176	3247
Services	7369	7415	7595	7849	8036	8195	8367	8521	7887	8238	8626	8928
<b>Annual Rates of Real Growth</b>												
Personal Consumption	1.5	1.5	3.0	3.8	2.8	2.7	2.8	2.5	-3.4	3.9	3.6	3.3
Durable Goods	6.0	6.1	7.2	7.6	5.8	6.9	6.8	4.8	6.1	4.9	2.1	4.0
Autos and Parts	7.2	4.7	5.8	7.6	3.3	5.0	4.3	-0.5	0.2	4.2	0.1	1.3
Furniture	2.9	5.8	8.5	9.2	8.0	8.0	6.9	3.4	6.2	-0.6	1.2	6.4
Other Durables	4.1	4.9	8.2	7.8	2.0	3.4	5.7	5.1	-1.6	15.6	2.8	2.1
Nondurable Goods	0.4	1.8	2.6	3.4	2.5	2.6	2.7	3.1	2.4	1.8	1.6	2.2
Food and Beverages	0.9	1.1	1.9	1.5	3.1	3.4	2.4	1.7	6.9	-1.4	-0.5	0.8
Gasoline and Oil	-0.6	1.6	-0.3	4.6	0.7	-0.4	-0.3	-0.3	-12.7	8.5	3.2	1.7
Fuel	-11.9	5.9	4.9	5.3	-2.9	-3.4	-4.0	-2.9	11.1	6.4	0.8	-0.1
Clothing and Shoes	0.2	0.5	2.6	3.5	2.3	1.6	3.7	3.7	-8.7	9.7	5.4	4.1
Other Nondurables	1.0	3.0	4.6	4.6	2.7	3.2	3.6	5.3	5.9	1.3	2.1	3.0
Services	1.2	0.6	2.4	3.3	2.4	2.0	2.1	1.8	-7.4	4.5	4.7	3.5
Housing	0.6	0.2	1.9	3.1	1.9	1.0	0.8	1.3	1.2	1.3	1.5	1.3
Transportation Serv.	1.9	4.5	5.0	3.7	4.3	3.7	3.8	1.6	-22.3	10.6	9.3	9.5
Health Care	1.8	0.6	3.3	5.4	4.0	2.3	2.4	2.7	-8.5	7.9	3.4	2.4
Recreational Service	2.5	2.0	2.5	3.7	2.9	1.1	2.2	1.3	-31.0	17.5	23.4	3.3
Food Svcs. Accom.	2.4	1.7	3.4	4.3	2.2	2.5	2.8	1.2	-21.4	12.7	14.2	7.7
Financial Services	-1.4	-0.6	0.3	2.4	-2.0	2.1	0.3	2.1	0.7	-2.4	-0.3	3.2
Other Services	0.5	-1.4	2.4	2.7	2.9	3.3	2.9	3.4	-13.2	5.3	6.4	6.1

**Table 9: Residential Construction and Housing Starts**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Housing Starts (Millions of Units)</b>												
Housing Starts	0.784	0.928	1.000	1.107	1.177	1.207	1.248	1.295	1.382	1.512	1.472	1.446
Single-family	0.537	0.619	0.646	0.712	0.785	0.851	0.872	0.893	0.993	1.169	1.099	1.060
Multi-family	0.247	0.309	0.354	0.394	0.392	0.356	0.376	0.403	0.389	0.343	0.373	0.386
<b>Residential Construction Expenditures (Billions of Dollars)</b>												
Current Dollars	432.0	510.0	560.2	633.8	699.5	760.3	798.5	807.1	875.7	987.2	1000.4	1020.2
2012 Dollars	432.0	485.5	504.1	555.4	592.1	615.7	612.0	601.5	632.1	686.2	673.7	668.4
% Change	13.0	12.4	3.8	10.2	6.6	4.0	-0.6	-1.7	5.1	8.6	-1.8	-0.8
<b>Related Concepts</b>												
Treas. Bill Rate	0.1	0.1	0.0	0.1	0.3	0.9	1.9	2.1	0.4	0.1	0.1	0.1
Mortgage Rate Conv. 30-Yr.	3.7	4.0	4.2	3.9	3.6	4.0	4.5	3.9	3.1	3.1	3.2	3.3
New Home Price (\$1000)	242.1	265.1	283.2	293.7	306.5	321.6	323.1	319.3	339.0	359.4	369.4	383.7
% Change	7.9	9.5	6.8	3.7	4.3	4.9	0.5	-1.2	6.2	6.0	2.8	3.9
Real Disp. Income	12500.6	12504.7	13207.1	13784.3	14202.8	14901.9	15766.5	16348.6	17437.0	17283.3	17752.9	18617.1
% Change	3.3	-1.3	4.1	4.2	2.0	3.1	3.6	2.2	5.4	-2.6	0.8	2.9

**Table 10: Nonresidential Fixed Investment and Inventories**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Billions of Current Dollars</b>												
Nonres. Fixed Investment	2119	2211	2400	2467	2460	2574	2777	2895	2769	2848	3057	3255
Equipment	983	1027	1092	1119	1089	1122	1213	1241	1170	1254	1326	1378
Intellectual Property	656	692	730	763	812	853	932	1004	1012	1031	1116	1205
Nonresidential Structures	479	493	578	584	560	599	631	650	586	563	615	672
Buildings	192	204	235	285	321	329	347	359	336	301	348	407
Commercial	76	84	103	119	145	154	164	167	162	137	161	189
Industrial	47	50	58	80	76	68	70	77	70	69	84	96
Other Buildings	69	70	74	86	99	107	113	115	104	95	104	121
Utilities	112	109	126	133	135	132	132	141	151	163	149	138
Mining Exploration	153	156	188	137	76	108	125	121	71	68	84	92
Other	23	24	28	29	29	30	28	30	29	30	34	36
<b>Billions of 2012 Dollars</b>												
Nonres. Fixed Investment	2119	2206	2365	2420	2433	2524	2699	2777	2641	2690	2846	3000
Equipment	983	1029	1101	1135	1115	1150	1242	1268	1196	1275	1332	1378
Intellectual Property	656	691	725	752	810	844	910	968	968	977	1049	1125
Nonresidential Structures	479	485	539	534	510	532	551	548	488	459	485	516
Buildings	192	199	222	264	291	290	292	288	263	237	268	299
Commercial	76	82	98	111	134	139	142	138	131	114	132	148
Industrial	47	49	55	74	70	61	60	63	55	51	60	67
Other Buildings	69	68	69	79	87	90	91	88	77	72	76	85
Utilities	112	108	123	128	129	124	119	121	128	132	116	108
Mining Exploration	153	155	168	120	69	96	121	118	72	64	76	82
Other	23	23	26	26	25	25	23	23	22	22	23	23
<b>Percent Change in Real Nonresidential Fixed Investment</b>												
Nonres. Fixed Investment	9.5	4.1	7.2	2.3	0.5	3.7	6.9	2.9	-4.9	1.9	5.8	5.4
Equipment	11.0	4.7	7.0	3.0	-1.7	3.2	8.0	2.1	-5.7	6.6	4.5	3.4
Intellectual Property	5.0	5.4	4.8	3.8	7.6	4.2	7.8	6.4	0.0	0.9	7.4	7.3
Nonresidential Structures	13.0	1.3	11.0	-0.9	-4.4	4.2	3.7	-0.6	-10.9	-6.0	5.8	6.3
Buildings	9.6	3.9	11.4	18.8	10.5	-0.6	1.0	-1.5	-8.8	-9.7	12.9	11.7
Commercial	9.6	9.1	19.0	12.8	20.7	3.6	2.2	-2.6	-5.2	-12.9	15.8	12.2
Industrial	15.2	4.2	12.9	34.4	-4.9	-13.4	-1.8	4.6	-11.9	-6.8	16.4	11.2
Other Buildings	6.1	-1.9	1.2	14.8	10.6	2.9	1.0	-3.7	-11.9	-6.6	6.0	11.1
Utilities	19.8	-4.1	14.4	4.1	0.7	-4.3	-3.8	2.1	5.8	2.7	-11.8	-6.7
Mining Exploration	11.9	1.6	8.0	-28.6	-42.1	38.8	25.2	-2.1	-39.1	-10.8	17.9	8.9
Other	17.7	3.3	12.5	-1.2	-4.3	1.5	-10.1	3.3	-6.8	0.6	4.0	1.4
<b>Related Concepts</b>												
Annual Growth-Price Deflator:												
Producers Dur. Equip.	0.6	-0.2	-0.6	-0.5	-1.1	-0.1	0.1	0.2	-0.0	0.5	1.2	0.5
Structures	4.9	1.5	5.7	2.1	0.3	2.6	1.7	3.6	1.2	2.1	3.3	2.7
Moody's AAA Corp. Rate (%)	3.7	4.2	4.2	3.9	3.7	3.7	3.9	3.4	2.5	2.1	2.1	2.3
Cap. Util. in Manufacturing (%)	74.5	74.4	75.2	75.3	74.2	75.1	76.6	75.6	69.5	71.5	73.3	74.5
Final Sales (bil. \$12\$)	16126	16387	16826	17295	17706	18128	18634	19043	18467	18958	19580	20187
<b>Change in Business Inventories (Billions \$)</b>												
Current Dollars	71.2	104.5	84.0	136.8	28.4	16.3	57.7	49.1	-78.0	82.4	107.1	108.4
2012 Dollars	71.2	108.7	86.3	137.6	24.5	15.8	53.4	48.5	-82.6	81.5	103.0	102.7

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**Table 11: Federal Government Receipts and Expenditures**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Billions of Current Dollars</b>												
<b>Unified Budget Basis (FY)</b>												
Receipts	2509	2825	3093	3275	3242	3344	3330	3497	3424	3613	3792	4034
Outlays	3570	3384	3581	3750	3824	4025	4203	4520	6746	5295	4912	4948
Surplus or Deficit ( - )	-1061	-560	-487	-475	-582	-681	-873	-1022	-3321	-1682	-1120	-914
<b>National Income &amp; Products Accounts Basis, Calendar Year</b>												
Current Receipts	2700	3139	3292	3448	3463	3524	3568	3711	3655	3854	4049	4296
Current Tax Receipts	1573	1745	1900	2024	2020	2015	2017	2132	2065	2170	2292	2456
Pers. Current Taxes	1166	1303	1404	1533	1548	1615	1618	1713	1686	1774	1865	2000
Corp. Income Taxes	275	298	340	329	312	245	211	217	200	199	222	242
Prod. & Import Taxes	115	125	136	140	136	131	163	174	151	167	175	182
From Rest of the World	17	18	20	22	24	25	26	28	28	30	31	32
Contributions for Soc. Ins.	938	1092	1140	1191	1225	1284	1345	1402	1414	1474	1542	1621
Income Receipts on Assets	141	243	172	160	140	139	123	111	119	151	154	156
Current Transfer Receipts	56	69	87	76	80	85	84	68	57	59	61	64
Surplus of Govt. Enterprises	-8	-10	-7	-3	-1	1	-1	-2	-0	0	0	0
Current Expenditures	3773	3771	3889	4008	4132	4247	4499	4758	6731	5563	5210	5291
Consumption Expenditures	999	957	951	954	967	985	1044	1097	1140	1166	1178	1186
Defense	650	611	599	587	590	602	636	677	695	720	738	739
Nondefense	349	346	353	367	377	383	407	421	445	447	440	447
Transfer Payments	2294	2338	2441	2568	2651	2726	2853	3006	4373	3796	3536	3648
Gov't Social Benefits	1782	1822	1881	1970	2025	2099	2196	2323	3418	2924	2744	2856
To Rest of the World	18	19	20	20	21	22	23	24	28	27	28	30
Grants-in-Aid	494	498	541	578	605	606	634	658	927	845	763	763
To S&L Gov't	444	450	495	533	557	560	583	608	877	802	720	719
To Rest of the World	49	48	46	45	48	46	51	50	49	43	44	44
Interest Payments	423	416	439	429	454	476	541	582	552	474	426	394
Subsidies	58	59	58	57	61	59	63	73	665	127	70	62
Surplus or Deficit ( - )	-1073	-632	-597	-560	-669	-722	-932	-1047	-3076	-1709	-1161	-994

**Table 12: State and Local Government Receipts and Expenditures**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Billions of Current Dollars</b>												
Current Receipts	2056	2146	2258	2373	2432	2515	2643	2743	3011	3029	3080	3194
Tax Receipts	1415	1491	1542	1598	1639	1719	1810	1877	1883	1970	2085	2185
As % of GDP	8.7	8.9	8.8	8.8	8.7	8.8	8.8	8.8	9.0	8.9	9.0	8.9
Pers. Current Taxes	343	374	381	407	410	432	468	490	502	526	558	593
Corp. Income Taxes	51	54	57	56	53	54	60	70	64	70	82	83
Prod. & Import Taxes	1021	1063	1105	1135	1175	1233	1282	1318	1316	1374	1445	1509
Contributions For Social Ins.	17	18	19	19	20	20	21	22	20	20	21	22
Income on Assets	82	82	84	82	85	91	95	97	98	102	107	111
Transfer Receipts	550	561	616	675	690	691	723	753	1024	951	875	881
Federal Grants-in-Aid	444	450	495	533	557	560	583	608	877	802	720	719
From Persons	65	66	70	76	77	80	84	88	90	92	96	100
From Business	40	45	46	66	56	51	54	56	56	57	59	62
From Rest of the World	0	0	5	1	0	0	1	1	0	0	0	0
Surplus of S&L Gov't Enterprises	-8	-6	-4	-2	-3	-6	-5	-6	-14	-15	-8	-5
Expenditures	2339	2411	2495	2589	2671	2754	2857	2951	2999	3118	3218	3388
As % of GDP	14.4	14.4	14.2	14.2	14.2	14.1	13.9	13.8	14.4	14.1	13.8	13.8
Purchases	1517	1575	1614	1653	1694	1758	1848	1898	1896	1972	2033	2148
Transfer Payments	541	564	618	665	693	707	727	755	818	862	890	934
Interest Payments	281	271	263	270	283	288	281	298	285	283	294	306
Subsidies	0	0	0	1	1	1	1	1	1	1	1	1
Surplus or Deficit ( - )	-283	-265	-238	-216	-239	-239	-214	-208	11	-89	-138	-194

**Table 13: U.S. Exports and Imports of Goods and Services**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Billions of Current Dollars</b>												
Net Exports -- Goods & Serv.	-569	-491	-508	-527	-513	-556	-609	-610	-629	-756	-729	-702
Current Account Balance	-418	-337	-368	-407	-395	-365	-450	-480	-683	-763	-691	-623
Merchandise Balance	-780	-737	-777	-793	-777	-835	-902	-889	-875	-974	-985	-985
Exports -- Goods & Serv.	2191	2273	2372	2266	2227	2375	2529	2515	2107	2263	2535	2750
Merchandise	1522	1559	1615	1495	1444	1542	1664	1637	1399	1535	1703	1833
Food, Feeds & Beverages	133	136	144	128	131	133	133	131	136	131	137	147
Industrial Supplies	483	492	501	418	388	459	537	527	442	465	541	596
Motor Vehicles & Parts	146	153	160	152	150	158	159	162	128	159	183	189
Capital Goods Ex. MVP	527	535	552	540	520	534	563	548	470	559	607	643
Computer Equipment	49	48	49	47	45	46	50	47	41	48	46	46
Aircraft	94	105	113	119	121	121	131	126	71	99	134	152
Other	384	382	390	373	354	367	383	375	357	412	426	445
Consumer Goods Ex. MVP	181	188	198	197	193	197	206	205	168	167	174	189
Other	51	55	61	60	62	61	66	63	56	54	61	69
Services	670	714	757	771	783	833	865	878	708	728	832	917
Imports -- Goods and Serv.	2760	2764	2879	2792	2740	2930	3138	3125	2736	3020	3264	3453
Merchandise	2301	2296	2392	2288	2221	2377	2566	2526	2274	2509	2688	2818
Food, Feeds & Beverages	111	116	127	129	131	139	148	152	153	164	170	173
Petroleum & Products	434	388	354	197	160	197	239	207	125	160	220	238
Indus. Supplies Ex. Petr	289	291	316	291	278	306	336	312	283	274	279	232
Motor Vehicles & Parts	298	310	329	350	351	359	372	377	316	440	433	421
Capital Goods Ex. MVP	552	559	599	607	594	643	695	681	638	682	701	709
Computer Equipment	122	121	122	120	115	128	142	131	141	145	142	136
Aircraft	40	47	53	55	50	51	55	63	47	54	63	70
Other	389	391	423	432	429	463	497	487	449	483	496	503
Consumer Goods. Ex. MVP	519	533	559	596	585	603	648	656	627	640	732	886
Other	98	100	108	118	123	129	127	141	131	148	153	160
Services	458	468	488	504	519	553	573	600	462	511	577	634
<b>Billions of 2012 Dollars</b>												
Net Exports -- Goods & Serv.	-569	-533	-577	-720	-764	-817	-878	-918	-901	-1048	-1042	-1040
Exports -- Goods & Serv.	2191	2270	2365	2375	2382	2476	2550	2547	2198	2314	2549	2727
Imports -- Goods & Serv.	2760	2802	2942	3095	3146	3292	3427	3464	3099	3362	3592	3767
<b>Exports and Imports -- % Change</b>												
Current Dollars												
Exports	4.2	3.7	4.3	-4.5	-1.7	6.6	6.5	-0.6	-16.2	7.4	12.0	8.5
Imports	2.9	0.2	4.2	-3.0	-1.9	6.9	7.1	-0.4	-12.4	10.3	8.1	5.8
Constant Dollars												
Exports	3.4	3.6	4.2	0.4	0.3	3.9	3.0	-0.1	-13.7	5.3	10.2	7.0
Imports	2.7	1.5	5.0	5.2	1.7	4.7	4.1	1.1	-10.5	8.5	6.8	4.9
<b>Production Indicators -- % Change</b>												
U.S. Industrial Production	3.0	2.0	3.1	-1.0	-2.0	2.3	3.9	0.9	-7.5	1.9	3.8	3.4
Real GDP-Industrial Countries	1.2	1.6	2.2	1.6	1.4	2.8	1.8	1.4	-6.7	3.8	3.2	2.0
Real GDP-Developing Countries	4.2	3.8	3.7	3.4	2.9	3.6	3.2	1.6	-5.6	5.0	3.3	3.0
<b>Price Indicators</b>												
Price Deflators (% Ch.)												
Exports	0.8	0.2	0.1	-4.9	-2.0	2.6	3.4	-0.4	-3.1	2.2	1.7	1.4
Imports	0.2	-1.4	-0.8	-8.0	-3.5	2.2	2.9	-1.5	-2.2	2.0	1.2	0.8
Crude Oil Prices (\$/barrel)	94.2	97.9	93.3	48.7	43.2	51.0	64.9	57.0	38.6	43.9	52.6	56.2
Real U.S. Dollar												
Ex. Rate-Indust. Countries	1.00	1.05	1.10	1.31	1.34	1.35	1.34	1.43	1.44	1.34	1.30	1.29
% Change	7.6	5.1	5.1	18.6	2.6	0.1	-0.2	6.7	0.7	-7.0	-3.3	-0.8
Ex. Rate-Dev. Countries	1.00	1.02	1.07	1.21	1.32	1.34	1.37	1.46	1.56	1.50	1.44	1.42
% Change	6.6	1.6	5.0	13.5	9.5	0.9	2.7	6.5	6.6	-3.5	-3.8	-1.6

FORECAST TABLES - DETAILED

**Table 14: Price Indices for GDP and Other Inflation Indicators (Percent Change)**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Implicit Price Deflators</b>												
GDP	1.9	1.8	1.8	1.0	1.0	1.9	2.4	1.8	1.2	1.9	2.1	2.1
Consumption	1.9	1.3	1.5	0.2	1.0	1.8	2.1	1.5	1.2	1.8	1.9	1.9
Durables	-1.3	-2.0	-2.6	-2.2	-2.4	-2.3	-1.7	-1.2	-0.8	-0.3	-1.2	-1.7
Motor Vehicles	1.4	0.5	0.0	-0.1	-1.2	-1.2	-0.4	0.2	2.2	3.7	1.5	0.6
Furniture	0.0	-1.9	-3.4	-2.4	-2.6	-2.8	-1.1	0.7	0.4	-2.2	-2.6	-2.0
Other Durables	-0.8	-2.1	-4.0	-3.6	-0.8	-1.3	-1.8	-2.3	-2.5	-2.3	-0.7	-1.4
Nondurables	2.4	0.1	0.5	-3.5	-1.3	1.6	1.9	-0.1	-0.5	0.9	2.5	1.5
Food	2.4	1.0	1.9	1.1	-1.0	-0.1	0.5	1.0	3.4	1.3	1.9	1.5
Clothing & Shoes	3.6	1.0	0.3	-1.2	-0.3	-0.6	0.1	-1.4	-5.2	-1.9	-0.1	-0.0
Gasoline	3.4	-2.7	-3.6	-26.7	-11.5	13.0	13.7	-3.5	-16.2	2.3	12.0	4.0
Fuel	1.4	-1.2	-0.5	-28.8	-17.1	15.3	20.9	-4.5	-22.6	0.5	10.6	4.8
Motor Vehicle Fuel	3.5	-2.8	-3.8	-26.5	-11.2	12.8	13.2	-3.4	-15.8	2.4	12.1	3.9
Services	2.2	2.3	2.4	1.8	2.3	2.5	2.8	2.4	2.1	2.5	2.3	2.6
Housing	2.3	2.3	2.7	3.1	3.3	3.4	3.4	3.4	2.9	2.6	2.8	2.8
Utilities	-0.2	3.2	4.2	-0.5	0.0	3.3	1.4	0.8	1.1	2.0	1.5	3.2
Electricity	-0.0	2.1	3.6	0.6	-1.1	2.2	0.7	0.2	0.2	1.4	1.3	2.2
Natural Gas	-9.7	4.8	7.1	-11.9	-2.4	8.0	0.1	-1.5	-0.1	2.1	-2.0	4.3
Water & Sanit.	5.3	4.4	3.6	4.3	3.6	3.3	3.5	3.2	3.1	3.0	3.3	4.4
Health Care	1.8	1.4	1.1	0.6	1.2	1.5	1.9	1.8	2.5	2.0	1.7	2.2
Transportation	2.0	1.0	1.3	0.4	0.8	1.2	2.1	2.0	-1.5	1.8	3.7	2.5
Recreation	2.8	1.7	1.8	1.6	2.4	2.8	2.1	2.0	2.5	2.8	2.3	2.5
Food & Accommod.	2.8	2.1	2.6	2.8	2.6	2.1	2.3	2.8	2.0	4.6	3.9	3.2
Financial & Insur.	4.2	5.3	5.4	2.9	4.9	4.8	6.1	2.9	1.5	2.7	1.3	2.8
Other Services	2.6	2.9	2.5	1.9	2.0	2.2	2.8	2.4	2.2	2.2	1.8	2.4
Investment Deflators:												
Nonresidential	1.5	0.3	1.2	0.4	-0.8	0.9	0.9	1.3	0.6	1.0	1.4	1.0
Structures	4.9	1.5	5.7	2.1	0.3	2.6	1.7	3.6	1.2	2.1	3.3	2.7
Equipment	0.6	-0.2	-0.6	-0.5	-1.1	-0.1	0.1	0.2	-0.0	0.5	1.2	0.5
Intellectual Prop.	0.5	0.1	0.7	0.6	-1.1	0.8	1.3	1.3	0.8	0.9	0.8	0.7
Residential	1.0	5.1	5.8	2.7	3.5	4.5	5.6	2.8	3.2	3.9	3.2	2.8
Government Purchases	1.7	2.3	2.1	0.2	0.3	2.4	3.6	1.9	1.1	2.6	2.4	2.8
Federal	0.9	0.9	1.7	0.5	0.6	2.1	3.1	1.9	0.2	2.6	1.5	2.2
State and Local	2.3	3.3	2.3	-0.0	0.2	2.5	4.0	1.9	1.7	2.6	3.0	3.1
Exports	0.8	0.2	0.1	-4.9	-2.0	2.6	3.4	-0.4	-3.1	2.2	1.7	1.4
Imports	0.2	-1.4	-0.8	-8.0	-3.5	2.2	2.9	-1.5	-2.2	2.0	1.2	0.8
<b>Other Inflation Related Indicators</b>												
Cons. Price Index - All Urban	2.1	1.5	1.6	0.1	1.3	2.1	2.4	1.8	1.3	2.2	2.6	2.2
Producers Price Index	0.5	0.6	0.9	-7.2	-2.7	4.4	4.3	-1.0	-3.0	4.8	2.4	3.0
<b>Nonfarm Sector Indicators</b>												
Total Compensation	2.6	1.3	2.8	3.1	1.1	3.5	3.4	3.6	5.9	0.5	1.4	3.1
Productivity	0.9	0.5	0.9	1.6	0.3	1.2	1.4	1.7	2.4	-0.8	0.2	1.5
Unit Labor Costs	1.8	0.8	1.9	1.5	0.7	2.2	1.9	1.9	3.5	1.3	1.1	1.6
<b>Crude Oil Prices (\$/barrel)</b>												
West Texas Intermediate	94.2	97.9	93.3	48.7	43.2	51.0	64.9	57.0	38.6	43.9	52.6	56.2

**Table 15: Producer Price Indexes**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Annual Percent Change</b>												
All Commodities	0.5	0.6	0.9	-7.2	-2.7	4.4	4.3	-1.0	-3.0	4.8	2.4	3.0
Industrial Commodities	0.0	0.4	0.6	-7.5	-2.3	5.0	5.2	-1.5	-3.6	5.3	2.5	3.1
Textiles & Apparel	0.3	0.8	1.5	-1.0	-0.5	1.2	2.9	0.9	-0.6	3.6	1.1	1.2
Fuels	-1.8	-0.2	-0.9	-23.5	-9.1	12.3	10.9	-7.1	-15.6	11.3	4.2	5.8
Chemicals	0.5	0.9	0.6	-5.3	-0.3	5.9	5.1	-2.0	-3.1	5.7	3.3	3.4
Rubber & Plastics	2.3	1.1	0.6	-1.7	-1.3	2.4	3.2	0.5	-0.8	2.9	1.4	2.2
Lumber & Wood	3.5	6.5	4.3	-1.0	0.4	3.5	5.8	-2.9	6.6	6.3	-0.1	1.5
Pulp & Paper	-0.4	1.9	0.7	-0.7	-0.4	2.8	2.1	-0.2	0.1	5.3	2.5	1.9
Metals & Products	-2.7	-2.9	0.7	-6.9	-2.9	6.9	7.6	-1.1	-0.6	6.4	1.4	2.8
Equipment	1.1	0.7	0.8	0.5	-0.1	0.7	1.8	2.2	1.2	2.1	1.2	1.6
Trans. Equipment	2.2	1.2	1.4	1.4	0.4	0.9	1.3	0.9	0.6	2.1	3.0	2.5
Farm	3.2	1.4	1.1	-11.9	-9.6	3.1	-0.6	0.4	-3.8	0.2	1.8	4.2
Processed Foods & Feeds	3.9	1.5	3.9	-3.4	-2.7	1.0	0.3	1.4	1.4	3.2	2.1	1.7
<b>By Stage of Processing</b>												
Crude Materials	-3.2	2.1	1.1	-24.2	-8.3	10.0	4.9	-7.1	-11.5	10.2	1.8	4.4
Intermediate Materials	0.5	0.1	0.5	-6.9	-3.1	4.7	5.3	-1.4	-3.2	4.1	1.4	2.2
Finished Goods	1.9	1.2	1.9	-3.3	-1.0	3.2	3.0	0.8	-1.4	2.2	2.9	2.1
Finished Consumer Goods	1.9	1.4	2.1	-4.8	-1.5	4.0	3.6	0.3	-2.2	4.8	2.7	2.9
Finished Producer Goods	1.9	0.9	1.4	1.2	0.4	1.0	1.6	2.1	1.3	2.1	1.9	2.0

**Table 16: Money and Interest Rates**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Billions of Dollars</b>												
Money Supply (M1)	2436	2637	2898	3064	3342	3613	3721	3949	5606	5241	5450	5731
Money Supply (M2)	10342	10971	11603	12263	13156	13800	14278	15236	18923	17217	16622	16493
<b>Percent Change</b>												
Money Supply (M1)	12.9	8.3	9.9	5.7	9.1	8.1	3.0	6.1	42.0	-6.5	4.0	5.1
Money Supply (M2)	7.6	6.1	5.8	5.7	7.3	4.9	3.5	6.7	24.2	-9.0	-3.5	-0.8
<b>Interest Rates (Percent)</b>												
<b>Short-Term Rates</b>												
3-Month Treas. Bill	0.1	0.1	0.0	0.1	0.3	0.9	1.9	2.1	0.4	0.1	0.1	0.1
Prime Bank Loans	3.3	3.3	3.3	3.3	3.5	4.1	4.9	5.3	3.5	3.3	3.3	3.3
<b>U.S. Government Bond Yields</b>												
5-Year Maturity	0.8	1.2	1.6	1.5	1.3	1.9	2.7	2.0	0.5	0.5	0.7	0.9
10-Year Maturity	1.8	2.4	2.5	2.1	1.8	2.3	2.9	2.1	0.9	1.1	1.3	1.5
30-Year Maturity	2.9	3.4	3.3	2.8	2.6	2.9	3.1	2.6	1.6	1.9	2.2	2.4
<b>State and Local Government Bond Yields</b>												
Domestic Municipal Bond	3.7	4.3	4.2	3.7	3.3	3.7	4.0	3.6	2.7	2.3	2.4	2.5
<b>Corporate Bond Yields</b>												
Moody's AAA Corp. Bond	3.7	4.2	4.2	3.9	3.7	3.7	3.9	3.4	2.5	2.1	2.1	2.3
<b>Mortgage Rate</b>												
Conventional 30-Year	3.7	4.0	4.2	3.9	3.6	4.0	4.5	3.9	3.1	3.1	3.2	3.3



# THE UCLA ANDERSON FORECAST FOR THE NATION

DECEMBER 2020 REPORT

Charts

Chart 1: Annualized % Change in Real GDP

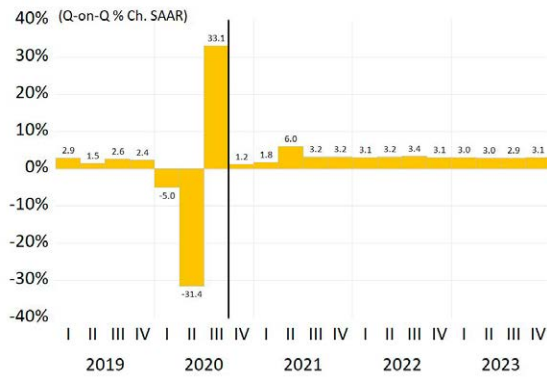


Chart 2: Real GDP

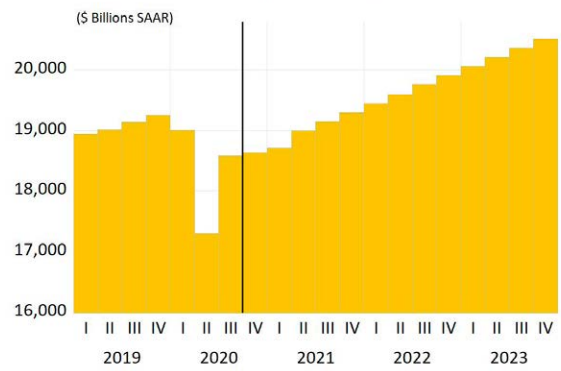


Chart 3: Q4-to-Q4 % Change in Real GDP

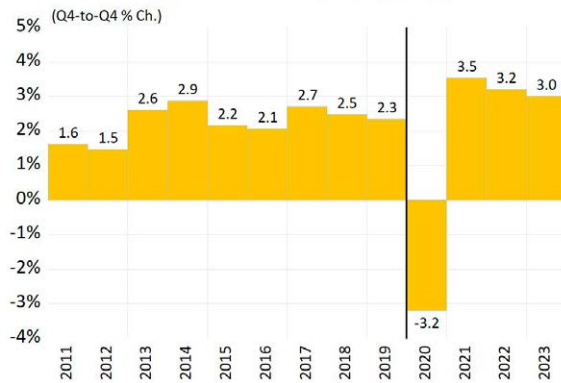
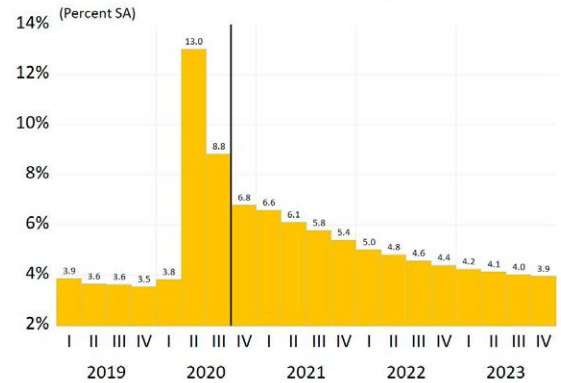


Chart 4: Unemployment Rate



# CHARTS - FORECAST

Chart 5: CPI Inflation, All-Urban

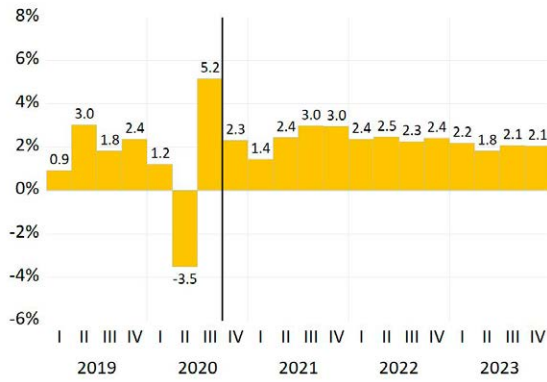


Chart 6: Core CPI Inflation, Excl. Food & Energy, All-Urban

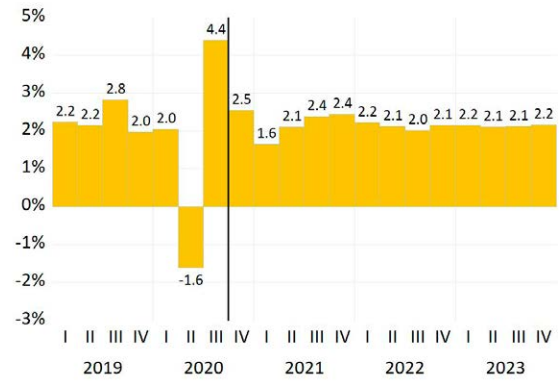


Chart 7: Real Pers. Disp. Income and Consumer Spending

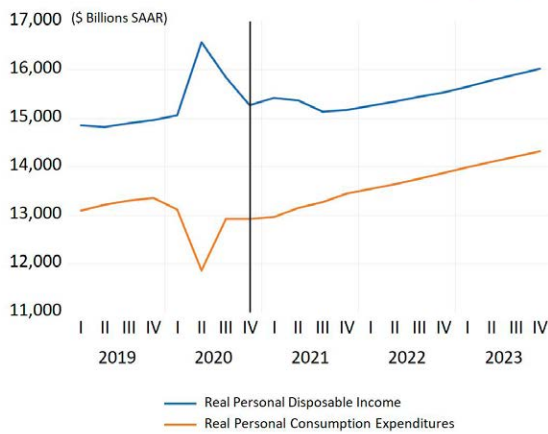
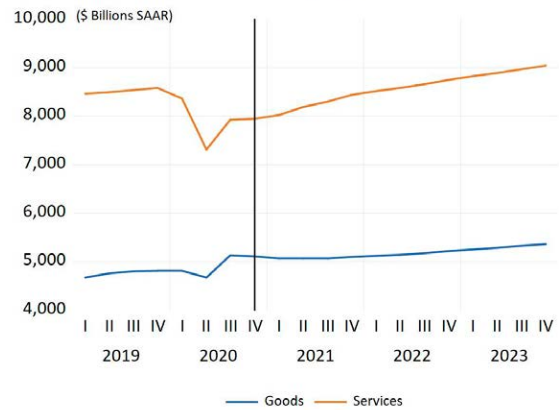
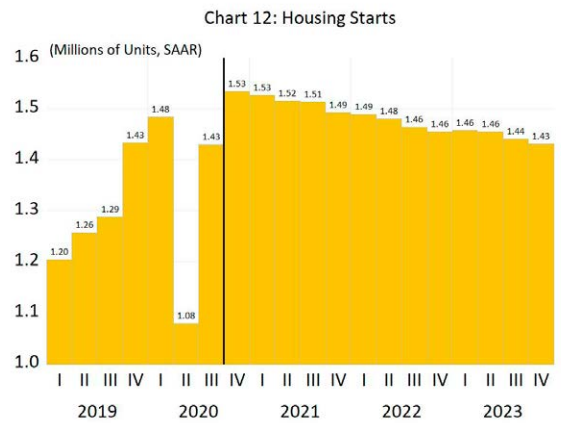
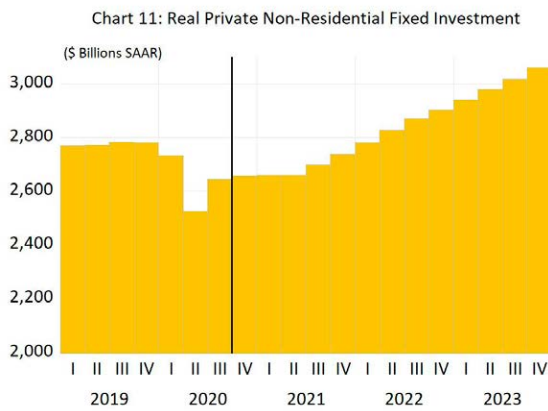
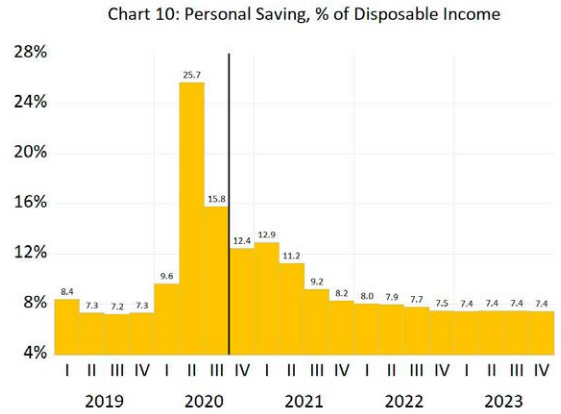
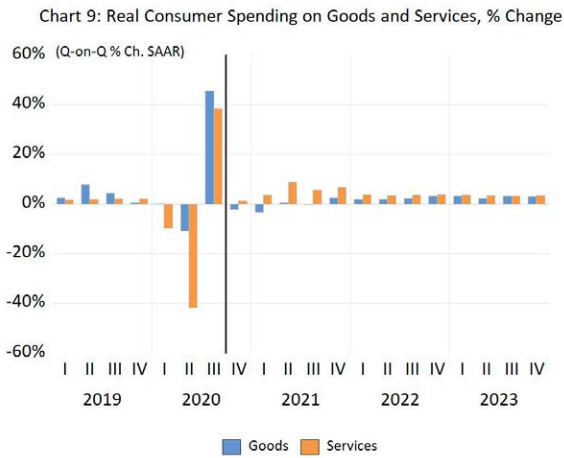


Chart 8: Real Consumer Spending on Goods and Services, Levels





# CHARTS - FORECAST

Chart 13: Government Purchases, Transfers, and Receipts as % of GDP



Chart 14: Federal Deficit, % of GDP

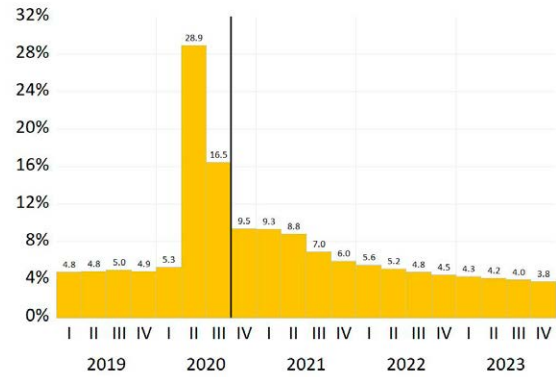


Chart 15: Real Exports and Imports of Goods and Services

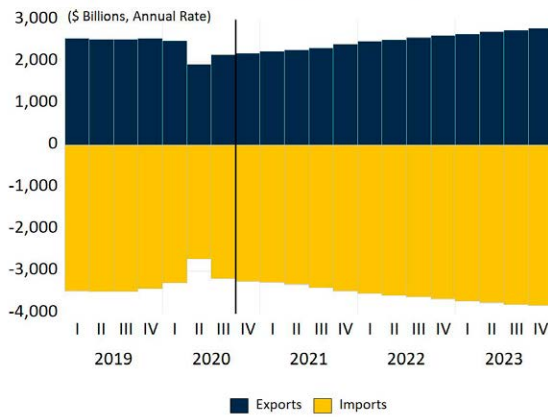
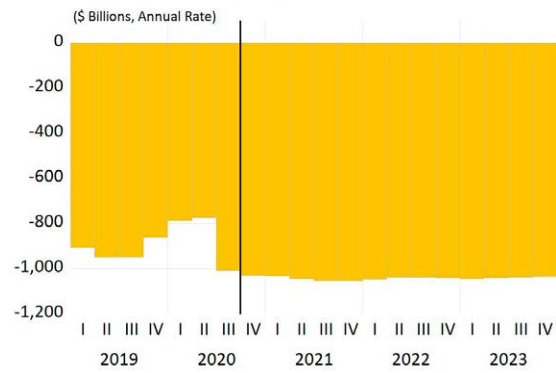


Chart 16: Real Net Exports of Goods and Services



# THE UCLA ANDERSON FORECAST FOR CALIFORNIA

DECEMBER 2020 REPORT

The Economic/Pandemic Question: To Close or Not to Close?

Sea Level Rise and Its Impact on California Housing Markets

# The Economic/Pandemic Question: To Close or Not to Close?

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Leila Bengali  
Economist, UCLA Anderson Forecast  
December 2020

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## Summary

- As 2020 draws to a close, labor markets in California are weaker than those in the U.S. overall.
  - Non-pharmaceutical interventions (such as mask mandates and restrictions on business operations) tend to be more restrictive in CA than elsewhere.
  - Across the U.S. in October 2020, states with more restrictive non-pharmaceutical interventions tended to have higher unemployment rates, though historical evidence suggests that more restrictive non-pharmaceutical interventions may not significantly affect economic activity in the near term and may help in the long term.
  - Looking to the future, the forecast for the state is for the technology sectors, residential construction, and logistics to lead the recovery, and for California post-pandemic to grow faster than the U.S.
- 

## Introduction

Since the pandemic-induced recession began last March, we have said that the course of the pandemic, and the public health policy response to it, is critical to the economic forecast. As well, we have pointed out that we do not know what the future will bring with respect to the pandemic. What we do know is that the pandemic is raging across the

country once again. California has responded, as before, with more restrictive non-pharmaceutical interventions (NPI) via mask mandates, closures, and gathering restrictions. We expect that to continue, particularly through the holiday season as significant traveling by Americans has thus far presaged further increases in COVID cases.<sup>1</sup> We also know that at least three vaccines are in the latter stages of testing and approval. Does this mean that we are out of

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*1. Though total domestic and foreign air travel remained significantly below a year ago, from the last week in October to the last week in November, the total number of passengers processed by TSA increased by 16%. A year previous the increase was 8%. <https://www.tsa.gov/coronavirus/passenger-throughput>*

the woods soon? The answer is maybe. There is still much that is unknown, however for purposes of our forecast, we are assuming that by summer a large number of people will have received one of the vaccines. In this California report we ask two questions: where are we now? And what are the likely future effects of the more restrictive NPIs on the state’s economy? The short answer is that the state has higher unemployment than in the U.S. overall, and the state is due to grow faster than the U.S. once restrictions are lifted and the pandemic is in the rear view mirror.

### Sectoral employment retrospective

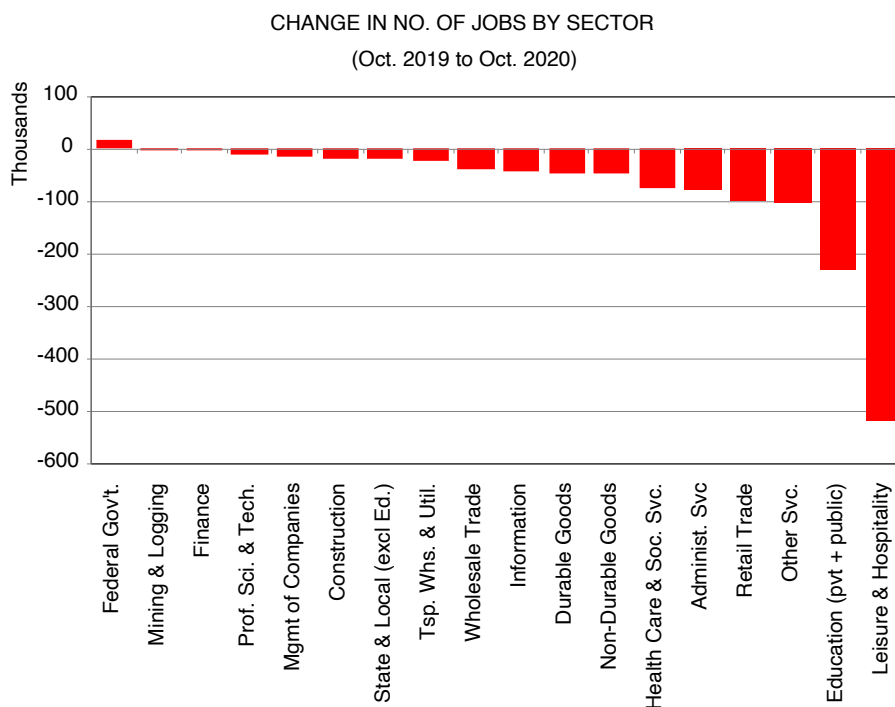
The near-term recovery in employment in the state depends critically on the course of the pandemic. As we move through Thanksgiving to New Year’s Eve and usher 2020 out, we are confronting new highs in COVID cases and changing restrictions on economic activity. How this plays out is an open question, however, to make our forecast we must first make an assumption about the pandemic and the policy response. Our assumption is that the elevated number of cases will remain for the balance of the year, and households will remain cautious when it comes to holiday activities including in-store shopping. This will mean a weak growth rate

through the balance of the year and into early 2021. With at least three vaccines in the latter stages of testing and approval, for the purposes of our forecast we also assume that a large number of people will have received one of the vaccines by summer, ushering in the beginning of a return to normalcy.

### In the 2020 recession a few sectors have been shouldering the brunt of the job loss.

On a year over year basis, including the recovery of some of the lost employment occurring between April and October, leisure and hospitality, retail, and education remain the weakest (Figure 1). Since October 2019, 1.37 million non-farm payroll jobs in California have been lost. Leisure and hospitality and education account for 55% of the job loss, with almost 80% of the education employment decline in the public sector. Another 15% of the job loss is in retail and other services for a total of 70% of all unemployment in the state. These sectors will also be impacted by the rate of recovery as they each involve a higher level of human contact than other economic activity.

Figure 1 Change in Number of Jobs by Sector



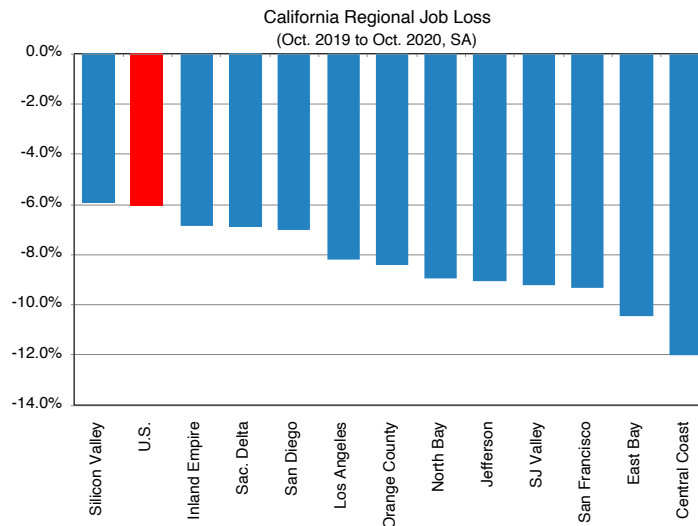
Source: California EDD



Regionally the recession has been uneven as well (Figure 2). However, unlike the great recession, there is not the bifurcated impact of inland vs coastal California. San Francisco, the North and East Bay, the Great State of Jefferson, and the San Joaquin Valley have all contracted by about the same percentage. The Inland Empire, Silicon Valley, San Diego, Sacramento and the Delta have fared better and contracted less. Some of this is due to the impact of a shut-down in tourism. San Francisco is a major destination for international tourists, and Napa and Sonoma for domestic tourists. The Inland Empire has been rebounding with residential construction and logistics, and Silicon Valley with the demand for new software technologies for the new way in which business and socializing are being conducted today. Also important in understanding regional differences is the way in which commuters appear in the data. The data on unemployment are from the CPS (Current Population Survey also known as the Survey of Households). This survey polls individuals by their domicile. The payroll employment data shown here in Charts 1 and 2 are from the Current

Employment Statistics survey which collects data on payroll jobs by the employer’s location. For example, the Inland Empire lost 6.9% of its payroll jobs from October 2019 to October 2020 while Orange County lost 8.39%. However the unemployment rate in both places rose about the same amount, about 5 percentage points (3.9% to 9.0% in the IE and 2.6% to 7.5% in Orange County). The differential stems from the fact that commuters into Orange County from the less expensive communities in the Inland Empire, particularly those working in the northern parts of the county’s leisure and hospitality industry, are counted as unemployed in Riverside County and not in Orange County. We find the same pattern with San Joaquin and the East Bay relative to Silicon Valley and San Francisco in Northern California. Since lower income sectors are projected to grow slower than higher income sectors, and commuters from inland counties are more likely to be lower income, the spillover effects of the growth of technology, advanced manufacturing, and professional services in the coastal cities may be less pronounced than in previous recessions.

Figure 2 California Regional Jobs Loss



Source: California EDD

## Human contact sectors: How long until recovery

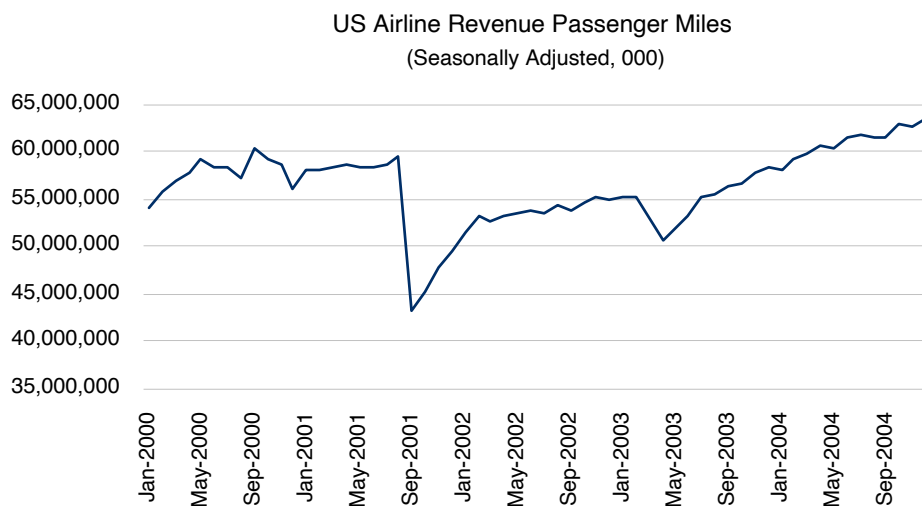
In previous California reports we wrote about our analysis of fear-of-flying data and how that informs our forecast for the current downturn. It bears repeating as it is an important element of the forecast. What is different now from last June when we did this analysis is the new, more acute, wave of infections. It is possible that we are in for a long winter and that the pandemic will not cease to have a major impact on the leisure and hospitality, retail, other services, and education sectors until widespread vaccination occurs. In our national forecast we assume that this is late spring to early summer 2021. What that means for the recovery of the human contact intensive sectors is that their recovery, which began in June, will experience a hiatus until the coming June.

To understand how long it will take, we turned to an analysis of the loss in passengers from the 9/11 attacks on American aviation. Though quite different than a pandemic, it is similar in two respects. First, the demand for domestic air travel is discretionary, and second, the decline in demand was a consequence of safety concerns. Figure 3 shows the decline

in traffic and the return to the previous peak. There is a 31 month recovery in commercial airline domestic travel as measured by revenue-passenger-miles. However, the decline and recovery, then as now, is confounded with a recession. Beginning in March of 2001 and extending through November of the same year the economy contracted. It was a mild recession, however that loss of income affected the demand for passenger traffic as well.

In a 2004 study by Ito and Lee,<sup>2</sup> these and other factors affecting the demand for air traffic were separated out. They found that while there was a 30% instantaneous decline in demand right after 9/11, there was a relatively rapid recovery of all but 7.5% of that decline. That residual persisted through the extent their data. This result is consistent with other studies of the economic impact of accidents on air traffic (see for example Barnett and LoFazo (1983) and Squalli (2005)<sup>3</sup>). Applying their model to the leisure and hospitality demand in California presents a somewhat gloomy picture. Specifically, the sector remains at 20% below its previous peak at the end of our forecast horizon (2023) due to both the safety and income effects. That translates to 200,000 relatively low-income Californians with long-term unemployment for 30 months following the end of the pandemic.

Figure 3 U.S. Airline Revenue Passenger Miles



Source: U.S. Department of Transportation

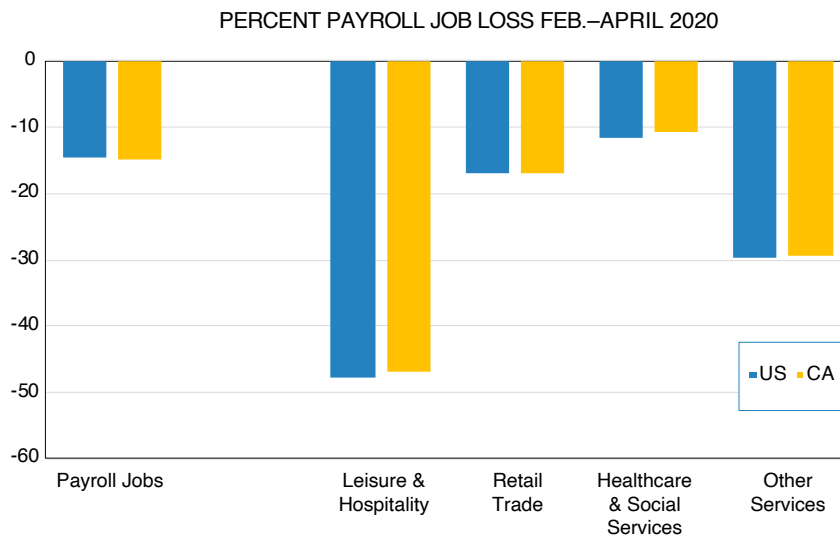
2. Harumi Ito and Darin Lee. 2005. "Assessing the Impact of the September 11 terrorist attacks on US airline demand." *Journal of Economics and Business*. Vol:57 (1). Pp:75-95.  
 3. Barnett, A. and LoFaso, A. J. 1983. "After the Crash: The Passenger Response to the DC-10 Disaster." *Management Science*. Vol:29. Pp:1225-1236.  
 Squalli, J. 2005. "Do Consumers Have Imperfect Recollection about Airline Safety?" *Applied Economics Letters*. Vol:12. Pp:169-176.

To be sure, some will find employment in other sectors, but in an economy that is demanding technical skills, it will be challenging. There is one important caveat. Our shelter-in-place and zoom-fatigue has been said to create an enormous pent-up demand for human interaction. That being the case, we can expect a little more rapid recovery than suggested by this fear-of-flying analysis. Nevertheless, 2024 remains the most likely return-to-previous peak employment in these sectors.

### Is California Falling Behind?

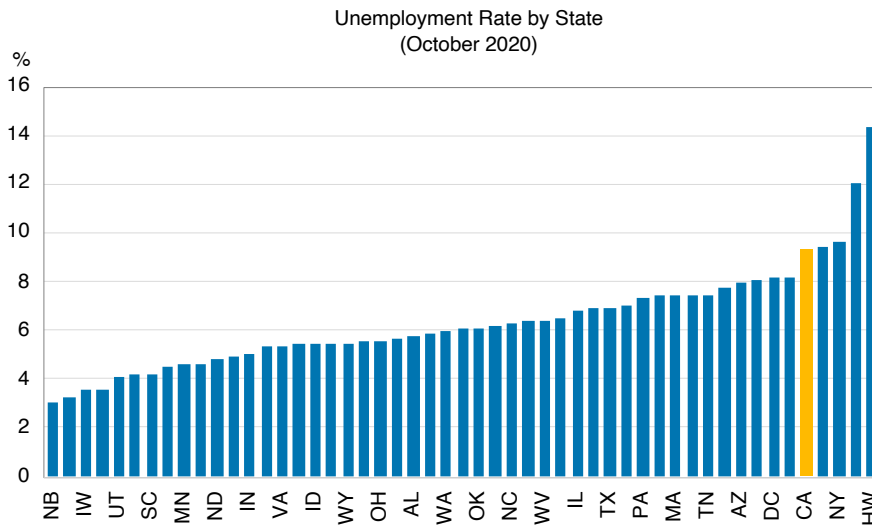
Through the initial phase of the recession, March/April 2020, the contraction in employment in California looked much like the contraction nationwide (Figure 4). One would expect California to recover *pari passu* with the national economy based on these data. The differences would be in the faster growth from the tech sectors and the slower growth from the sectors serving international tourists. Otherwise, for a

Figure 4 Percent Payroll Job Loss Feb–April 2020



Source: EDD.ca.gov, BLS.gov

Figure 5 Unemployment Rate by State



Source: BLS.gov

change, California looked to be quite average in the recessions impact.

However, the expansions in the state and in the U.S. overall look a bit different (Figure 5). California has one of the highest unemployment rates in the U.S. Tourism is one reason. Another is that the extent of the government intervention in California via NPI compared to other states is somewhat different, and that raises the question, what are the near term and long term economic impacts of the NPI policies in California?

## Economic implications of closures

To begin to answer the question we look at the relationship between non-pharmaceutical interventions (NPI), a fancy way of saying shutdowns, gathering restrictions and mask mandates, and indicators of the labor market (the unemployment rate and employment growth rates). To analyze the relationship between labor markets and NPIs, we culled data gathered by the University of Oxford and aggregated by the New York Times.<sup>4</sup> From these data we assigned each state a value with 0 indicating the least restrictive NPIs, 1 moderate, and 2 most restrictive during the month of October 2020.

In a regression of unemployment rates on this measure of public health policy, policy variation explained just under a quarter of the unemployment rate differences between states (as measured by the regression's R-squared). Using this model, we derived an unemployment for each state as if all states were at the least restrictive NPI level (Figure 6). While California is not in the middle of the pack, it is not far off, about 1.3 percentage points higher than the average. A higher implied unemployment rate in the state is due, at least in part, to the fact that California is host to over 20% of all foreign tourists coming to the U.S.; tourists who are no longer making the journey. If we repeat this exercise using a model that includes an indicator control for states with significant international tourism (California, Nevada, Hawaii, New York and Florida), California's implied unemployment rate is lower than the average for all other states.

We can also look at the relationship between payroll employment and NPIs. Using the same NPI variable as before in a

regression to explain the change in total non-farm payroll employment by state from October 2019 to October 2020, we find similar results (Figure 7). The NPI variable explains a third of the variation in growth rates in employment across states. Moreover, in this regression, the counterfactual growth of employment in California with all states set to have the least restrictive level of NPIs rests squarely in the middle of the pack.

From these simple regressions we learn two things about the forecast. First, since California, as a matter of public health policy, tends towards more restrictive NPIs than many other states, so long as the pandemic rages, employment growth will be slower and the unemployment rate higher than in the rest of the nation. Second, the underlying economy is not necessarily weaker than other states in the U.S., though each state has its own labor market idiosyncrasies.

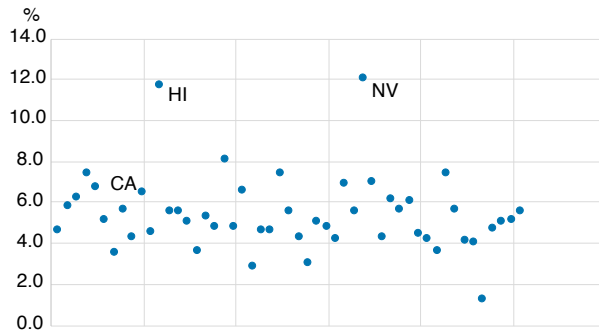
Will more restrictive NPIs have longer term adverse effects on the California economy? There is not a lot of evidence to work with, but recent studies of the 1918/1919 Influenza Pandemic suggest the opposite. For example, a research project by economists at the Federal Reserve and MIT found that over the course of the influenza pandemic, NPIs had no statistically significant impact on economic activity.<sup>5</sup> The reason for this was twofold. First, in cities with less restrictive NPIs, more employees were sick and therefore produced less output. Second, because health outcomes were worse, consumers were more reticent to purchase goods and services involving higher degrees of human contact. Thus there was both a demand and supply consequence for those cities with less restrictive NPIs. Subsequent to the pandemic, and adjusting for population size and migration, they found that cities with more restrictive NPIs experienced faster post-pandemic growth. To be sure, the economy of 2020 is quite different than that of 1918. It is less rural, more urbanized, more globalized, and more mobile between regions. Nevertheless, the results are informative. Thus, with the expectation that the tech sectors along with residential construction and logistics will be leading the recovery, our forecast has California, post-pandemic, once again growing faster than the U.S.

4. <https://covidtracker.bsg.ox.ac.uk>, [https://www.nytimes.com/interactive/2020/11/18/us/covid-state-restrictions.html?name=stylized-coronavirus&region=TOP\\_BANNER&block=storyline\\_menu\\_recirc&action=click&pgtype=Interactive&impression\\_id=6b50d752-2b45-11eb-be08-77c2b2e224fa&variant=1\\_Show](https://www.nytimes.com/interactive/2020/11/18/us/covid-state-restrictions.html?name=stylized-coronavirus&region=TOP_BANNER&block=storyline_menu_recirc&action=click&pgtype=Interactive&impression_id=6b50d752-2b45-11eb-be08-77c2b2e224fa&variant=1_Show)

5. Correia, Sergio and Luck, Stephan and Verner, Emil, *Pandemics Depress the Economy, Public Health Interventions Do Not: Evidence from the 1918 Flu* (June 5, 2020).

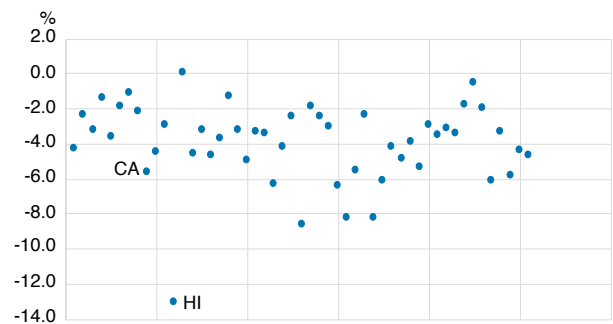
<http://dx.doi.org/10.2139/ssrn.3561560>

Figure 6 Implied October 2020 U-Rate With Less Restrictive NPI for All States



Sources: New York Times, Oxford University, UCLA Anderson Forecast

Figure 7 Implied Oct 2019 to Oct 2020 Growth Rate With Less Restrictive NPI, Non-Farm Payroll Jobs



Sources: New York Times, Oxford University, UCLA Anderson Forecast

## The Forecast

Although the timing may be offset with California beginning a significant recovery later than some other states, we expect the California recovery to ultimately look very much like the U.S.<sup>6</sup> The recovery in CA will be slower in the leisure and hospitality and retail sectors due to the disproportionate reliance on international tourism<sup>7</sup>, and mixed in transportation and warehousing due to the shift to online shopping on the one hand and the expected continuation of the trade war with China in a Biden administration on the other<sup>8</sup>, but faster in business, scientific and technical services and in the information sector due to the demand for new technologies for the new way we are working and socializing, and faster in residential construction as California’s shortage of housing relative to demand drives new developments.

The unemployment rate for the 4th quarter of this year is expected to be 8.9%, and for the entire years 2021, 2022

and 2023 we expect average unemployment rates of 6.9%, 5.2% and 4.4% respectively.

Our forecast for 2021, 2022 and 2023 is for total employment growth rates to be 6.1%, 3.4% and 2.2%. Non-farm payroll jobs are expected to grow 3.6%, 3.8% and 2.5% during the same three years. Real personal income is forecast to fall by -1.0% in 2021 as transfers from the stimulus packages expire and grow by 2.1% and 3.4% in 2022 and 2023. In spite of the recession, the continued demand for a limited housing stock coupled with low interest rates leads to a forecast of a relatively rapid return of homebuilding. Our expectation is for 123K net new units in 2021; a 16.2% increase from 2020 and continuing to grow to 132K for 2023. Needless to say, this level of home building means that the prospect for the private sector building out of the housing affordability problem over the next three years is nil.

6. Leo Feler, “A gloomy COVID winter and an exuberant vaccine spring” UCLA Anderson Forecast. December 2020.

7. California’s share of international tourists to the United States in 2018 was 21.39%. U.S. National Travel and Tourism Office. [https://travel.trade.gov/outreachpages/inbound.general\\_information.inbound\\_overview.asp](https://travel.trade.gov/outreachpages/inbound.general_information.inbound_overview.asp)

8. William Yu and Jerry Nickelsburg. “The Pandemic and the Trade Agreement.” Cathay Bank. March 2020. And “The Economic implications of the National Security Law” Cathay Bank. May 2020.

# Sea Level Rise and Its Impact on California Housing Markets

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December 2020

## Summary

- The impact of sea level rise (SLR) on coastal California housing markets are estimated as follows:
- Number of homes affected -- 1 foot: 10,900, 2 feet: 19,000, 4 feet: 66,600
- Number of people affected -- 1 foot: 27,000, 2 feet: 46,000, 4 feet: 155,600
- Property value loss -- 1 foot: \$11 billion, 2 feet: \$20 billion, 4 feet: \$68 billion
- Coastal California zip codes are divided into three zones by the percentage of housing units impacted by SLR of 4 feet: Green Zone (0%, 196 zip codes), Yellow Zone (below 4%, 81 zip codes), and Red Zone (above 4%, 30 zip codes).
- We do not find evidence that homebuyers have seriously factored SLR risk into their investment decisions in California. Red Zone houses are still in high demand by high-income and high-education households.

The latest report from the United Nations' Intergovernmental Panel on Climate Change (IPCC) predicts that global mean sea levels will mostly likely rise between 0.95 feet and 3.6 feet by the end of the century.<sup>1</sup> Their forecasted range of sea level rise (SLR) is based on two assumptions from Representative Concentration Pathways (RCP):

- 1) Low scenario (RCP2.6) represents a low greenhouse gas emissions and high mitigation future with projected global mean surface temperature increased by 1.6 degrees Celsius by 2100, causing SLR of 0.95 feet;
- 2) High scenario (RCP8.5) represents high greenhouse gas emissions in the absence of policies to combat climate change leading to a temperature increase of 4.3 degrees Celsius by 2100, causing SLR of 3.6 feet.<sup>2</sup>

Based on IPCC's forecasts and assumptions, this report will analyze how and where SLR would impact California coastal housing markets.

## The Direct Impact on California Housing Markets

To measure how many houses would be affected and where they would be exposed to SLR, we use the data from the Union of Concerned Scientists (UCS)<sup>3</sup> based on Zillow Transaction and Assessment Dataset (ZTRAX). They provide data to project how many homes and people will be at risk of chronic inundation due to SLR by zip code in the U.S. by the year 2100. Figure 1 shows the number of people and homes in California and Figure 2 shows their estimated

1. See IPCC's *Special Report on the Ocean and Cryosphere in a Changing Climate*. <https://www.ipcc.ch/srocc/>

2. Alternatively, National Oceanic and Atmospheric Administration (NOAA) develops three scenarios: (1) Low scenario: SLR 1.6 feet by 2100; (2) Intermediate scenario: SLR 1 foot by 2035 and 4 feet by 2100; (3) High scenario: SLR 2 feet by 2045 and 6.5 feet by 2100.

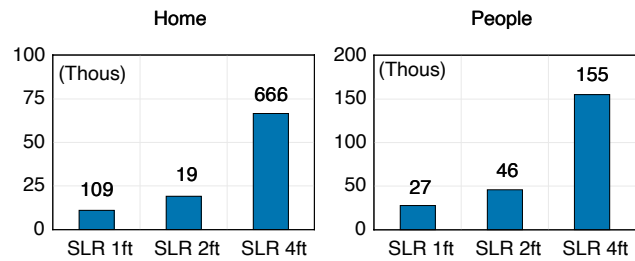
3. See its report "Underwater—Rising Seas, Chronic Floods, and the Implications for US Coastal Real Estate." And <https://ucsusa.maps.arcgis.com/apps/MapJournal/index.html?appid=0befd6dac46f4e0dbee2c3d8f539ab1a#>

total home values at risk of SLR by three scenarios: 1 foot (low scenario by IPCC and intermediate scenario by 2035 by NOAA), 2 feet (high scenario by 2045 by NOAA), and 4 feet (high scenario by IPCC and intermediate scenario by 2100 by NOAA). With an SLR of 1 foot, 10,900 homes on the California coastline would face chronic inundation<sup>4</sup>; 27,000 people would be impacted directly; and the loss of total home value would amount to \$11 billion. The number of homes and people impacted by SLR are from UCS, and the total estimated loss of property values are calculated from the percentage of homes impacted by SLR multiplied by the median home value in each zip code provided by American Community Survey (ACS) in 2018.<sup>5</sup> If we use Zillow’s median home value in October 2020, the total loss will rise to \$15.6 billion.

If the SLR reaches 2 feet, 19,000 homes in California will be at risk; 46,000 people will be impacted directly; and the loss of total home value will climb to \$20 billion (\$27 billion from Zillow’s median home value in Oct. 2020). If the SLR goes to 4 feet, 66,600 homes in California will be at risk; 155,000 people will be impacted directly; and the loss of total home value will surge to \$68 billion (\$93 billion from Zillow in Oct. 2020). Note that the economic loss of SLR on the local economy is not limited to loss of residential properties. Additional loss includes damage on commercial properties, foregone property tax revenues and foregone local consumption and business by residents.

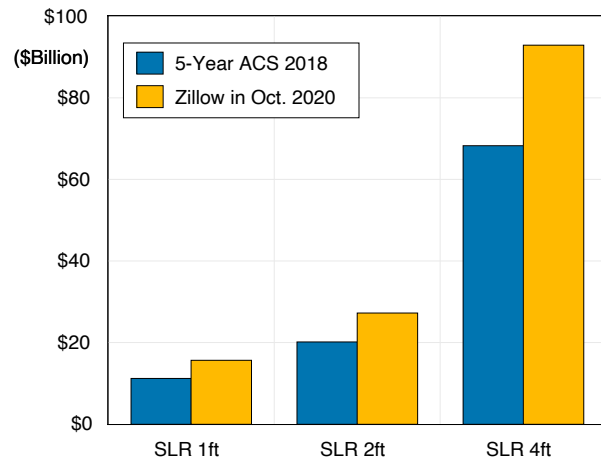
Based on 2018 ACS numbers, there were 136 million housing units in the U.S. and 14 million in California. The percentage of homes impacted by SLR in the U.S. and California are 0.1% in the U.S. and 0.08% in California with SLR of 1 foot; 0.22% in the U.S. and 0.13% in California with SLR of 2 feet; and 0.9% in the U.S. and 0.5% in California with SLR of 4 feet. That said, SLR risk on California real estate is milder than the national average. The real estate in Florida, on the East Coast, and in the Gulf Coast regions will face more severe damage than in California should SLR

Figure 1 Impact of Sea Level Rise on Number of Homes, People in California



Sources: Union of Concerned Scientists, American Community Survey and Author’s Calculation

Figure 2 Impact of Sea Level Rise on Total Home Value in California by Two Measures



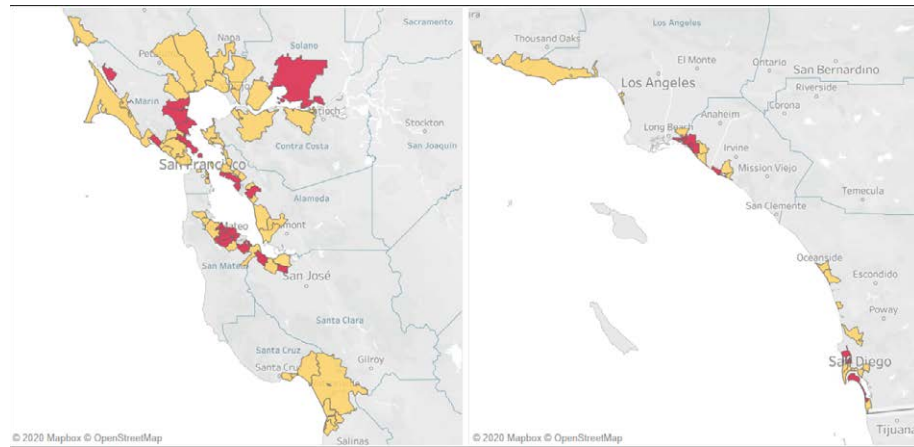
Sources: Union of Concerned Scientists, American Community Survey and Author’s Calculation

meet predictions. Murfin and Spiegel (2020)<sup>6</sup> estimate that Florida, New York, and New Jersey will encounter more loss of total home value than California due to SLR. In particular, Florida’s loss is estimated at around 5 times as California.

4. Chronic inundation refers to any area where high tide floods usable, non-wetland area at least 26 times per year.  
 5. It is a 5-year ACS, for the period of 2014 to 2018. So the median home value might reflect the value prior to 2018.  
 6. “Is the Risk of Sea Level Rise Capitalized in Residential Real Estate?” *Review of Financial Studies*, (2019), 33:3, pp 1217-1255



Figure 3 Zip Codes in California Impacted by Sea Level Rise of 4 Feet for Selected Regions in California



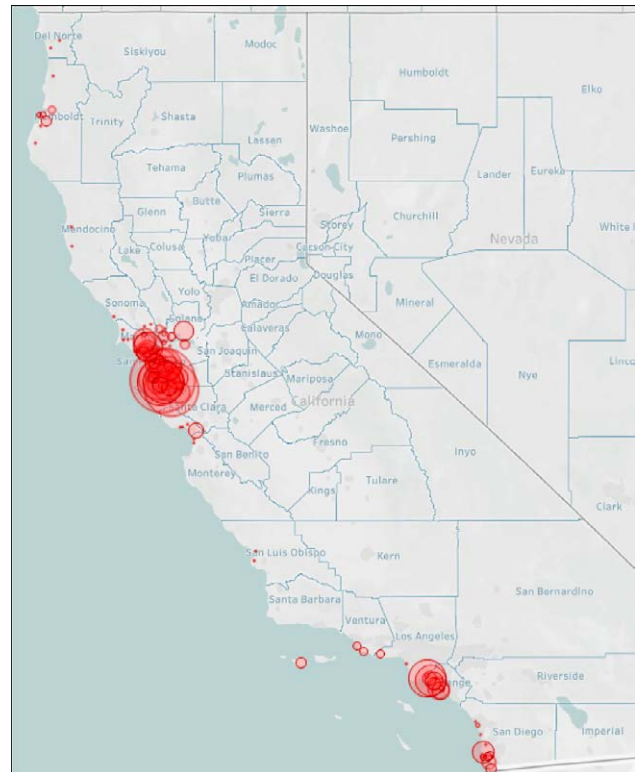
Sources: Union of Concerned Scientists, American Community Survey and Author's Calculation

### The Three Zones of Coastal California

To simplify the analysis, we use the intermediate scenario of SLR of 4 feet for the rest of the report. To show the degree of risk in California coastal zip codes impacted by SLR of 4 feet, we calculate the percentage of homes at risk of SLR over the total housing units for each zip code. There are about 111 zip codes facing risk from SLR of 4 feet with a varying degree of percentages of impacted housing units. For instance, the zip code with the highest percentage (77%) of housing units facing SLR risk is 94065 in Redwood City, followed by 94404 (64%) in Foster City and 92661 (46%) in Newport Beach. We arbitrarily categorize the zip codes with more than 4% of homes impacted by SLR of 4 feet as the Red Zone and the rest of the zip codes (below 4%) as the Yellow Zone. As shown in Figure 3, there are 30 zip codes in the Red Zone and 81 zip codes in the Yellow Zone. The details of zip codes in the Red and Yellow Zones are shown in the Appendix.

Figure 4 uses the size of circle to display the number of residents that will be directly impacted by SLR of 4 feet: the larger the circle, the more people will be affected. Similar to Figure 2, it is clear that the Bay Area would be the most impacted by SLR. For example, the zip code with the most people being impacted by SLR is 94404 in Foster City, in which there will be 23,000 people directly affected by SLR of 4 feet, followed by 94303 in Palo Alto with 16,000 people and 94403 in San Mateo with 11,400 people.

Figure 4 Number of People by Zip Code in California Impacted by SLR of 4 Feet



Sources: Union of Concerned Scientists, American Community Survey and Author's Calculation



### The Characteristics of the Three Zones

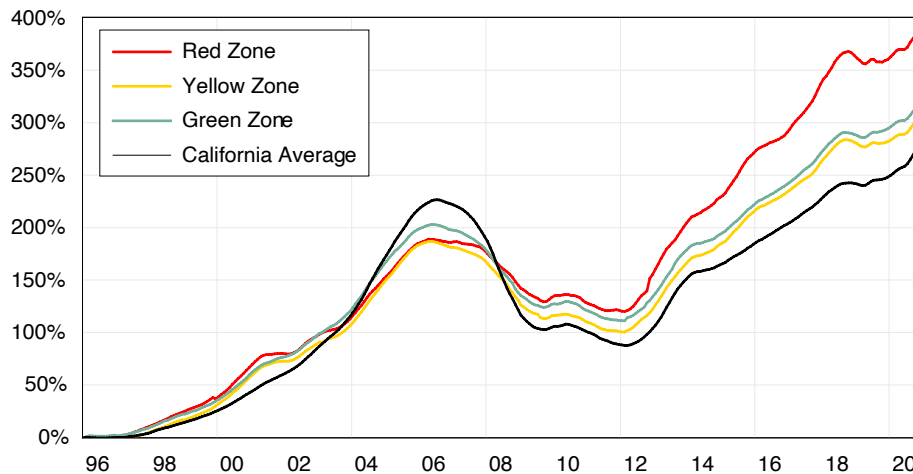
Now let’s take a look at the characteristics of housing markets in coastal California. It is worth noting that although for years we have heard of climate change and SLR risks on the coastline, coastal real estate is still in high demand in the U.S., whether in California or on any other coast. An ocean view and proximity to the beach continue to make these properties more expensive and attractive to buyers despite warnings of danger. This means the loss on homes due to SLR will be higher on coastal real estate than on an average house in the U.S.

According to Zillow, total housing values in the U.S. amount to \$33 trillion (median home value: \$205,000). Total home values in California are about \$7.3 trillion (median home value: \$476,000). Among 14 million housing units in California, 3.1 million units are in the coastal zip codes (within 5 miles of shoreline). Among these zip codes, there are 30 in

the Red Zone (with a total of 320,000 housing units) and 81 in the Yellow Zone (with a total of 846,000 units) as shown in Figure 2. The rest of the zip codes on the coastline (totaling 2 million housing units) are in the Green Zone, which is not at risk with SLR up to 4 feet.

Figure 5 presents the percentage change of home values<sup>7</sup> since 1996 for coastal California zip codes, in which the Red Zone is at high risk to SLR of 4 feet, the Yellow Zone is at medium risk, and the Green Zone is at low risk, as well as the average of California homes. If home buyers and investors are rational, aware of climate change and SLR risks, and consider it when making home purchase decisions, we might expect to see the price growth in the Red Zone slower than in the Yellow Zone, and the Yellow Zone’s slower than in the Green Zone’s, and the Green Zone’s slower than California’s average. This did not quite happen. Rather, the Red Zone had the highest growth rate of home value, and the Yellow Zone had higher growth than the California average.

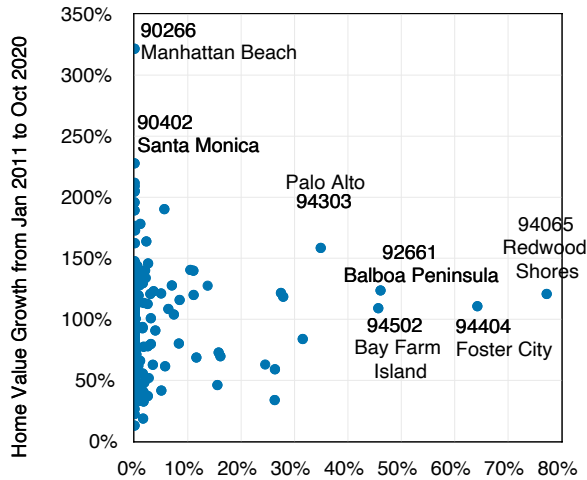
Figure 5 Percentage Change of Median Home Values in Coastal California Zip Codes and All of California Since 1996



Sources: Zillow and Author’s Calculation

7. Based on Zillow’s home values index for all houses (SFR and Condo), smoothed and seasonally adjusted.

Figure 6 Correlation between % of Homes Exposed to SLR of 4 Feet and Home Value Growth from January 2011 to October 2020 by Coastal Zip Codes in California



Sources: Union of Concerned Scientists, American Community Survey, Zillow and Author's Calculation

Figure 6 shows the correlation between percentage of homes exposed to SLR of 4 feet and home value growth from January 2011 to October 2020 by coastal zip codes in California. There is no clear correlation. If homebuyers and investors are concerned with SLR risk, we should see a negative correlation. But in fact, if we run a regression in which home value growth is the dependent variable with two explanatory variables – (1) the percentage of homes exposed to SLR and (2) whole zip-code population – we will get a significant and positive correlation. That means zip codes with more SLR risk have seen more home value growth after controlling for population. That is consistent to the outperforming Red Zone line in Figure 5.

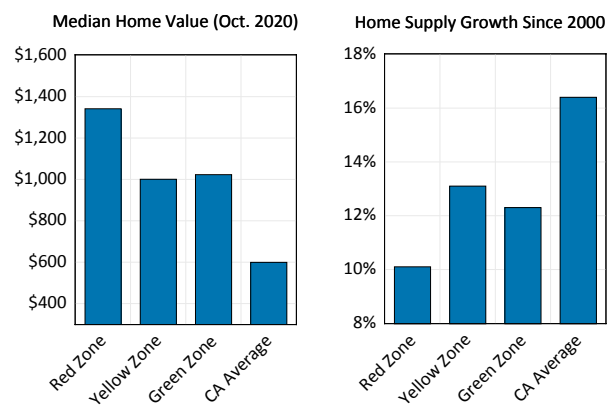
Figure 7 (left) illustrates the median home values from Zillow in October 2020 by three zones in coastal California and California as a whole. The median home value in the Red Zone is \$1,341,000 for two possible reasons: (1) superior amenities as mentioned before and (2) many zip codes are located in the heart of Silicon Valley, which has experienced a robust tech boom over the past several years. The median home value in the Yellow and Green Zones are both around \$1 million. If we assume that natural amenities are similar in these three zones, then there is no evidence of a price

discount due to SLR exposure. Note that the median rent could be more likely to reveal amenity value free of SLR concern. In other words, in terms of reacting to future SLR risk, price discount is more likely to be reflected in current home values than in the current rents by controlling the same amenity in the same zip code. So if homebuyers in California are rational, we should see that the ratio of home value to rent to be inversely correlated to % of home exposed to SLR. Figure 8 is the correlation of these two variables but we cannot see a significantly negative correlation.

Bernstein et al. (2019)<sup>8</sup> suggest that homes exposed to SLR sell for approximately 7% less than equivalent properties without exposure. Why did we not find it in California? There are two possible reasons: (1) They used individual property data while we use weighted average zip code data, or (2) They analyzed all coastal property in the U.S. It is likely that home price discount due to SLR is mostly driven in Florida and on the East and Gulf Coasts.<sup>9</sup>

Figure 7 (right) illustrates the home supply growth since 2000. The three zones in coastal California had lower housing supply growth than the whole of California for three possible reasons: (1) there is less space available on the coast, (2) it is more difficult to build on the coast, and (3) home builders, lenders, and local governments did factor the SLR risk into their decisions. Note that the Red Zone had

Figure 7 Median Home Values in October 2020 and Home Supply Growth Since 2000 in Coastal California Zip Codes and All of California

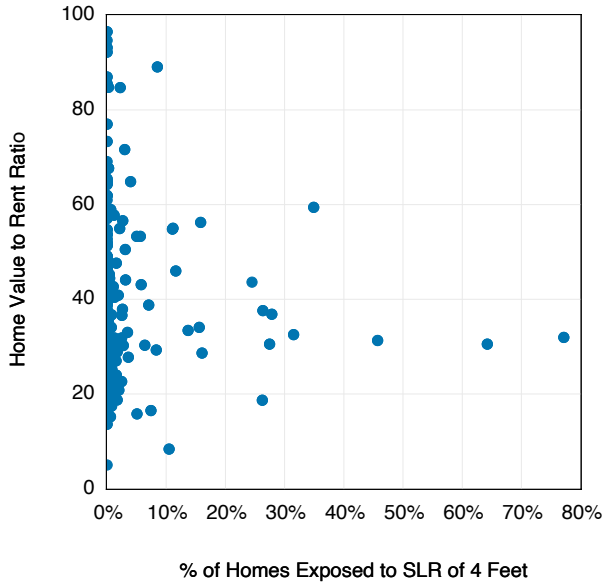


Sources: Zillow and American Community Survey

8. See Bernstein, Gustafson, and Lewis, "Disaster on the Horizon: The Price Effect of Sea Level Rise," *Journal of Financial Economics*, (2019), 134, pp 253-272.

9. See Figure 1 in their article (P257).

Figure 8 Correlation between % of Homes Exposed to SLR of 4 Feet and Ratio of Home Value to Annual Rents by Coastal Zip Codes in California

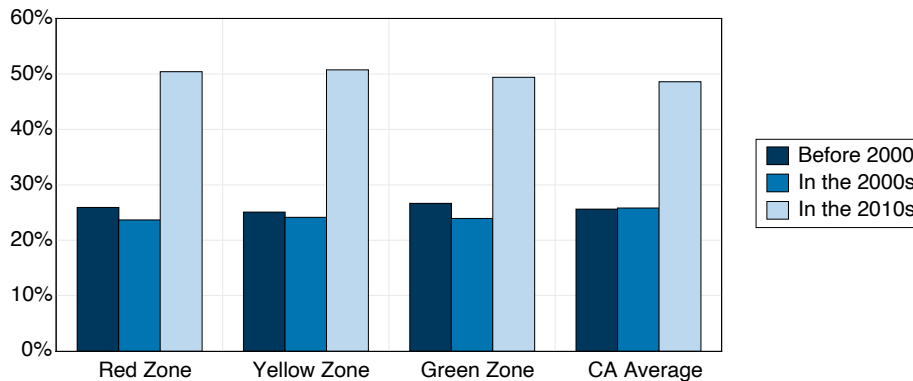


Sources: Union of Concerned Scientists, American Community Survey, Zillow and Author's Calculation

lower housing supply growth than the Yellow and Green Zones. That could suggest relatively risk-averse behavior, but a 10% growth might still be too high to indicate serious consideration of risk.

Figure 9 shows percentages of households (for both homeowners and renters) moved in by zone in three periods:

Figure 9 Percentages of Households Moved in by Three Periods in Coastal California Zip Codes and All of California



Source: American Community Survey

before 2000, during the 2000s, and during the 2010s. It is interesting to see that around 50% of residents have moved into their residence since 2010. We see a similar pattern across these three zones and in California as a whole. This could imply that SLR risk has not yet discouraged home purchases in the Red and Yellow Zones.

Would banks lend money to homebuyers when the collateral property might be at risk with SLR during its 30-year mortgage period? So far, the answer seems to be yes. Figure 10 presents the percentage of homes with mortgages by the three zones and in all of California. We do not see significant evidence that the Yellow Zone has less access to mortgages compared to the Green Zone, even though the Red Zone does have a slightly lower percentage of mortgages. Red Zone homeowners have higher mortgage costs compared to the Green Zone. It is unclear why the banks have not priced the SLR risk into their decisions.

The first possible reason could be that the average effective mortgage holding period is less than 30 years. In fact, Figure 9 suggests that the median duration of a mortgage holder staying in a house is around 10 to 15 years in California. That is, starting from 2020, the median mortgage will end by 2035 when the current homeowners move on. The second possible reason is that all these mortgages will be sold to Fannie Mae and Freddie Mac, two federal agencies who have a mandate to provide liquidity to homebuyers, and be turned into mortgage-back securities for investors. There might be some political reasons for Fannie and Freddie to not raise the price of mortgage on properties with high SLR risk.

Note that the high-risk flood insurance provided by the National Flood Insurance Program (NFIP) can only secure

coverage of up to \$250,000 for a residential building. That amount is significantly lower than a median home value in coastal California, making it less relevant when facing SLR risk. Will the insurance industry be able to provide some sort of market-rate climate insurance in the future to protect homeowners from SLR risks? It is likely, but we suggest the insurance premium will be extremely expensive because any SLR will hit all of the coastal U.S. at once. Unlike most other natural disasters, it will be difficult for insurers to diversify the SLR risk across the nation or the globe.

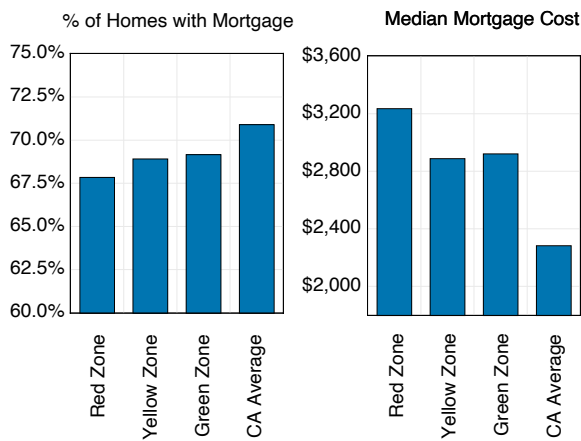
Figure 11 (left) displays the median household income in the three zones and all of California. It is not surprising to see the highest household income in the Red Zone, followed by the Green/Yellow Zone, which is consistent to the home values as shown in Figure 7. Figure 11 (right) shows that education level is consistent with homeowners' income level. That said, those who live in the Red Zone and are facing the highest risk of SLR in the future are also more educated and have the highest earning power. It is comforting to know they are more capable than middle-income or low-income households to navigate financial damage if faced with SLR in the future.

### California vs. Florida

Using the same data source from UCS, Keys and Mulder (2020)<sup>10</sup> suggest that since 2013 homebuyers started to factor in SLR, resulting in lower home sales volume (by 20%) in most SLR-exposed communities (similar to the Red Zone in this report) than in less SLR-exposed areas (Green Zone) in coastal Florida. And since 2018, home prices in the Red Zone started to grow more slowly than in the Green Zone in Florida. That article suggests that homebuyers became more aware of climate change and SLR risk partially because of events including severe damage on the East Coast caused by Hurricane Sandy in October 2012.

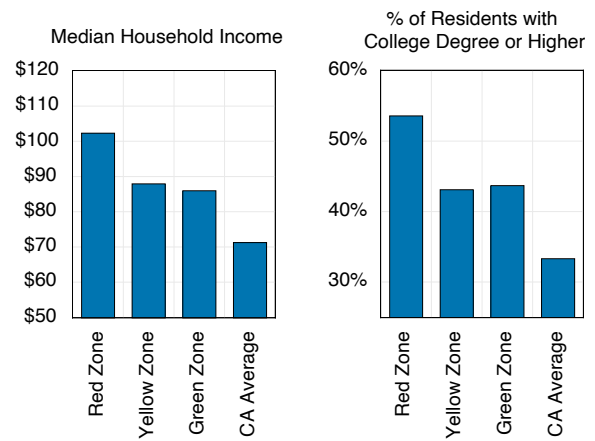
Why do we not see the same pattern in California? The first possible reason could be hurricanes do not strike the West Coast. Residents in California are less likely to imagine SLR risk compared to their Florida counterparts who have experienced horrific hurricane damage periodically.<sup>11</sup> The second possible reason is that SLR will affect homes in California later than in Florida as homes in California are in higher elevation than those in Florida. For example, according to California's Legislative Analyst's Office (LAO)'s

Figure 10 Percentage of Homes with Mortgage and Median Mortgage Cost in Coastal California Zip Codes and All of California



Source: American Community Survey

Figure 11 Median Household Income and Percentage of Residents with College Degree or Higher in Coastal California Zip Codes and All of California



Source: American Community Survey

10. See their paper, "Neglected No More: Housing Markets, Mortgage Lending, and Sea Level Rise," NBER Working Paper 27930.

11. One example is the following quote by Clifford Rossi, a former risk officer at both Fannie Mae and Freddie Mac, "It never reaches the point of people really kind of being forward-thinking about this until the crisis is upon you or about to hit you in the face." November 30, 2020, Politico. <https://www.politico.com/news/2020/11/30/climate-change-mortgage-housing-environment-433721>

report,<sup>12</sup> SLR will reach 1 foot in 2035 and 2 feet in 2060 in California coastline.

Using a comprehensive database of all of U.S. coastal home sales until 2017 merged with data on elevation relative to local cities, Murfin and Spiegel (2020)<sup>13</sup> suggest there is no evidence of a price discount for those homes subject to SLR risk. This implies there might be variation of perception, experiences, and reaction in response to SLR risk across coastal communities in the U.S. Californians for sure are now more aware of wildfire risks than residents in other states.

## Conclusions

The take-aways of the report are as follows:

- The projected impact of sea level rise (SLR) on coastal California housing markets are as follows:

- Number of homes affected -- 1 foot: 10,900, 2 feet: 19,000, 4 feet: 66,600
- Number of people affected -- 1 foot: 27,000, 2 feet: 46,000, 4 feet: 155,600
- Property value loss -- 1 foot: \$11 billion, 2 feet: \$20 billion, 4 feet: \$68 billion
- We divide coastal California zip codes into three zones by the percentage of housing units impacted by SLR of 4 feet: Green Zone (0%, 196 zip codes), Yellow Zone (below 4%, 81 zip codes), and Red Zone (above 4%, 30 zip codes).
- We do not find evidence that homebuyers have seriously factored SLR risk into their investment decisions in California. Red Zone houses are still in high demand by high-income and high-education households.

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12. "What Threat Does Sea-level Rise Pose to California?" August, 2020. <https://lao.ca.gov/Publications/Report/4261>

13. Murfin and Spiegel, "Is the Risk of Sea Level Rise Capitalized in Residential Real Estate?" (2020) *Review of Financial Studies*, 33:3, 1217-1255.

# SEA LEVEL RISE AND ITS IMPACT ON CALIFORNIA HOUSING MARKETS

## Appendix. Zip Codes in Red Zone and Yellow Zone of Coastal California

Zone	Zip Code	% of Home to SLR Risk	Total # of homes	Total population	Zone	Zip Code	% of Home to SLR Risk	Total # of homes	Total population
Red	94065	77.2%	5,275	12,579	Yellow	95076	1.5%	25,359	86,703
Red	94404	64.2%	15,149	36,905	Yellow	93035	1.4%	12,158	29,404
Red	92661	46.1%	2,568	3,225	Yellow	94111	1.3%	2,624	3,620
Red	94502	45.7%	5,262	14,619	Yellow	94559	1.2%	11,070	27,523
Red	94303	34.9%	14,699	48,039	Yellow	94070	1.2%	12,154	31,049
Red	94158	31.5%	4,265	7,291	Yellow	94603	1.1%	10,434	34,593
Red	94403	27.8%	17,241	44,300	Yellow	92101	1.1%	27,236	39,313
Red	94401	27.4%	13,511	35,414	Yellow	92106	1.0%	8,074	19,080
Red	94925	26.3%	4,053	9,866	Yellow	94801	0.9%	10,311	29,958
Red	95564	26.2%	202	432	Yellow	95501	0.8%	11,107	23,467
Red	90803	24.4%	18,166	32,389	Yellow	92104	0.8%	23,304	45,202
Red	94940	23.9%	138	234	Yellow	95039	0.7%	424	1,195
Red	94949	16.0%	7,721	17,452	Yellow	94945	0.7%	7,503	19,035
Red	94939	15.8%	3,520	7,108	Yellow	95551	0.6%	665	1,374
Red	92649	15.5%	15,082	34,406	Yellow	92660	0.6%	16,942	36,906
Red	94063	13.7%	10,598	34,503	Yellow	94010	0.5%	17,378	42,730
Red	94970	12.9%	874	689	Yellow	94589	0.5%	10,097	30,668
Red	94901	11.6%	16,336	42,482	Yellow	94565	0.5%	29,369	96,081
Red	92663	11.1%	12,246	21,572	Yellow	90815	0.5%	14,883	41,026
Red	94402	11.0%	10,225	25,764	Yellow	95555	0.4%	224	337
Red	94089	10.5%	8,474	22,313	Yellow	94965	0.4%	6,459	11,408
Red	94920	8.5%	5,954	12,797	Yellow	92107	0.3%	14,706	31,148
Red	94903	8.3%	12,587	30,048	Yellow	94710	0.3%	3,231	7,461
Red	94585	7.4%	9,572	29,599	Yellow	92008	0.3%	13,051	27,330
Red	94501	7.0%	26,889	63,843	Yellow	94608	0.3%	15,194	30,289
Red	94577	6.4%	17,922	48,088	Yellow	92625	0.2%	6,804	12,148
Red	92109	5.7%	26,213	48,417	Yellow	94555	0.2%	11,941	38,388
Red	92118	5.6%	10,884	22,484	Yellow	95012	0.2%	2,739	10,792
Red	90740	5.1%	13,714	24,494	Yellow	94956	0.2%	916	1,224
Red	94002	5.0%	11,015	27,202	Yellow	94956	0.2%	916	1,224
Yellow	94904	3.9%	5,665	12,590	Yellow	95548	0.2%	582	1,224
Yellow	94587	3.6%	22,455	74,601	Yellow	94043	0.2%	13,777	31,488
Yellow	93013	3.4%	7,565	16,644	Yellow	95410	0.2%	629	1,159
Yellow	94030	3.1%	8,591	22,710	Yellow	95536	0.2%	1,270	2,898
Yellow	94941	3.1%	14,226	32,013	Yellow	90293	0.2%	7,059	12,694
Yellow	94025	3.0%	16,036	42,788	Yellow	94130	0.1%	708	3,064
Yellow	92647	2.7%	22,068	62,718	Yellow	95010	0.1%	4,847	9,030
Yellow	94937	2.6%	732	816	Yellow	94601	0.1%	16,489	52,299
Yellow	94607	2.6%	12,397	26,254	Yellow	94503	0.1%	5,639	20,306
Yellow	94107	2.5%	15,981	29,689	Yellow	93402	0.1%	6,850	16,350
Yellow	95503	2.5%	10,799	25,503	Yellow	94553	0.1%	19,612	49,699
Yellow	94066	2.5%	15,238	43,124	Yellow	92121	0.1%	1,883	4,655
Yellow	90265	2.2%	9,818	18,389	Yellow	94804	0.0%	15,303	41,510
Yellow	91932	2.1%	10,488	26,701	Yellow	92054	0.0%	17,787	42,173
Yellow	94924	2.1%	858	1,134	Yellow	92054	0.0%	17,787	42,173
Yellow	94590	2.0%	16,069	37,377	Yellow	94606	0.0%	16,245	38,303
Yellow	92648	1.9%	21,180	46,890	Yellow	95062	0.0%	16,798	38,028
Yellow	94579	1.8%	7,310	22,040	Yellow	94123	0.0%	15,200	25,941
Yellow	94572	1.7%	3,395	10,411	Yellow	95476	0.0%	17,420	36,792
Yellow	93041	1.7%	8,463	24,506	Yellow	92007	0.0%	4,838	11,234
Yellow	95002	1.7%	594	2,146	Yellow	94105	0.0%	6,403	9,155
Yellow	95521	1.6%	9,470	21,462	Yellow	93442	0.0%	6,505	10,976
Yellow	94923	1.6%	1,286	846	Yellow	95437	0.0%	7,072	14,632
Yellow	94545	1.6%	9,675	32,525	Yellow	95531	0.0%	9,535	23,470
Yellow	94510	1.5%	11,698	28,262	Yellow	95003	0.0%	11,883	24,837
					Yellow	94954	0.0%	14,138	38,414

# THE UCLA ANDERSON FORECAST FOR CALIFORNIA

DECEMBER 2020 REPORT

Tables

FORECAST TABLES - SUMMARY

**Summary of the UCLA Anderson  
Forecast for California by Calendar  
Year**

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Personal Income and Taxable Sales</b>											
Personal Income (Bil. \$)	1886.4	2021.0	2172.9	2273.6	2383.1	2514.5	2632.3	2777.2	2813.0	2952.5	3126.8
(% Ch.)	1.8	7.1	7.5	4.6	4.8	5.5	4.7	5.5	1.3	5.0	5.9
Real Personal Income (Bil. 2012 \$)	1858.0	1956.1	2073.6	2120.8	2159.0	2196.5	2234.9	2313.9	2291.0	2338.3	2418.5
(% Ch.)	0.3	5.3	6.0	2.3	1.8	1.7	1.7	3.5	-1.0	2.1	3.4
Taxable Sales (Bil. \$)	586.4	615.4	638.3	654.1	678.7	708.0	733.8	670.6	725.1	735.9	754.4
(% Ch.)	5.1	4.9	3.7	2.5	3.8	4.3	3.6	-8.6	8.1	1.5	2.5
Real Taxable Sales (Bil. 2012 \$)	577.6	595.7	609.2	610.1	614.8	618.4	622.9	558.5	590.5	582.9	583.5
(% Ch.)	3.5	3.1	2.3	0.2	0.8	0.6	0.7	-10.3	5.7	-1.3	0.1
<b>Price Inflation (% Change)</b>											
Consumer Prices	1.5	1.8	1.4	2.3	3.0	3.7	2.9	1.9	2.3	2.8	2.4
<b>Employment and Labor Force (Household Survey)</b>											
Employment (% Ch.)	2.1	2.1	2.0	1.8	1.5	1.1	0.9	-8.3	6.1	3.4	2.2
Labor Force (% Ch.)	0.5	0.5	0.6	1.0	0.8	0.6	0.6	-2.0	2.3	1.5	1.4
Unemployment Rate (%)	8.9	7.5	6.2	5.5	4.8	4.3	4.1	10.3	6.9	5.2	4.4
<b>Nonfarm Employment (Payroll Survey, % Change)</b>											
Total Nonfarm	2.6	2.8	3.0	2.7	2.1	2.1	1.5	-6.8	3.6	3.8	2.5
Natural Resources & Min.	-0.1	3.3	-9.6	-15.6	-1.9	2.6	0.4	-1.6	-2.1	-0.3	1.4
Construction	8.0	5.8	8.5	6.0	4.5	6.2	2.7	-3.7	3.6	1.1	2.2
Manufacturing	0.2	1.4	1.8	0.5	0.2	0.9	0.0	-6.2	0.8	2.7	3.1
Nondurable Goods	0.5	1.2	1.3	0.9	-0.6	-1.2	-0.8	-9.2	1.7	3.3	3.5
Durable Goods	-0.0	1.6	2.1	0.3	0.6	2.0	0.5	-4.5	0.2	2.4	2.8
Tran., Warehousing & Utility.	3.2	4.1	6.2	6.7	6.3	5.2	5.4	-1.7	2.8	3.3	3.4
Trade	1.8	2.1	1.7	0.9	0.5	-0.1	-1.3	-6.5	3.7	-0.4	-0.8
Information	3.1	2.9	5.3	7.9	0.6	2.6	3.5	-4.9	5.2	4.7	5.0
Financial Activities	1.2	-0.0	2.5	2.6	1.2	0.6	0.4	0.1	2.1	1.1	1.6
Professional & Bus. Servs.	4.4	3.4	2.6	1.6	2.0	3.4	2.0	-4.2	4.8	6.8	3.3
Educational & Health Servs.	3.4	3.0	3.6	3.6	3.8	2.7	3.0	-3.6	3.0	2.6	1.5
Leisure & Hospitality	4.9	4.9	4.1	4.1	2.7	2.0	2.0	-23.2	12.7	7.6	4.7
Other Services	2.4	3.7	1.6	1.8	1.9	1.4	0.8	-16.1	5.4	9.4	4.1
Federal Government	-1.9	-1.3	0.8	1.3	0.2	-0.8	0.9	5.2	-1.8	-0.0	0.3
State and Local Government	0.1	2.0	2.2	2.3	1.7	1.2	1.0	-4.9	-1.1	4.7	3.2
<b>Nonfarm Employment (Payroll Survey, Thousands)</b>											
Total Nonfarm	15150.8	15575.0	16048.6	16479.3	16827.1	17173.1	17430.4	16239.9	16829.4	17466.6	17900.8
Natural Resources & Min.	28.3	29.2	26.4	22.3	21.9	22.4	22.5	22.2	21.7	21.6	21.9
Construction	637.7	674.6	731.8	775.4	810.2	860.3	883.8	850.7	881.7	891.5	911.1
Manufacturing	1261.7	1279.7	1302.3	1309.1	1311.7	1323.0	1323.0	1240.9	1250.3	1283.8	1323.2
Nondurable Goods	470.1	475.7	481.6	486.1	483.4	477.7	473.8	430.0	437.4	451.8	467.8
Durable Goods	791.6	804.0	820.7	823.0	828.3	845.3	849.3	810.9	812.9	832.0	855.5
Tran., Warehousing & Utility	503.7	524.5	557.2	594.5	632.0	664.6	700.6	688.6	707.6	730.6	755.5
Trade	2264.5	2311.0	2351.1	2372.9	2384.4	2382.7	2351.2	2198.4	2280.6	2270.4	2252.0
Information	450.2	463.5	488.2	526.6	529.9	543.5	562.5	534.8	562.8	589.5	619.0
Financial Activities	783.1	782.8	802.4	823.0	832.8	838.2	841.4	842.1	859.5	869.1	883.2
Professional & Bus. Servs.	2348.0	2427.2	2490.4	2531.4	2581.7	2669.4	2723.9	2610.8	2736.3	2922.9	3018.6
Educational & Health Servs.	2308.7	2378.1	2464.4	2552.3	2650.5	2722.3	2805.0	2702.7	2784.5	2855.9	2898.3
Leisure & Hospitality	1675.3	1756.7	1828.6	1902.9	1954.1	1993.7	2032.7	1560.6	1758.8	1892.6	1981.2
Other Services	515.7	534.8	543.4	553.5	563.8	571.8	576.4	483.4	509.7	557.7	580.3
Federal Government	245.6	242.5	244.4	247.5	248.1	246.2	248.5	261.5	256.7	256.7	257.5
State and Local Government	2128.4	2170.4	2217.9	2268.0	2306.3	2335.0	2358.9	2243.3	2219.2	2324.2	2399.1
<b>Construction Activity, Auto Registrations, and Population</b>											
Residential Building Permits (Thous. Units)	85.4	86.5	98.5	101.3	114.1	117.2	112.7	106.2	123.4	128.6	131.6
Nonresidential Construction											
Value (Mil. 2012 \$)	22280.6	21977.6	24081.1	24940.8	25578.6	29216.6	27104.7	19311.1	19453.7	21094.8	23028.6
Value (Mil. \$)	22617.7	23571.9	26347.4	27369.6	28821.5	33464.5	32168.0	23202.8	23864.5	26726.2	29976.9
Auto Registrations (Mil.)	1.7	1.8	2.0	2.0	1.9	1.9	1.8	1.4	1.5	1.5	1.5
Net Immigration (Thous., Past Year)	69.0	73.4	66.4	34.6	55.6	37.4	-11.7	-9.2	-25.2	-33.0	-40.8
Population (Thous.)	38372.9	38700.1	39012.4	39279.0	39552.3	39784.3	39936.6	40092.8	40256.3	40403.5	40534.4
(% Ch.)	0.8	0.9	0.8	0.7	0.7	0.6	0.4	0.4	0.4	0.4	0.3



FORECAST TABLES - QUARTERLY SUMMARY

**Summary of the UCLA Anderson  
Forecast for California by Quarter**

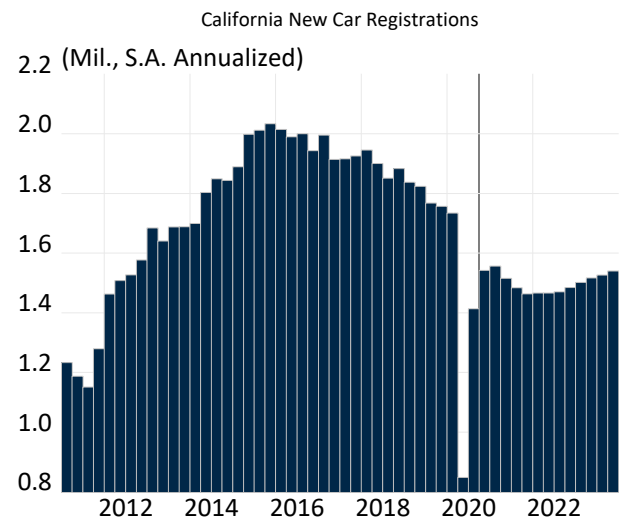
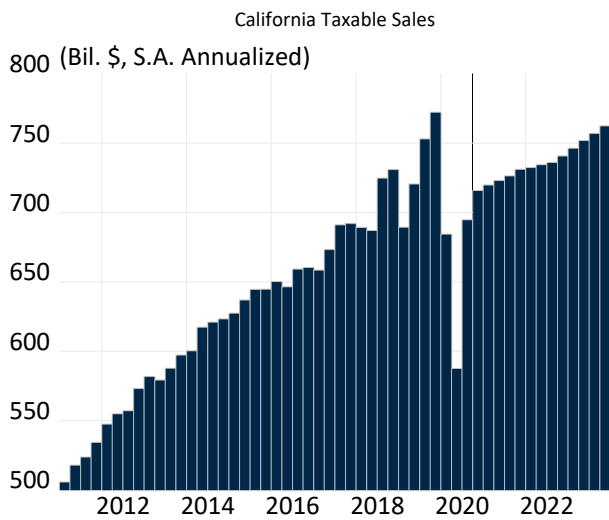
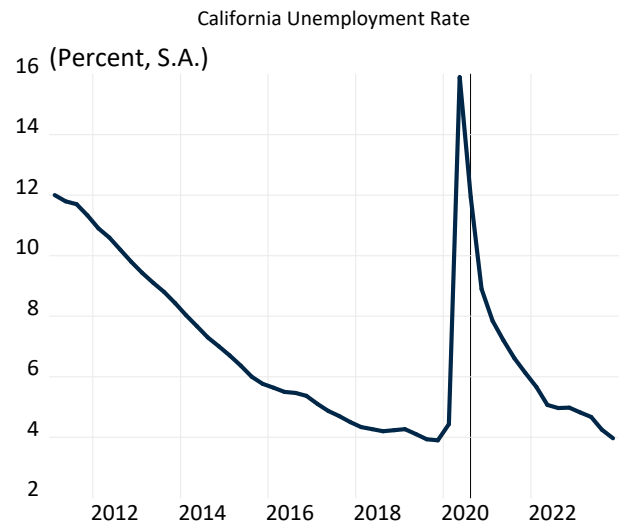
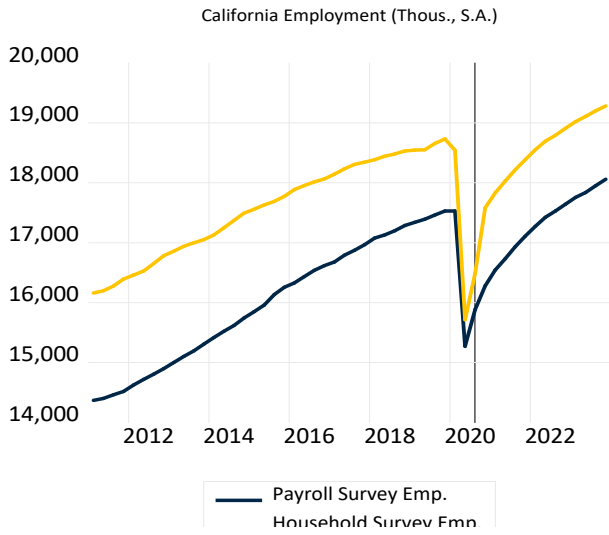
2020Q3 2020Q4 2021Q1 2021Q2 2021Q3 2021Q4 2022Q1 2022Q2 2022Q3 2022Q4 2023Q1

<b>Personal Income and Taxable Sales</b>											
Personal Income (Bil. \$, S.A. Annualized) (% Ch. A. R.)	2792.4	2734.7	2788.1	2808.6	2808.2	2847.0	2888.7	2932.5	2973.2	3015.6	3062.5
Real Personal Income (Bil. 2012 \$, S.A. Annualized) (% Ch. A. R.)	2321.6	2260.8	2295.9	2297.6	2278.8	2291.8	2310.3	2329.8	2347.7	2365.4	2388.0
Taxable Sales (Bil. \$, S.A. Annualized) (% Ch. A. R.)	694.8	715.8	719.8	723.0	726.4	731.1	732.4	734.5	736.1	740.7	746.3
Real Taxable Sales (Bil. 2012 \$, S.A. Annualized) (% Ch. A. R.)	577.7	591.8	592.7	591.5	589.4	588.5	585.7	583.5	581.2	581.0	581.9
<b>Price Inflation (% Change Annualized Rate)</b>											
Consumer Prices	3.5	2.3	1.6	2.7	3.3	3.3	2.6	2.7	2.5	2.7	2.4
<b>Employment and Labor Force (Household Survey)</b>											
Employment (% Ch. A. R.)	21.1	29.4	5.8	4.6	4.2	3.8	3.7	3.1	2.2	2.5	2.4
Labor Force (% Ch. A. R.)	0.7	13.0	1.0	1.7	1.5	1.6	1.6	0.5	1.7	2.5	1.7
Unemployment Rate (% S.A.)	11.9	8.9	7.8	7.2	6.6	6.1	5.7	5.1	5.0	5.0	4.8
<b>Nonfarm Employment (Payroll Survey, % Change Annualized Rate)</b>											
Total Nonfarm	17.0	10.3	6.7	4.7	4.8	4.2	3.9	3.6	2.5	2.6	2.6
Natural Resources & Min.	-10.4	8.6	-6.0	0.1	-1.1	-0.9	-0.4	-0.7	1.8	0.1	2.4
Construction	17.2	16.6	2.7	1.8	0.3	2.9	0.3	0.8	0.9	1.4	3.1
Manufacturing	7.5	4.6	1.5	1.7	4.3	2.3	3.4	1.0	2.4	4.2	3.9
Nondurable Goods	11.5	8.4	2.5	3.1	6.5	0.1	5.5	2.1	2.4	3.5	4.7
Durable Goods	5.5	2.6	1.0	1.0	3.2	3.5	2.3	0.4	2.4	4.6	3.4
Tran., Warehousing & Utility	10.8	8.4	2.7	3.9	2.3	4.7	5.2	1.1	0.3	5.2	4.3
Trade	25.6	13.8	10.9	-3.4	0.2	-1.1	1.5	-1.8	-0.9	0.3	-0.6
Information	6.1	9.3	9.1	17.9	6.9	2.8	4.3	2.9	2.9	5.7	4.9
Financial Activities	4.8	6.5	2.6	1.0	0.2	1.5	0.1	1.1	3.5	1.3	1.9
Professional & Bus. Servs.	10.3	8.7	5.0	7.5	7.1	10.8	6.8	7.1	1.9	3.5	3.5
Educational & Health Servs.	17.0	3.1	4.4	8.2	1.9	2.6	1.5	5.0	0.0	0.7	2.9
Leisure & Hospitality	97.4	54.2	23.2	11.5	23.6	2.5	5.7	5.0	8.2	4.8	1.7
Other Services	38.7	24.7	12.5	6.4	3.5	15.2	9.5	9.4	12.3	2.5	4.7
Federal Government	43.6	-18.7	-9.6	-0.2	-0.2	0.0	-0.0	0.0	-0.0	0.4	0.4
State and Local Government	-8.0	-2.0	3.7	2.3	2.3	6.3	6.0	5.2	3.9	3.0	2.9
<b>Nonfarm Employment (Payroll Survey, Thousands, S.A.)</b>											
Total Nonfarm	15882.5	16278.1	16543.4	16733.5	16932.7	17108.1	17271.6	17423.0	17529.5	17642.2	17755.2
Natural Resources & Min.	21.6	22.1	21.7	21.8	21.7	21.6	21.6	21.6	21.7	21.7	21.8
Construction	838.2	871.0	876.8	880.8	881.4	887.8	888.4	890.2	892.1	895.2	902.1
Manufacturing	1219.6	1233.3	1237.9	1243.2	1256.4	1263.6	1274.3	1277.5	1285.1	1298.5	1310.9
Nondurable Goods	420.3	428.8	431.5	434.7	441.7	441.7	447.7	450.1	452.8	456.7	462.0
Durable Goods	799.3	804.4	806.4	808.5	814.8	821.9	826.5	827.4	832.3	841.8	848.9
Tran., Warehousing & Utility	680.0	693.9	698.6	705.3	709.2	717.4	726.5	728.5	729.1	738.4	746.3
Trade	2166.5	2237.6	2296.2	2276.6	2278.0	2271.8	2280.3	2270.0	2264.8	2266.6	2263.3
Information	516.8	528.4	540.0	562.8	572.3	576.2	582.3	586.5	590.6	598.8	606.0
Financial Activities	838.2	851.6	857.0	859.0	859.4	862.7	862.8	865.3	872.8	875.5	879.6
Professional & Bus. Servs.	2572.0	2626.3	2658.9	2707.1	2753.9	2825.2	2872.3	2921.8	2935.9	2961.5	2987.0
Educational & Health Servs.	2683.0	2703.4	2732.9	2787.1	2800.1	2817.9	2828.6	2863.1	2863.3	2868.5	2888.7
Leisure & Hospitality	1426.2	1589.3	1674.5	1720.8	1814.4	1825.6	1851.3	1874.0	1911.4	1933.7	1941.8
Other Services	456.8	482.7	497.1	504.9	509.2	527.5	539.6	551.8	568.0	571.5	578.1
Federal Government	277.4	263.4	256.8	256.7	256.6	256.6	256.6	256.6	256.6	256.9	257.2
State and Local Government	2186.2	2175.1	2195.0	2207.6	2220.0	2254.3	2287.1	2316.1	2338.2	2355.5	2372.5
<b>Construction Activity, Auto Registrations, and Population</b>											
Residential Building Permits (Thous. Units, S.A. Annualized)	114.3	125.2	122.2	122.9	122.9	125.6	126.2	127.5	129.8	130.8	130.7
Nonresidential Construction											
Value (Mil. 2012 \$, S.A. Annualized)	19497.5	19250.4	19440.5	19448.0	19261.3	19665.1	20093.9	20806.7	21614.6	21864.0	22175.7
Value (Mil. \$, S.A. Annualized)	23402.8	23220.4	23567.5	23744.4	23710.7	24435.7	25173.3	26261.7	27476.8	27993.0	28585.0
Auto Registrations (Mil., S.A. Annualized)	1.4	1.5	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Net Immigration (Thous., Past 4 Qtrs.)	-18.4	-20.3	-22.3	-24.2	-26.2	-28.1	-30.1	-32.0	-34.0	-35.9	-37.9
Population (Thous.)	40114.9	40156.7	40197.6	40237.4	40276.2	40314.1	40350.9	40386.6	40421.4	40455.1	40487.9
(% Ch. A. R.)	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3

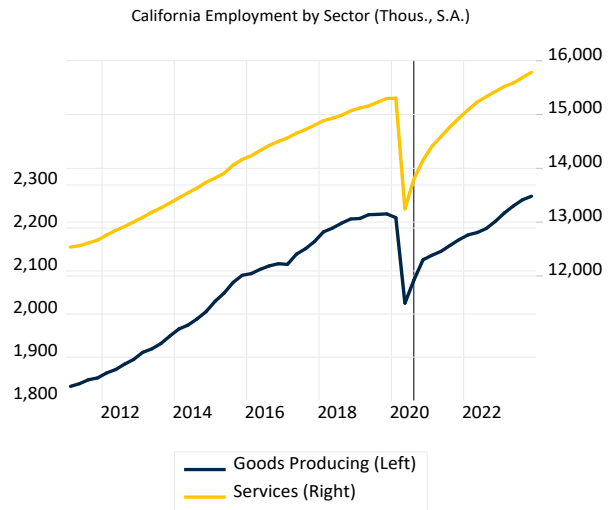
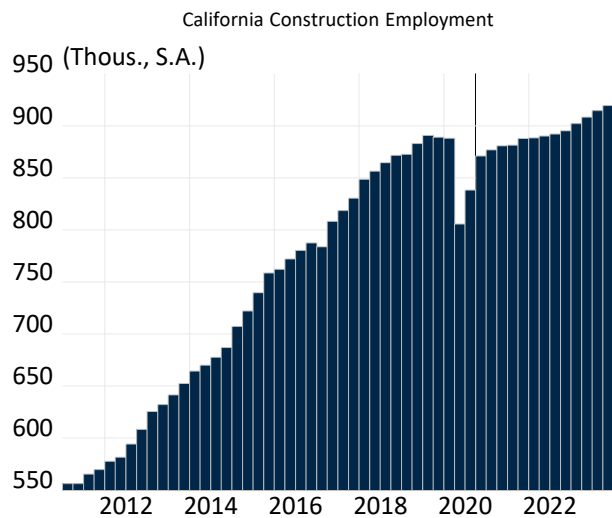
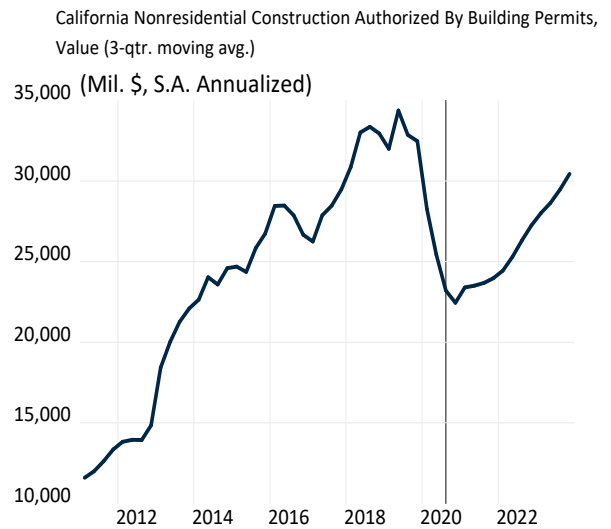
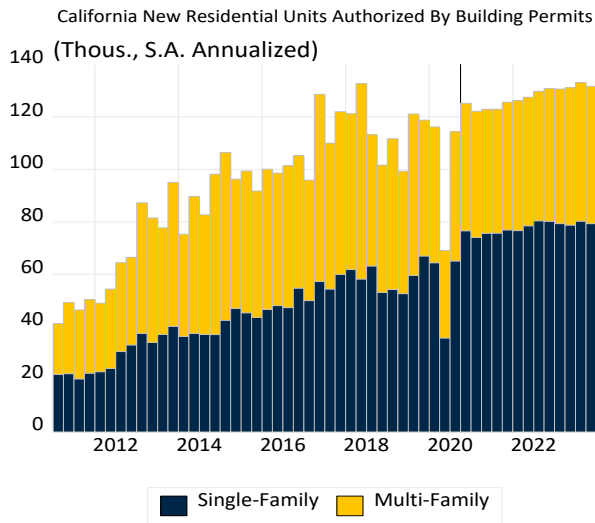
# THE UCLA ANDERSON FORECAST FOR CALIFORNIA

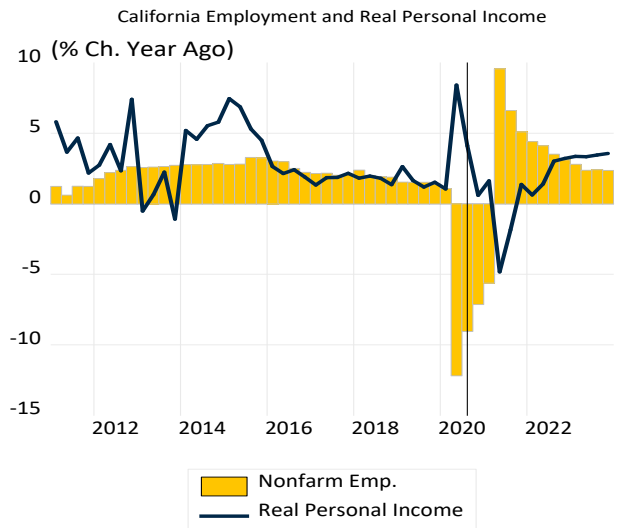
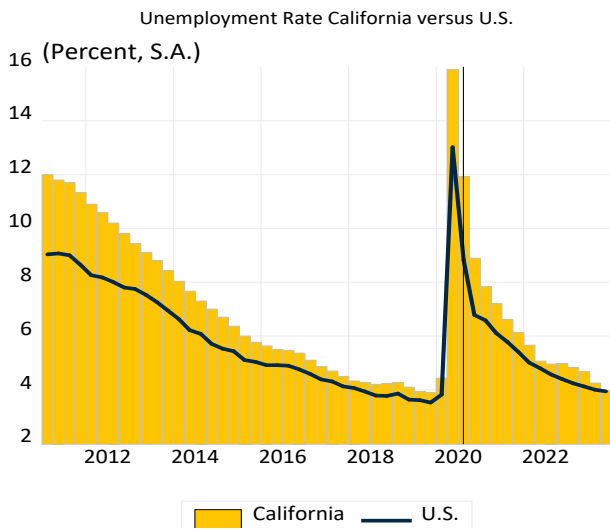
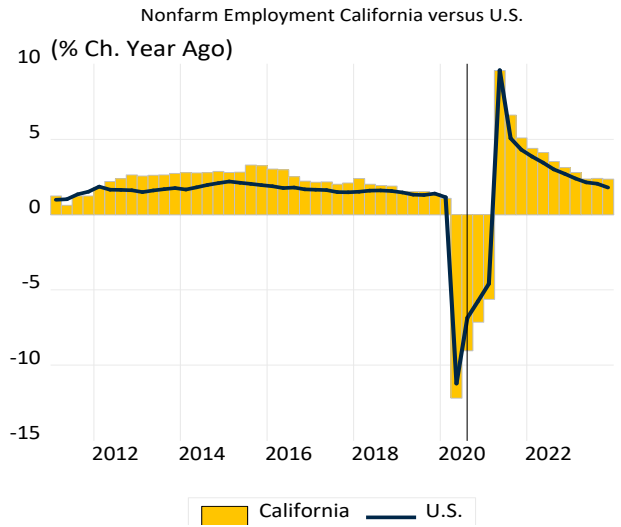
DECEMBER 2020 REPORT

Charts

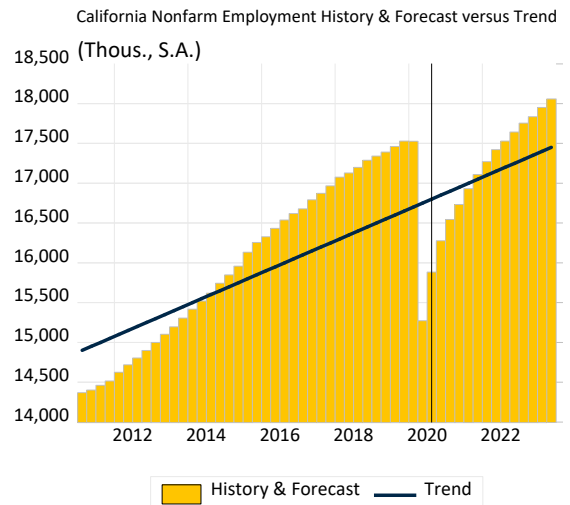
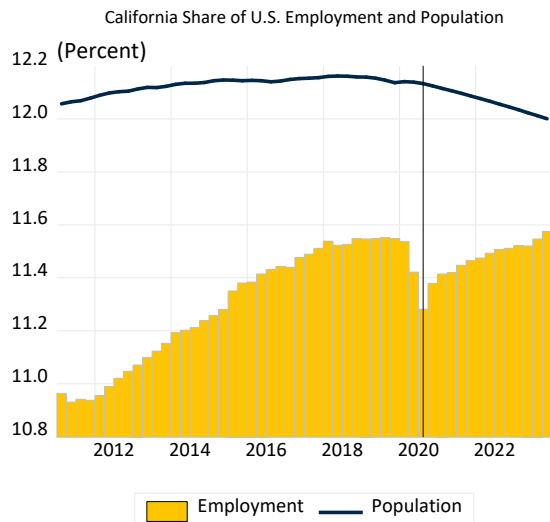
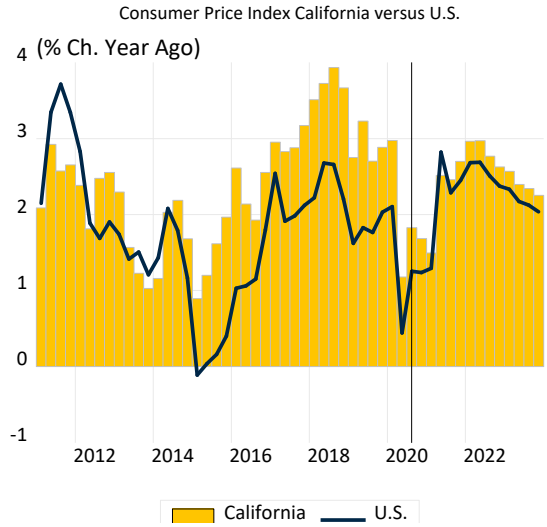
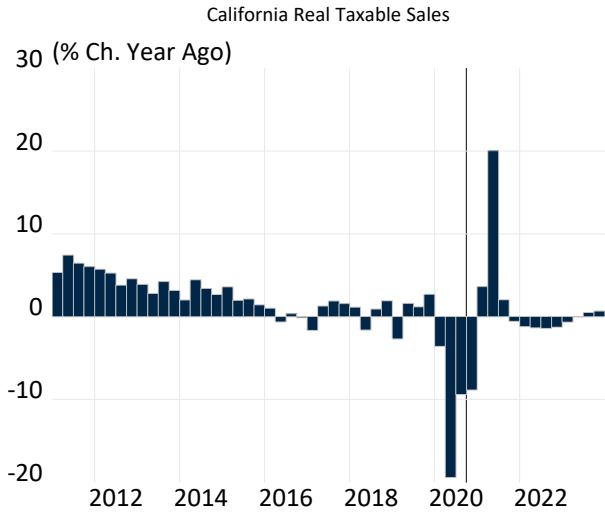


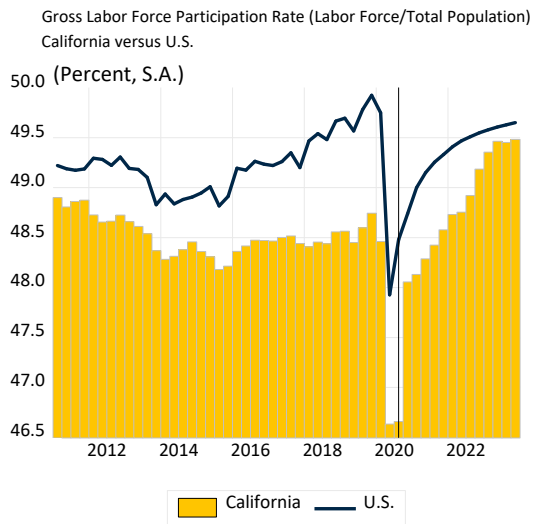
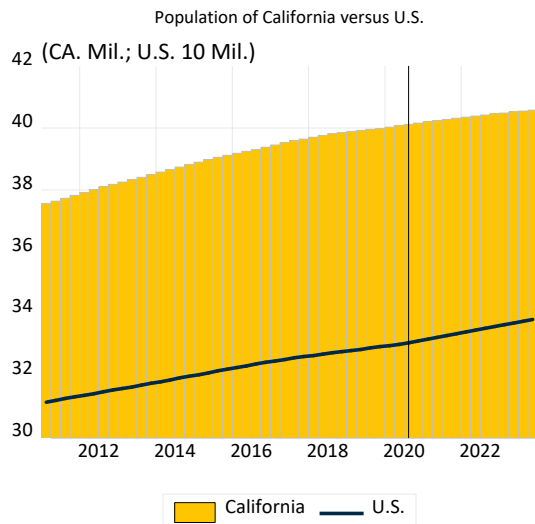
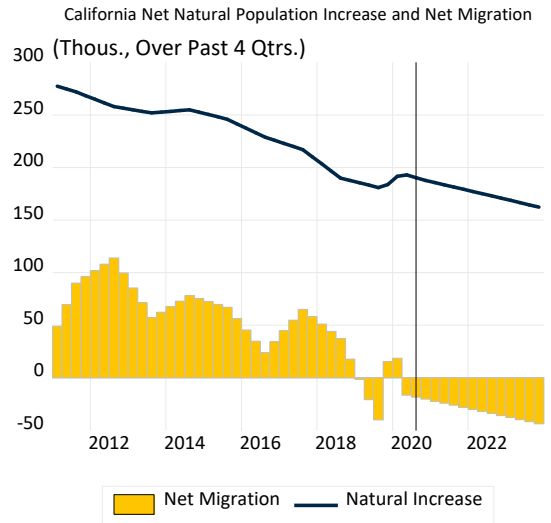
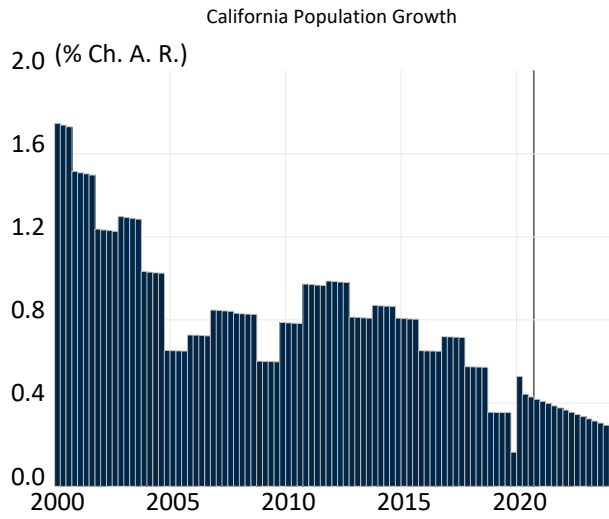
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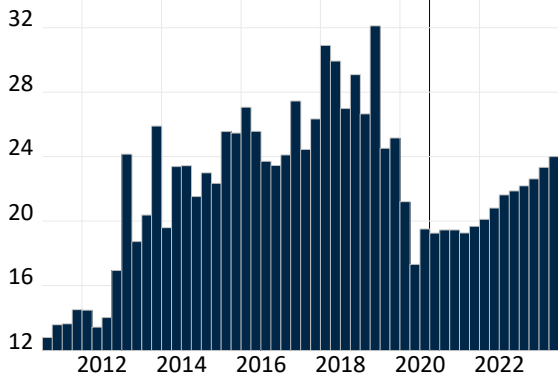
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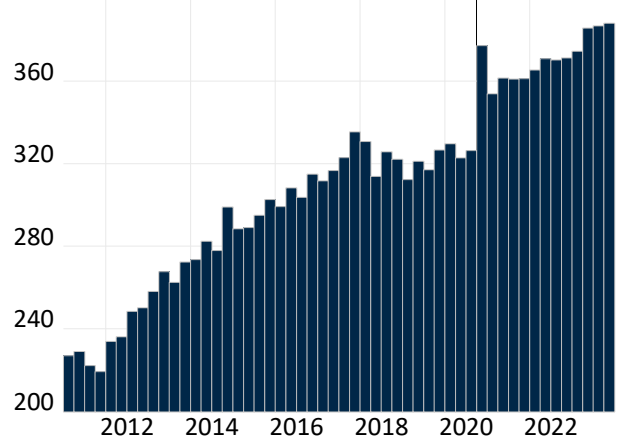


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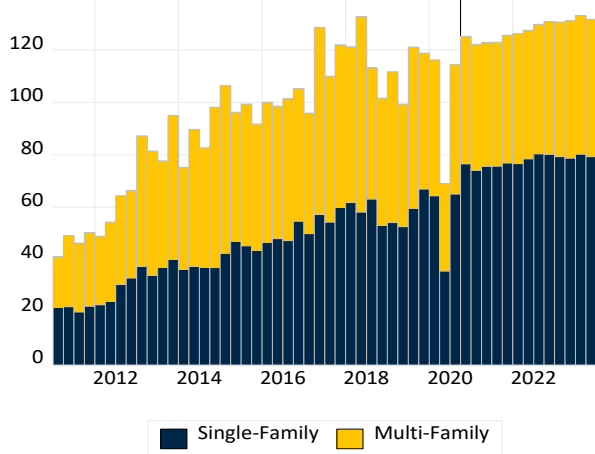
California Nonresidential Construction Authorized By Building Permits, Real Value  
36 (Bil. 2012 \$, S.A. Annualized)



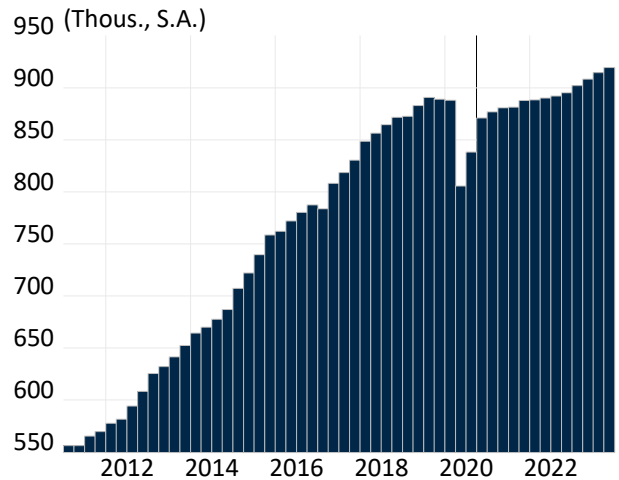
U.S. Median Price of New Single-Family Homes  
400 (Thous. \$, S.A.)



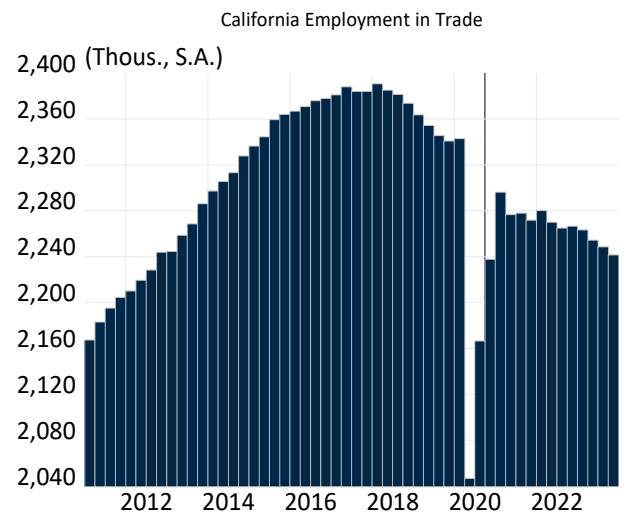
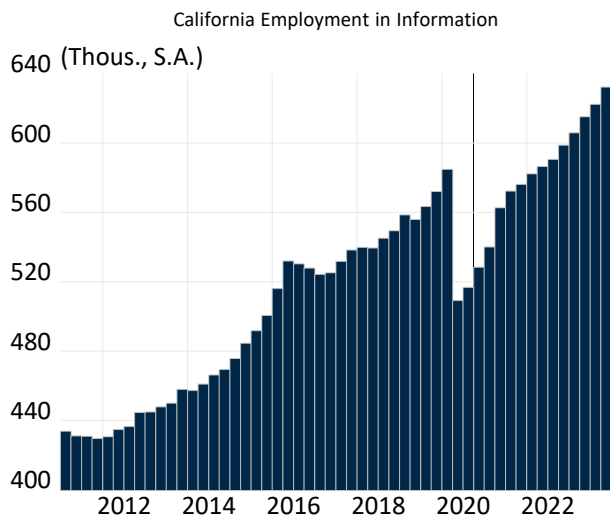
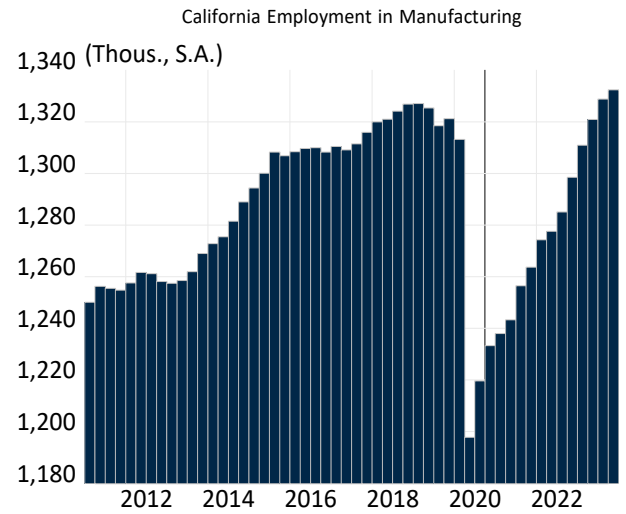
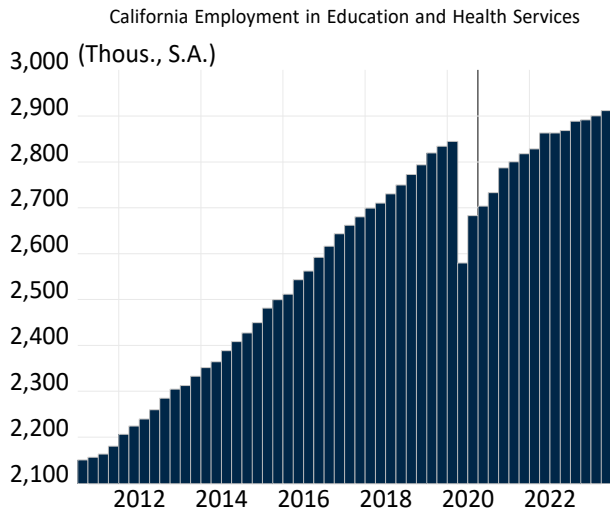
California New Residential Units Authorized By Building Permits  
140 (Thous., S.A. Annualized)



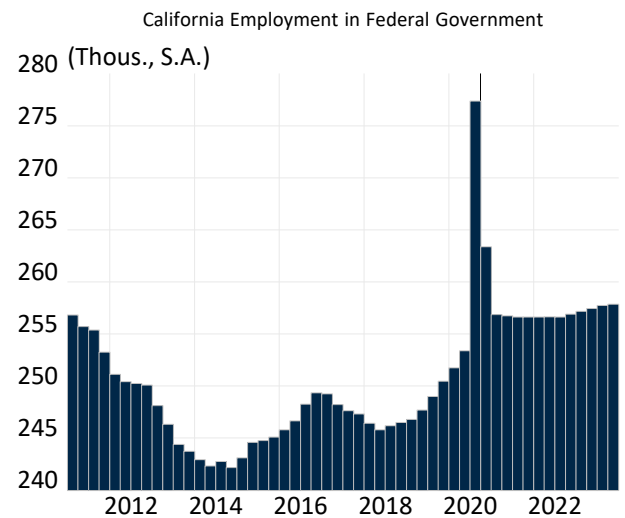
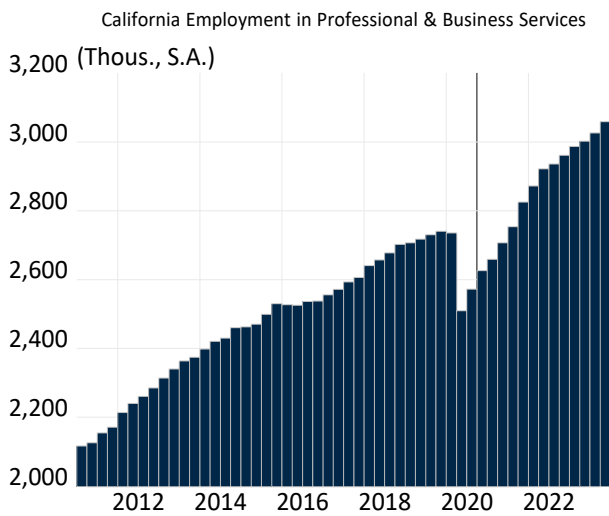
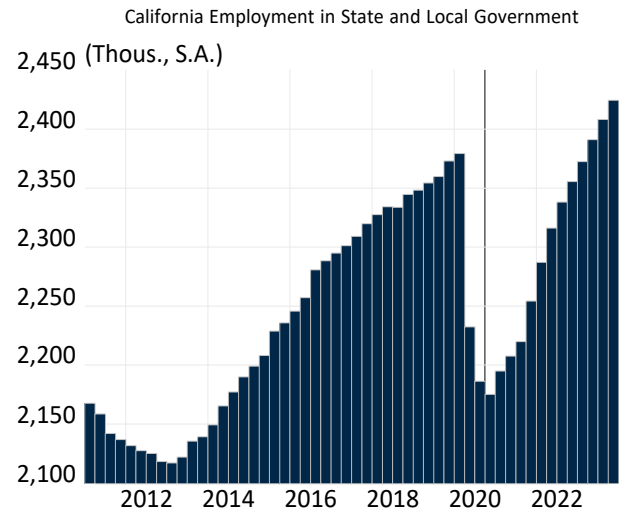
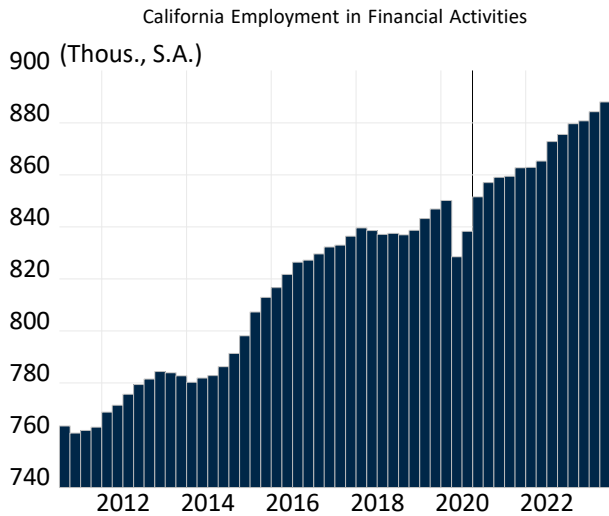
California Construction Employment







CHARTS - FORECAST





The Los Angeles Department of Water and Power (DWP), established at the beginning of the century is the largest municipally-owned utility in the nation. It exists under and by virtue of the Charter of the City of Los Angeles enacted in 1925.

With a work force in excess of 9,000, the DWP provides water and electricity to some 3.5 million residents and businesses in a 464-square-mile area.

DWP's operations are financed solely by the sale of water and electric services. Capital funds are raised through the sale of bonds. No tax support is received.

A five-member Board of Water and Power Commissioners establishes policy for the DWP. The Board members are appointed by the Mayor and confirmed by the City Council for five-year terms.



The Los Angeles County Metropolitan Transportation Authority (Metro) is unique among the nation's transportation agencies. It serves as transportation planner and coordinator, designer, builder and operator for one of the country's largest, most populous counties. More than 9 million people – one-third of California's residents – live, work, and play within its 1,433-square-mile service area.

Besides operating over 2,000 coaches in the Metro Bus fleet, Metro also designed, built and now operates over 73 miles of Metro Rail service. The Metro Rail system currently consists of 62 stations and several more are in the planning and/or design stage.

In addition to operating its own services Metro funds 16 municipal bus operators and funds a wide array of transportation projects including bikeways and pedestrian facilities, local road and highway improvements, goods movement, and the popular Freeway Patrol and Call Boxes.

Recognizing that no one form of transit can solve urban congestion problems, Metro's multimodal approach uses a variety of transportation alternatives to meet the needs of the highly diverse population in the region.

Metro's Mission is to insure the continuous improvement of an efficient and effective transportation system for Los Angeles County. In support of this mission, our team members provide expertise and leadership based on their distinct roles: operating transit system elements for which the agency has delivery responsibility, planning the countywide transportation system in cooperation with other agencies, managing the construction and engineering of transportation system components and delivering timely support services to the Metro organization.

Metro was created in the state legislature by Assembly Bill 152 in May 1992. This bill merged the Los Angeles County Transportation Commission (LACTC) and the Southern California Rapid Transit District (RTD) to become the Los Angeles County Metropolitan Transportation Authority. The merger became effective on April 1, 1993.

Metro is governed by a 13-member Board of Directors comprised of: the five Los Angeles County Supervisors, the Mayor of Los Angeles, three Los Angeles mayor-appointed members, four city council members representing the other 87 cities in Los Angeles County and one non-voting member is appointed by the Governor of California.



## Inland Empire Center for Economics and Public Policy

### Mission Statement

The mission of the Inland Empire Center for Economics and Public Policy (IEC) at Claremont McKenna College is to provide Inland Empire leaders with expert analysis of the region's unique political and economic landscape.

### Background

The IEC was founded in 2010 as a collaborative effort by the Rose Institute of State and Local Government and the Lowe Institute for Political Economy, both based at Claremont McKenna College. While the Inland Empire is one of California's fast growing areas, there was little political and economic analysis specific to the region. Recognizing this void and the increasing importance of the area to California's economy, the two research institutes saw the need for an organization that could deliver analysis on current issues impacting the Inland Empire.

The Rose Institute and the Lowe Institute were uniquely positioned to create the IEC because their staffs both specialized in political and economic analysis and were familiar with the Inland Empire. The IEC brings together experts from both founding institutions. Marc Weidenmier, Ph.D., director of the Lowe Institute, is a Research Associate of the National Bureau of Economic Research and a member of the Editorial Board of the Journal of Economic History. Andrew Busch, Ph.D., director of the Rose Institute, is an expert in American government and politics. Manfred Keil, Ph.D., an expert in comparative economics, has extensive knowledge on economic conditions in the Inland Empire. Kenneth P. Miller, J.D., Ph.D., is an expert in California politics and policy who studies political developments in the Inland Empire.

The primary ways that the IEC presents its analysis is through publications and conferences. The Inland Empire Outlook, which provides analysis on the Inland Empire's political and economic developments, is the IEC's predominant recurring publication. Its inaugural issue was published in Winter 2010. Besides publications, the IEC also hosts conferences throughout the Inland Empire. The conferences bring together panels of experts and business and political leaders in the Inland Empire to address current topics affecting the region. The annual economic forecast conference held at the Citizens Business Bank Arena in Ontario is in cooperation with the UCLA Anderson Forecast.

## SEMINAR MEMBERS

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The nonpartisan Legislative Analyst's Office (LAO) has been providing fiscal and policy advice to the California Legislature for more than 65 years. It is particularly well known for its fiscal and programmatic expertise and nonpartisan analyses relating to the state budget, including making recommendations for operating programs in the most effective and cost-efficient manner possible. Its responsibilities also include making economic and demographic forecasts for California, and fiscal forecasts for state government revenues and expenditures. It also prepares fiscal analyses for all propositions that appear on the California statewide ballot, including bond measures.

For more information about the LAO, please visit our website at [www.lao.ca.gov](http://www.lao.ca.gov) or call us at 916-445-4656.

As the state's primary energy policy and planning agency, the California Energy Commission is committed to reducing energy costs and environmental impacts of energy use - such as greenhouse gas emissions - while ensuring a safe, resilient, and reliable supply of energy.



The State of California's Department of Finance is responsible for submitting to the State's fiscal year budget to the Governor in January of each year. The Department is part of the State's Executive Branch and part of the Governor's Administration. The Director of Finance is appointed by the Governor and is his chief fiscal advisor. The Director sits as a member of the Governor's cabinet and senior staff. Principal functions include:

Establish appropriate fiscal policies to carry out the Administration's Programs.

Prepare, enact and administer the State's Annual Financial Plan.

Analyze legislation which has a fiscal impact.

Develop and maintain the California State Accounting and Reporting System (CALSTARS).

Monitor/audit expenditures by State departments to ensure compliance with approved standards and policies.

Develop economic forecasts and revenue estimates.

Develop population and enrollment estimates and projections.

Review expenditures on data processing activities of departments.

In addition, the Department of Finance interacts with the Legislature through various reporting requirements, by presenting and defending the Governor's Budget and in the legislature.

The Department interacts with other State departments on a daily basis on terms of administering the budget, reviewing fiscal proposals, establishing accounting systems, auditing department expenditures and communicating the Governor's fiscal policy to departments.



The energy industry is changing rapidly and dramatically. As global competition transforms the way companies do business, energy issues are no longer simply local, or even national. At the same time, it's clear that the importance of providing reliable local service has never been more important.

Our heritage at Southern California Edison is based on reliability. For more than 100 years we have provided high-quality, reliable electric service to more than 4.2 million business and residential customers over a 50,000 square mile service area in coastal, central, and southern California.

Of course, recent changes in the California's electric industry have affected us as well. In 1997, as part of the restructuring of the electric industry in our state, SCE sold its 12 fossil fuel generating stations and overhauled nearly every aspect of its business to prepare for the changing environment. While we still own and operate hydro and nuclear power facilities that serve our area, our main role is that of power transmission and distribution. The power needed for our customers is largely purchased from the California Power Exchange and provided by SCE to our customers without a price markup.

At SCE we want you to know that even in times of change, we retain our proven commitment to service, reliability, innovation, and the community.



The Labor Market Information Division (LMID) of the Employment Development Department is the official source for California's labor market information.

The LMID promotes California's economic health by providing information to help people understand California's economy and make informed labor market choices.

We collect, analyze, and publish statistical data and reports on California's labor force, industries, occupations, employment projections, wages, and other important labor market and economic data.

California's vast labor market includes over 1.5 million employers covered by Unemployment Insurance and over 19 million people in its civilian labor force.

For more information, visit our website at <http://www.labormarketinfo.edd.ca.gov/> or call

916-262-2162.

# Allen Matkins

From its Los Angeles base, Allen Matkins has conquered California, opening up offices in San Francisco, San Diego, Century City, and Irvine. With approximately 200 lawyers, the firm is known as a top real estate practice in the Golden State.

## Grown in the City of Angels

Allen Matkins has built its empire in the state where residents elect bodybuilders and shrug off earthquakes. Founded in Los Angeles in 1977, Allen Matkins has achieved notable success in corporate and hospitality work, as well as in the securities, employment, bankruptcy, and tax arenas. The firm has earned accolades from west coast publications like the Los Angeles Business Journal and the San Diego Business Journal. Its real strengths lie, however, in its real estate and litigation practices. The firm's litigation department has focuses in real estate, commercial, financial services, construction, environmental, and labor and employment litigation.

The firm has not only worked with local clients-like representing a public-private partnership to modernize the Los Angeles Air Force Base-but has also secured nationally known clients including Wells Fargo Bank, Sares-Regis Group, AT&T, Black & Decker, Met Life, The Home Depot, Blackstone Real Estate Advisors, and Capmark Finance.

## Buying and Selling Up the California Coast

Real estate is where the firm shines-Allen Matkins has ranked the No. 1 real estate law firm in California for a decade, according to Chambers & Partners. California Real Estate Journal has also placed Allen Matkins on the top of its real estate firm list, which was based on the number of real estate attorneys in each outfit. The firm's real estate practice handles all aspects of the real estate world, including litigation over construction, land use, landlord tenant, and condemnation issues.

And handling the real estate transactions of the present is not enough for the firm; Allen Matkins seeks to predict the future. The firm has developed a partnership with UCLA Anderson Forecast, an organization of economists who attempt to posit unbiased forecasts for California's economy and the nation's. Allen Matkins and the Anderson Forecast put out commercial real estate forecasts, covering rental and vacancy rates.





State Controller Betty T. Yee was elected in November 2014, following two terms of service on the Board of Equalization. As Controller, she continues to serve the Board as its fifth voting member.

The State Controller is the Chief Fiscal Officer of California, the sixth largest economy in the world. She helps administer two of the largest public pension funds in the nation and serves on 78 state boards and commissions. These are charged with duties ranging from protecting our coastline to helping build hospitals. The Controller is the state's independent fiscal watchdog, providing sound fiscal control over more than \$100 billion in receipts and disbursements of public funds a year, offering fiscal guidance to local governments, and uncovering fraud and abuse of taxpayer dollars.

#### The State Controller's Functions

- Account for and control disbursement of all state funds.
- Determine legality and accuracy of every claim against the State.
- Issue warrants in payment of the State's bills including lottery prizes.
- Administer the Uniform State Payroll System.
- Audit and process all personnel and payroll transactions for state civil service employees, exempt employees and California State University employees.
- Responsible for auditing various state and local government programs.
- Inform the public of the State's financial condition.
- Administer the Unclaimed Property Law.
- Inform the public of financial transactions of city, county and district governments.

Accomplish more with new streams of revenue. Avenu Insights & Analytics works closely with government clients to help them realize their full revenue potential — without raising taxes.

Supported by an experienced team of professionals who have driven results for thousands of government clients, Avenu's proven solutions give officials the insight and support they need to protect and grow revenue for the communities they serve. We work with you to understand and project your jurisdiction's tax and economic future, identify and resolve noncompliance issues, and secure the associated revenue.

For the past 40 years, Avenu has helped over 3,000 jurisdictions benefit from our Revenue Enhancement and Tax Administration solutions.

- **Compliance Auditing** ensures all expected revenue is accounted for and paid, in a wide variety of tax types, including Sales & Use, Alcohol, Lodging, Business License, Franchise Fee, and many more.
- **Data & Analytics** uses advanced software to assist with Economic Development that aggregates and organizes jurisdictional data into intuitive, graphical views to identify the trends and causes of revenue shifts over any period.
- **Discovery & Recovery** pinpoints and identifies non-filers and revenue shortfalls in license, permit and other taxes, and recovers payment with a budget-neutral approach.
- **Misallocation** identifies tax revenues that have not been properly reported and distributed to the appropriate jurisdiction.
- **Tax & License Administration** provides support across every local tax category and streamlines day-to-day operations, including data entry, billing & collections, funds distribution, compliance, taxpayer education & support services, and application / claims processing.

Learn more by visiting [www.AvenuInsights.com](http://www.AvenuInsights.com).

## Seminar

Avenu Insights & Analytics  
 California Economic Forecast  
 California Energy Commission  
 California Legislative Analyst's Office  
 Claremont McKenna College  
 County of Los Angeles CEO  
 CSU, Dominguez Hills  
 Department of Finance  
 Department of Water and Power  
 Employment Development Department  
 LA Co Metropolitan Transportation Authority  
 Orange County Transportation Authority  
 Southern California Edison  
 State Controller's Office

## Annual +

ADP  
 Citizens Business Bank  
 City National Bank - Coscia  
 City of Los Angeles  
 City of Santa Monica  
 First Republic Bank  
 Five Point  
 Hanmi Bank  
 HomeStreet Bank  
 IS Associates  
 Los Angeles Police Federal Credit Union  
 McMaster-Carr  
 MedPOINT Management, Inc.  
 Metropolitan Water District  
 Pacific Western Bank  
 Pepperdine University  
 RPA  
 Southern California Association of Governments  
 State Bank of India California  
 State Compensation Insurance Fund  
 Supervalu, Inc.  
 WCIRB

## Annual

ActNow Strategies  
 ALG Inc.  
 Alliance Bernstein  
 Austrian Trade Commission  
 Bank of Hope  
 Board of Equalization  
 Cal Recycle  
 California Air Resources Board  
 California Association Of Realtors  
 California Department of Transportation  
 California Public Utilities Commission

California State Polytechnic University, Pomona  
 California State University, Sacramento  
 California Steel Industries, Inc  
 California-Pacific Conference  
 Cathay Bank  
 Chartwell Capital Solutions  
 Chicago Title  
 Chu & Waters, LLP  
 City of Carlsbad  
 City of La Quinta  
 City of San Diego  
 City of San Jose  
 City of Santa Clara  
 City of Torrance  
 Consulate General of Japan  
 Cornerstone Community Bank  
 County of San Diego  
 Desmond, Marcello & Amster  
 East West Bank  
 FDIC  
 Ferrado  
 Godshalk  
 Granite Rock Company  
 Harold Davidson & Associates Inc.  
 Heritage Bank of Commerce  
 HR and A Advisors, Inc.  
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 Mitsubishi Cement Corp.  
 Neece Associates  
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 Northern California Power Agency  
 Orange County Executive Office - Budget  
 Orange County Transportation Authority  
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**UCLA** Anderson  
Forecast

Jerry Nickelsburg  
Director

Jerry Nickelsburg joined the UCLA's Anderson School of Management and The Anderson Forecast in 2006. Since 2017 he has been the Director of The Anderson Forecast. He teaches economics in the MBA program with a focus on Asian economies. As the Director of The Anderson Forecast he plays a key role in the economic modeling and forecasting of the National, and California economies. He has conducted research in the areas of labor economics, industrial organization, statistics, and international monetary economics, focusing on the development of new data and the application of economic theory and statistical methods to policy issues. His current academic research is on specific skills, structural unemployment, and on energy efficiency in transportation. He is a regular presenter at Economic Conferences and is cited in the national media including the Financial Times, Wall Street Journal, New York Times, Los Angeles Times, and Reuters.

He received his Ph.D. in economics from the University of Minnesota in 1980 specializing in monetary economics and econometrics. He was formerly a professor of Economics at the University of Southern California and has held executive positions with McDonnell Douglas, FlightSafety International, and FlightSafety Boeing during a fifteen-year span in the aviation business. He also held a position with the Federal Reserve Board of Governors developing forecasting tools, and has advised banks, investors and financial institutions.

From 2000 to 2006, he was the Managing Principal of Deep Blue Economics, a consulting firm he founded. He has been the recipient of the Korda Fellowship, USC Outstanding Teacher, India Chamber of Commerce Jubilee Lecturer, and he is a Fulbright Scholar. He has published over 100 scholarly and popular articles on monetary economics, economic forecasting and analysis, labor economics, and industrial organization and he is the author of two books on monetary economics and exchange rates.



**UCLA** Anderson  
Forecast

William Yu  
Economist

William Yu joined the UCLA Anderson Forecast in 2011 as an economist where he focuses on the economic modeling, forecasting and Los Angeles economy. He also conducts research and forecasts on China's economy, and its relationship with the U.S. economy. His research interests include a wide range of economic and financial issues, such as time series econometrics, data analytics, stock, bond, real estate, and commodity price dynamics, human capital, and innovation. Currently, he teaches business forecasting and data science courses at UCLA Anderson and UCLA Extension. He also serves as a faculty advisor for the Applied Management Research Program at UCLA Anderson.

He has published over a dozen research articles in Journal of Forecasting, International Journal of Forecasting, Journal of International Money and Finance, etc. He also published op-ed articles in Los Angeles Times and other newspapers. He developed the City Human Capital Index and the Los Angeles City Employment Estimate. He has been cited in the local, national and overseas media frequently including Wall Street Journal, Los Angeles Times, Washington Post, Time, Bloomberg, CBS Money Watch, Al Jazeera, U-T San Diego, LA Daily News, LA Daily Breeze, Straits Times, NBC, ABC, CNBC, CNN, and NPR, as well as various Chinese and Korean media. Yu has been invited as a speaker for various events, including the annual Woo K. Greater China Business Conference and National Association for Business Economics.

Yu received his bachelor's degree in finance from National Taiwan University in 1995 and was an analyst in Fubon Financial Holding in Taipei from 1997 to 2000. In 2006, he received his Ph.D. degree in economics from the University of Washington where he was also an economics instructor and won two distinguished teaching awards. In 2006, he worked for the Frank Russell Investment Group for Treasury and corporate yields modeling and forecasting. From 2006 to 2011, he served as an assistant and an associate professor of economics at Winona State University where he taught courses including forecasting methods, managerial economics, international economics, and macroeconomics.



David Shulman  
Senior Economist Emeritus

David Shulman is Distinguished Visiting Professor and a “Managing Director” at the Financial Leadership Program at Baruch College where he mentors students seeking front-office careers on Wall Street, and a Visiting Scholar/Senior Economist at the UCLA Anderson Forecast where he is responsible for U.S. Macro. In addition, he is currently Managing Member of his LLC where he is engaged in investment and litigation consulting. He comments on his blog, <http://shulmaven.blogspot.com>.

In December 2005, he retired from Lehman Brothers where he was Managing Director and Head REIT analyst. From 2001-04 he was voted on the Institutional Investor All Star Teams including First Team in 2002. Prior to joining Lehman Brothers in 2000 he was a Member and Senior Vice President at Ulysses Management LLC (1998-99) an investment manager of a private investment partnership and an offshore corporation whose total investment capital approximated \$1 billion at the end of 1999.

From 1986-1997, Mr. Shulman was employed by Salomon Brothers Inc in various capacities. He was Director of Real Estate Research from 1987-91 and Chief Equity Strategist from 1992-97. In the latter capacity he was responsible for developing the Firm’s overall equity market view and maintaining the Firm’s list of recommended stocks. Mr. Shulman was widely quoted in the print and electronic media and he coined the terms “Goldilocks Economy” and “New Paradigm Economy”. In 1991, he was named a Managing Director and in 1990 he won the first annual Graaskamp Award for Excellence in Real Estate Research from the Pension Real Estate Association.

Prior to joining Salomon Brothers Inc., he was Vice President and Director of Research Planning at TCW Realty Advisors in Los Angeles. Earlier in his career Mr. Shulman was an academic. He was an Associate Professor of Management and Economics at the University of California at Riverside and Financial Economist at the UCLA Business Forecasting Project. In 2017, the David Shulman Endowed Excellence in Teaching Award Fund was established by a former student of his.

A graduate of Baruch College (1964), Mr. Shulman received his Ph.D. (1975) with a specialization in Finance and a M.B.A. (1966) from the UCLA Graduate School of Management. He is married and has three grown children.



Edward Leamer  
Distinguished Professor

Edward Leamer served as UCLA Anderson’s Chauncey J. Medberry Professor of Management and professor of economics, professor of statistics and director of the UCLA/Anderson Business Forecast Project. His philosophy on education is straightforward.

After serving as assistant and associate professor at Harvard University, Leamer joined the UCLA faculty in 1975 as professor of economics. In 1990 he moved across campus to UCLA Anderson and was appointed to the Chauncey J. Medberry Chair. He is a fellow of the American Academy of Arts and Sciences, and a fellow of the Econometric Society. In 2014 he won the award for Outstanding Antitrust Litigation Achievement in Economics, awarded annually by the American Antitrust Institute.

Leamer’s work has been impactful beyond the classroom and his academic research. As director of the UCLA Anderson Forecast, he influenced business practitioners in every field. For example, in his December 2000 forecast, the UCLA Anderson Forecast stood virtually alone in predicting the 2001 recession. In a special release on December 12, 2001, the Forecast correctly analyzed the likely unimportance of 9/11 for the evolution of the recession. In December 2002, Leamer began warning about a momentum-driven overheated housing market that was sure to cause problems for the economy in the future.

Leamer is a research associate of the National Bureau of Economic Research and has been an occasional visiting scholar at the IMF and the Board of Governors of the Federal Reserve System. He has served on the Councils of Economic Advisors or Governor Wilson, Governor Schwarzenegger and Mayor Garcetti. He has been on the Advisory Board of the Bureau of Economic Analysis.

He has published over 120 articles and five books and reminds those interested to hurry to Amazon.com to purchase his most recent books: either *Macroeconomic Patterns and Stories*, or *The Craft of Economics*. His research papers in econometrics have been collected in *Sturdy Econometrics*, published in the Edward Elgar Series of Economists of the 20th Century. His research in international economics and econometric methodology has been discussed in *New Horizons in Economic Thought: Appraisals of Leading Economists*.





**UCLA** Anderson  
Forecast

Leila Bengali  
Economist

Leila Bengali is an economist at The Anderson Forecast. She joined in 2019. As an economist, and a native Californian, she focuses on modeling the California economy and on policy issues that are relevant to California. Having studied behavioral economics both in college and in graduate school, she brings insights from this field to her work at The Anderson Forecast. She received her Ph.D. in economics from Yale University in 2019 where she was selected for the Russell Sage Foundation Summer Institute in Behavioral Economics and awarded the Whitebox Advisors Doctoral Fellowship. Her fields of concentration were behavioral economics and public finance.

After graduating from Swarthmore College in 2011 with a B.A. in economics (major) and psychology (minor), she worked as an analyst at Analysis Group in the San Francisco Bay Area. During her time in economic consulting, she worked with a team of economists and experts to provide litigation support and research for major national and international companies in industries ranging from manufacturing to information technology. After working in economic consulting, Leila joined Economic Research at the Federal Reserve Bank of San Francisco. Working with prominent economists on issues of employment, education, and economic mobility, Leila conducted research supporting U.S. monetary policy, writing reports for both internal and external audiences.

Leila's research lies at the intersection of behavioral economics and public finance. Within these fields, she focuses on how and why individuals use or ignore information when making decisions and on the resulting implications for policy. Leila has also worked with local governments to design and implement policy evaluations and has published in the field of labor economics.



**UCLA** Anderson  
Forecast

Leo Feler  
Senior Economist

Leo Feler joined the UCLA Anderson School of Management and the UCLA Anderson Forecast in 2020. He has conducted research and written articles in the areas of labor economics, urban economics, trade, banking and mergers and antitrust. He is responsible for the U.S. macroeconomic forecast.

Prior to joining UCLA, Leo worked in management consulting at Cornerstone Research and Boston Consulting Group. At Cornerstone Research, he advised the U.S. government and corporations on antitrust litigation and economic disputes. At Boston Consulting Group, he advised clients in the consumer retail industry on revenue growth and supply chain optimization strategies.

From 2010 to 2016, Leo was an assistant professor of international economics at Johns Hopkins University. He also worked at the World Bank, where he was an advisor to the country director for Brazil.

Leo received his Ph.D. in economics from Brown University in 2010, specializing in urban and labor economics; his M.A. in international policy studies from Stanford University in 2002; and his B.A. in economics and international relations from Stanford University in 2002.

## Revenue Baselines and Projection Factors

Type of Revenue	Base Line Estimate	FY 2021/22 Forecast	FY 2022/23 Forecast	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast
<b>Property Tax/VLF Backfill</b>	Current baseline set by SCC Assessor Office 2/14 2020 report	2.5%	2.5%	3%	3%	3%
<b>North 40 Property Sales</b>	Starting in 2021/22	North 40 Phase 1 Sales	North 40 Phase 1 Sales	3%	3%	3%
<b>ERAF</b>	Current baseline set 50% of SCC Assessor Office February 6 2021 report	\$400K	\$400K	\$400K	\$400K	\$400K
<b>Sales Tax</b>	MuniServices 1/29/2021 Conservative Estimates	MuniServices 1/29/2021 Conservative Estimates	MuniServices 1/29/2021 Conservative Estimates	MuniServices 1/29/2021 Conservative Estimates	MuniServices 1/29/2021 Conservative Estimates	MuniServices 1/29/2021 Conservative Estimates
<b>Sales Tax - Measure G</b>	MuniServices Date Conservative Estimates	MuniServices 1/29/2021 Conservative Estimates	MuniServices 1/29/2021 Conservative Estimates	MuniServices 1/29/2021 Conservative Estimates	MuniServices 1/29/2021 Conservative Estimates	MuniServices 1/29/2021 Conservative Estimates
<b>Franchise Fee</b>	Current baseline set by FY 2020/21 Estimates	3%	3%	3%	3%	3%
<b>Transient Occupancy Tax</b>	Current baseline set by FY 2020/21 actual estimated proceeds 69% decrease from adopted budget	30%	20%	5%	5%	5%
<b>Business License Tax</b>	Current baseline set by FY 2020/21 Activities	5%	5%	0%	0%	0%

## Revenue Baselines and Projection Factors

<b>License &amp; Permits</b>	Current baseline set by FY 2020/21 Estimates	0%	3%	3%	3%	3%
<b>Town Services</b>	Current baseline set by FY 2020/21 Estimates	0%	3%	3%	3%	3%
<b>Fine &amp; Forfeitures</b>	Current baseline set by FY 2020/21 Estimates	Varies	Varies	Varies	Varies	Varies
<b>Interest</b>	Based on Portfolio Analysis and Current and Expected Yields during the forecast period	\$400K	\$300K	\$250K	\$250K	\$250K
<b>Other Sources</b>	Current baseline set by FY 2020/21 Estimates	Varies	Varies	Varies	Varies	Varies

**EXPENDITURE BASELINE AND PROJECTION FACTORS**

Beginning in FY 2020/21, the Town is budgeting salaries at the actual salary plus a one-step increase. 68% of the workforce is already top step or one step below to step. Currently the Town has five vacant positions and is actively recruiting of these positions. In the Five-Year Forecast, positions are forecasted at the actual rate of pay including salaries and benefits as of December 31, 2020 and rate is increasing in the actual anniversary date.

Type of Expenditure	FY 2021/22 Forecast	FY 2022/23 Forecast	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast
<b>Salaries*</b>	0%	0%	0%	0%	0%
<b>Benefit - Medical**</b>	7%	7%	7%	7%	7%
<b>Operating Expenditures***</b>	3%	3%	3%	3%	3%
<b>Grants &amp; Awards</b>	0%	0%	0%	0%	0%
<b>Utilities***</b>	3%	3%	3%	3%	3%
<b>Internal Service Charges***</b>	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
<b>Debt Service</b>	Debt Service Schedules				

\*Salary increases are based on actual step increases and approved Memoranda of Understanding with the bargaining units.

\*\* 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 estimates provided by each plan's most recent actuarial valuation received from CalPERS. The employer contribution rates illustrated below reflect percentages of covered payroll. Beginning in FY 2021/22, the estimates of employer contributions were credited with an anticipated reduction associated with the approximate \$4.8M 2016 unfunded amortization base paid off in October 2019 and the approximate \$3.7M 2015 unfunded amortization base expected to be paid off in early FY 2020/21.

Type of Expenditure	FY 2021/22 Forecast	FY 2022/23 Forecast	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast
<b>Safety POA</b>	69.36%	69.41%	71.79%	75.01%	76.79%
<b>Safety Management POA</b>	72.36%	72.41%	74.79%	78.01%	79.79%
<b>Safety POA - PEPR</b>	15.04%	15.06%	15.05%	14.01%	14.01%
<b>Miscellaneous TEA/Confidential/Management</b>	33.54%	30.87%	31.67%	32.69%	30.69%
<b>Miscellaneous TEA/Confidential/Management PEPR</b>	33.54%	30.87%	31.67%	32.69%	30.69%

\*Safety Classic Rate reflects 3% decrease in employer's contribution rate to reflect 3% contribution as negotiated with the Town's POA during the collective bargaining process effective FY 2019/20.

## Capital Improvement Program

### Project Status Update

The attached table provides a high-level overview of the status of the Town's Capital Improvement Program (CIP). The intent of the document is to demonstrate the breadth of projects and where work has begun. Because this is a high-level overview, this document is not intended as an in-depth budget review for each project.

The table is separated into two sections – one-time projects in the upper portion and ongoing projects in the lower portion. One-time projects are non-repetitive in their nature and once complete, are removed from the CIP with any remaining funds returned to the GFAR for re-allocation by the Council in future years.

Ongoing projects receive consistent funding over time and any fund balance is carried in the project for the next fiscal year. An example is street maintenance where the need is consistent and ongoing.

The table columns are explained as follows:

Column 1: A large number of the projects are in progress and this is noted by the blue shading of the project title. Progress is defined as the Town having made a significant financial commitment to the project in relation to the budget for that project.

Column 2: The CIP Page No. in this column is a cross reference to the Town's CIP Budget document to allow for ease of finding additional detail.

Column 3: This shows the budget allocated to the project in the current fiscal year only. Note that many of the projects had expenditures in prior years as projects often span multiple years.

Column 4 – This column identifies projects that have Town General Fund commitments through the GFAR. GFAR dollars are the most flexible in terms of use.

Column 5 – This column identifies projects that have grant funds commitments.

Column 6 – This column identifies projects that utilize other funding such as gas tax, traffic impact fees, information technology replacement funds, etc.

Column 7 – This column identifies projects that have matching fund requirements. These are typically grant funded projects.

Column 8 – This column demonstrates the current encumbrances and expenditures on the project as a means of demonstrating progress on the project. Note that some amounts in this column will exceed the current year's budget due to encumbrances that occurred in previous fiscal years that have not yet been paid.

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**FY 2020/21 - 2024/25 CAPITAL IMPROVEMENT PROGRAM - PROJECT STATUS** (11/21/2021)

Projects in blue cells have significant progress or are complete.

Dollar amounts are approximate.

Project	CIP Page No.	FY 20/21 Budget	GFAR	Grant	Other	Matching Funds	Expenses + Encumbrances	Status/ Comment
<b>One Time Projects</b>								
Guardrail Replacement Project	C-20	\$ 1,050,137	✓	✓		✓	\$ 107,278	Design
Massol Intersection Improvements	C-22	\$ 442,236	✓				\$ 338,623	Construction
Shannon Road Repair (Stabilization Study)	C-24	\$ 1,500,000	✓				\$ 63,073	Feasibility Study
Roadside Fire Fuel Reduction	C-26	\$ 250,000	✓				\$ 500,000	In progress. Combined funding with Vegetation Management project.
Parking Lot 4 Repair & Waterproofing	C-28	\$ 250,000	✓				\$ -	Project contract in progress.
Downtown Parking Lots Seal coat & Restriping	C-34	\$ 55,519	✓				\$ 2,934	
Hernandez Avenue Storm Drain Improvements	C-36	\$ -			✓		\$ -	
Shannon Road Class I Multi-Use Path	C-38	\$ 1,140,200	✓	✓	✓	✓	\$ 20,000	Feasibility Study
Utility Undergrounding Improvements - Rule 20A LGB	C-42	\$ 6,766,000			✓		\$ -	Construction
Traffic Signal Modernization	C-44	\$ 2,789,191		✓	✓	✓	\$ 753,088	Design & Construction
Bicknell Road Storm Drain Improvements	C-46	\$ 64,758			✓		\$ 4,500	Design
Stormwater Master Plan	C-50	\$ 118,290	✓				\$ 93,216	This plan will identify storm infrastructure capital deficiencies throughout Town.
Stormwater System - Pollution Prevention Compliance	C-52	\$ 298,578	✓				\$ -	Set aside for State mandates and addressing projects from the Stormwater Master Plan (see CIP
Public Art Gateway	C-54	\$ 15,004	✓				\$ 10,500	Artwork under construction. Delivery due March 1.
Parking Program Implementation	C-56	\$ 198,500	✓				\$ -	Employee permit program under development.
Pilot School Busing	C-60	\$ 412,091	✓				\$ -	GFAR funds of \$325,091 can revert to fund balance.
ADA Transition Plan	C-62	\$ 110,000	✓				\$ -	Consultant Procurement. Expect contract by March, 2021.

Project	CIP Page No.	FY 20/21 Budget	GFAR	Grant	Other	Matching Funds	Expenses + Encumbrances	Status/ Comment
Hwy 17/9 Interchange and Capacity Improvements - Hwy 17 Congestion Relief Project (@ SR 9)	C-64	\$ 600,000			✓		\$ -	Project preliminary design underway with VTA and Caltrans.
Downtown Streetscape Revitalization (COVID Economic Recovery)	C-66	\$ 1,924,062	✓				\$ 248,158	Additional financial commitments pending. Additional Council direction on 1-19-2021.
E. Main Street Speed Table/Raised Crosswalk	C-68	\$ 169,200	✓	✓		✓	\$ -	Consultant contract effective 2/1/21. Construction in summer 2022.
Local Road Safety Plan	C-70	\$ 100,000	✓	✓		✓	\$ -	Plan under way. Total commitment is \$80k (\$72k grant; \$8k GFAR)
Blossom Hill Road Traffic Study	C-72	\$ 125,000	✓				\$ 48,410	Study complete. Community meeting 1-28-2021. future capital project.
Winchester Class IV Bikeway	C-74	\$ 982,455	✓	✓		✓	\$ 139,538	Design completed. Construction to start in summer 2021.
VMT Mitigation Program	C-76	\$ 250,000	✓				\$ -	This funding will align traffic policies with VMT requirements and the updated General Plan.
Kennedy Sidewalk - LGB to Englewood	C-78	\$ -	✓	✓		✓	\$ -	Planned for FY 2022/23
Winchester Blvd. Complete Streets Final Design	C-80	\$ 165,826	✓				\$ 85,878	\$1m grant funding in 2021/22
Quito Road Bridge	C-86	\$ 285,087	✓			✓	\$ 235,087	Design
Highway 17 Bicycle & Pedestrian Bridge - Design	C-88	\$ 3,848,151	✓	✓	✓	✓	\$ 146,951	Consultant Procurement
Creek Trail & Park Pathway & Parking Lot Seal Coat & Striping	D-8	\$ 206,115	✓				\$ 160,953	Completed
Town Plaza Turf Repair	D-10	\$ 28,000	✓				\$ -	Spring project.
Outdoor Fitness Equipment	D-12	\$ 60,000	✓			✓	\$ 21,865	Project in construction.
Vegetation Management - Town-wide	D-14	\$ 487,188	✓				\$ 186,970	In progress
Open Space Trail Upgrades	D-20	\$ 152,000			✓		\$ -	
Forbes Mill Footbridge Improvements	D-22	\$ 63,451	✓				\$ 2,522	Planning for permanent lighting. Need PG&E power at the bridge.
Charter Oak Trail Repair	D-24	\$ 440,109			✓		\$ -	Commitment to spend Albright funds in the Charter Oaks neighborhood.
Trailhead Connector Project	D-26	\$ 312,155	✓	✓		✓	\$ 241,835	Design
Building Replacement at Proration Yard	E-06	\$ 1,002,550	✓				\$ 721,387	Construction

Project	CIP Page No.	FY 20/21 Budget	GFAR	Grant	Other	Matching Funds	Expenses + Encumbrances	Status/ Comment
Facility Assessment	E-08	\$ 80,000	✓				\$ -	RFP has been released.
Library Carpet Replacement	E-10	\$ 56,500	✓				\$ 48,597	Complete.
ADA Upgrade Public Restrooms - Adult Recreation Building	E-14	\$ 250,000	✓	✓			\$ -	
Town Hall ADA Restrooms and HR Offices	E-16	\$ 450,000	✓				\$ -	
Plaza Level Railings - Code Upgrade	E-18	\$ 35,604	✓				\$ 33,060	Near complete. Railings need to be painted.
Waterproofing - Town-wide	E-20	\$ 75,000	✓				\$ -	Programmed roof replacement and repairs for spring.
Sound Mitigation in Library Lobby	E-22	\$ 22,000	✓			✓	\$ -	Library trust funds as matching.
Fire Suppression (Halon) for Server Rooms	E-24	\$ 194,396	✓				\$ 92,555	Nearly complete. Excess funds will revert to fund balance.
Police Headquarters Roof Repair	E-26	\$ 42,552	✓				\$ 40,304	
Adult Recreation Center - Floor Repair	E-28	\$ 100,000	✓				\$ -	
Information System Upgrade	E-34	\$ 114,785	✓				\$ 37,759	Testing started last year. Implementantion will continue into next fiscal year.
Audio/Video System Upgrade	E-36	\$ 42,552	✓				\$ -	
Town-wide Document Imaging Project	E-38	\$ 16,990			✓		\$ 16,990	
Silicon Valley Regional Interoperability Project (SVRIP)	E-42	\$ 62,967	✓				\$ 33,598	
EOC Communication Upgrade	E-44	\$ 29,382	✓				\$ 24,520	Remaining funds needed for ongoing EOC upgrades.
IT Disaster Recovery Improvements	E-46	\$ 169,076			✓		\$ 27,023	
Computer-Aided Dispatch and Records Management System	E-48	\$ 389,048			✓		\$ 247,527	
Engineering Document Archiving	E-40	\$ 45,801	✓				\$ 78,084	In progress
Downtown Parking Study	A-11	\$ -	✓				\$ 48,484	Encumbered funds represent Dixon contract to assist with project implementation (see CIP page C-56)
Cut-thru Traffic Mitigation	A-11	\$ -			✓		\$ 33,446	

Project	CIP Page No.	FY 20/21 Budget	GFAR	Grant	Other	Matching Funds	Expenses + Encumbrances	Status/ Comment
<b>Ongoing Projects - Recurring projects with regular funding provided to ensure asset stability.</b>								
FY 2020/21 Street Repair & Resurfacing	C-06	\$ 3,981,908	✓	✓	✓	✓	\$ 473,462	
Traffic Calming Projects	C-12	\$ 35,799	✓				\$ 16,664	
Curb, Gutter, Sidewalk Maintenance	C-14	\$ 751,813	✓				\$ 5,821	
Retaining Wall Repairs	C-16	\$ 535,320	✓				\$ 170,066	
Annual Street Restriping	C-18	\$ 169,772	✓				\$ -	
Sidewalk Improvements - Multiple Locations	C-40	\$ 60,000	✓				\$ -	
Bicycle and Pedestrian Improvements	C-48	\$ 265,174	✓		✓		\$ 3,350	We can close this one.
Annual Storm Drain Improvement Project	C-58	\$ 420,300			✓		\$ -	
Parks Playground Fibar Project	D-06	\$ 49,264	✓				\$ -	Spring project bi-annually.
Town Beautification	E-12	\$ 25,386	✓				\$ 10,962	



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/16/2021

ITEM NO: 13

ADDENDUM

**DATE:** February 12, 2021  
**TO:** Mayor and Town Council  
**FROM:** Laurel Prevetti, Town Manager  
**SUBJECT:** Discuss the Five-Year Forecast, Provide Direction on the Other Budget Assumptions, and Provide any Specific Direction for the Preparation of the Town’s Fiscal Year 2021/22 Operating and Capital Budgets

**REMARKS:**

This addendum provides the corrected “*Pension and Other Benefits*” report section as a prior version was inadvertently used for the publication of the staff report.

*Pension and Other Benefits*

For purposes of the Forecast, staff utilizes data provided by CalPERS in the annual actuarial valuations and then in consultation with the Town’s Actuary (Bartel Associates) and CalPERS updates the projections to include data not included. Given that actuarial valuations lag by about a year, the CalPERS 2019 valuation would not have captured the 4.7% CalPERS investment return for FY 2019/20, the current CalPERS investment return year to date, or the Town’s \$3.5 million additional discretionary payment from July 2020. The following table illustrates the forecast for pension and other benefits.

Pension & Other Benefits	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)
Base Case	\$11.4	\$11.4	\$11.2	\$11.5	\$11.8

As we move closer to the final development of the Proposed FY 2021/22 Operating Budget, staff will generate an updated pension forecast utilizing an investment return which more closely approximates CalPERS returns at that time versus the plans current 7.0% assumed

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

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



REMARKS (continued):

return. Any update will not impact the initial years of the forecast due to lags in actuarial reporting but will be exhibited starting in the third year of the forecast.

*OPEB and Pay Go*

The projections for the Town’s OPEB and Pay Go payments are derived from the Town’s actuary Bartel Associates. The following table illustrates the forecast for OPEB and Pay as You Go healthcare payments.

OPEB & Pay as you Go Payments	2021/22 Forecast (\$M)	2022/23 Forecast (\$M)	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)
Base Case	\$2.0	\$1.9	\$1.8	\$1.8	\$2.0

Attachments Previously Received with the Staff Report:

1. Annual Budget Process
2. Base Case Five-Year Forecast
3. UCLA Anderson School 2020/23 Economic Forecast
4. Forecast Revenue Assumptions
5. Forecast Expense Assumptions
6. Capital Improvement Project Status



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/16/2021

ITEM NO: 13

DESK ITEM

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DATE: February 16, 2021  
TO: Mayor and Town Council  
FROM: Arn Andrews, Assistant Town Manager  
SUBJECT: Discuss the Five-Year Forecast, Provide Direction on the Other Budget Assumptions, and Provide any Specific Direction for the Preparation of the Town's Fiscal Year 2021/22 Operating and Capital Budgets

**REMARKS:**

*Attachment 7 contains public comment received between 11:01 a.m. on February 12, 2021 and 11:00 a.m. on February 16, 2021.*

**Attachments Previously Received with the Staff Report:**

1. Annual Budget Process
2. Base Case Five-Year Forecast
3. UCLA Anderson School 2020/23 Economic Forecast
4. Forecast Revenue Assumptions
5. Forecast Expense Assumptions
6. Capital Improvement Project Status

**Attachment Received with this Desk Item:**

7. Public Comment received between 11:01 a.m. on February 12, 2021 and 11:00 a.m. February 16, 2021.

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

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

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**From:** Phil Koen

**Sent:** Friday, February 12, 2021 1:04 PM

**To:** Rob Rennie <[RRennie@losgatosca.gov](mailto:RRennie@losgatosca.gov)>; Matthew Hudes <[MHudes@losgatosca.gov](mailto:MHudes@losgatosca.gov)>; Marico Sayoc <[MSayoc@losgatosca.gov](mailto:MSayoc@losgatosca.gov)>; Maria Ristow <[MRistow@losgatosca.gov](mailto:MRistow@losgatosca.gov)>; Mary Badame <[MBadame@losgatosca.gov](mailto:MBadame@losgatosca.gov)>

**Cc:** Laurel Prevetti <[LPrevetti@losgatosca.gov](mailto:LPrevetti@losgatosca.gov)>; Arn Andrews <[aandrews@losgatosca.gov](mailto:aandrews@losgatosca.gov)>; Stephen Conway <[sconway@losgatosca.gov](mailto:sconway@losgatosca.gov)>; Ron Dickel; [jvannada](mailto:jvannada); Lee Fagot

**Subject:** Format of Five Year Forecast - Agenda Item #13

Dear Council Members,

If we are trying to increase transparency to the five-year planning process, why has the Town adopted this five-year forecast format? If we compare the current format to what the residents use to get as recently as FY 2016, the reader is presented with LESS information. Why are residents getting less information today than in FY 2016?

Historical actual data helps inform the reader as to the reasonableness of future projections, especially in a period of great uncertainty. The request for historical actual data has been a long-standing request that many residents have made over the past years. If the Town is committed to increasing transparency, it is a very small task to bring back the five-year format that the Town used in FY 2016.

Please re-publish the current five-year forecast using the format the Town used in FY 2016.

Thank you.

Phil Koen

Reflective of the positive economy, the Five-Year Forecast identified over \$400,000 in additional General Fund monies in FY 2015/16 which have been allocated to fund contractually obligated increases, including salary increases, contractual increases and unfunded mandates as previously discussed.

Provided below is a recap of the most recent Five-Year Financial Plan prepared in early May 2015. The updated Five-Year Financial Plan spans FY 2015/16 - 2019/2020:

**Town of Los Gatos General Fund  
Updated Five-Year Financial Plan  
(\$ millions)**

Account	Revenue Category	FY 1      FY 2      FY 3      FY 4      FY 5									
		2012/13 Actuals	2013/14 Adopted	2013/14 Actuals	2014/15 Budget	2014/15 Estimated	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast
4100	Property Tax	\$ 8.3	\$ 7.8	\$ 9.1	\$ 8.2	\$ 8.4	\$ 9.1	\$ 9.4	\$ 9.7	\$ 10.0	\$ 10.3
4110	VLF Backfill Property Tax	2.4	2.4	2.7	2.7	2.8	2.8	2.9	2.9	2.9	2.9
4200	Sales & Use Tax	8.8	7.8	8.0	8.3	8.1	8.3	8.8	9.2	9.6	9.5
4250	Franchise Fees	2.0	2.0	2.1	2.1	2.1	2.1	2.2	2.3	2.3	2.4
4251	Transient Occupancy Tax	1.3	1.0	1.5	1.3	1.5	1.5	1.5	1.6	1.6	1.7
4400	Business License Tax	1.2	1.4	1.1	1.4	1.7	1.3	1.3	1.3	1.3	1.3
4400	Licenses & Permits	3.1	2.6	3.2	2.9	2.9	3.0	3.1	3.1	3.2	3.3
4500	Intergovernmental	0.9	0.7	0.8	0.7	0.7	0.8	0.7	0.7	0.7	0.8
4600	Charge for Services	3.1	2.5	2.7	2.5	2.4	2.4	2.7	2.7	2.8	2.9
4700	Fines & Forfeitures	0.6	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
4800	Interest	(0.2)	0.5	1.1	0.3	0.5	0.3	0.3	0.3	0.4	0.4
4850	Other Sources	3.6	3.4	4.7	4.5	4.9	4.7	3.5	3.3	3.3	3.4
4900	Fund Transfers In	0.6	0.8	0.3	0.6	0.4	0.5	0.4	0.4	0.4	0.4
<b>TOTAL REVENUES</b>		<b>35.7</b>	<b>33.6</b>	<b>38.1</b>	<b>36.2</b>	<b>37.1</b>	<b>37.5</b>	<b>37.5</b>	<b>38.2</b>	<b>39.2</b>	<b>40.0</b>
Use of Reserves/Deposits		1.9	2.7	3.4	7.7	7.3	0.4	0.4	0.4	0.4	0.4
<b>TOTAL REVENUES &amp; TRANSFERS</b>		<b>\$ 37.6</b>	<b>\$ 36.3</b>	<b>\$ 41.5</b>	<b>\$ 43.9</b>	<b>\$ 44.4</b>	<b>\$ 37.9</b>	<b>\$ 37.9</b>	<b>\$ 38.6</b>	<b>\$ 39.6</b>	<b>\$ 40.4</b>
Account	Expenditure Category	2012/13 Actuals	2013/14 Proposed	2013/14 Actual	2014/15 Budget	2014/15 Estimated	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast
5110	Salary	\$ 12.6	\$ 13.0	\$ 12.4	\$ 13.7	\$ 13.1	\$ 14.3	\$ 14.3	\$ 14.4	\$ 14.4	\$ 14.4
5130	Temporary Employees	0.9	0.6	0.8	0.6	0.7	0.8	0.7	0.7	0.7	0.7
5140	Overtime	0.6	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
5170	Other Salary	0.3	0.4	0.4	0.4	0.2	0.4	0.4	0.4	0.4	0.4
5200	Benefits	6.3	6.7	6.6	8.4	6.0	7.3	7.9	8.4	8.9	9.4
6000	Supplies, Materials, & Services	5.6	5.3	5.6	5.3	5.6	5.5	5.6	5.6	5.8	5.9
6000	Pass Through Expenditures	-	-	0.8	0.8	1.1	1.1	-	-	-	-
7200	Grants & Awards	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
7400	Utilities	0.4	0.4	0.4	0.4	0.5	0.4	0.5	0.5	0.5	0.5
7700	Fixed Assets	-	-	0.1	-	-	-	-	-	-	-
8060	Internal Service Charges	3.3	3.4	3.4	3.4	3.3	3.6	3.8	3.9	4.0	4.1
8900	Debt Service	2.0	1.9	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.0
<b>TOTAL EXPENDITURES</b>		<b>\$ 32.2</b>	<b>\$ 32.3</b>	<b>\$ 33.0</b>	<b>\$ 35.5</b>	<b>\$ 33.0</b>	<b>\$ 35.9</b>	<b>\$ 35.8</b>	<b>\$ 36.5</b>	<b>\$ 37.3</b>	<b>\$ 38.0</b>
9900	RDA Trust Fund	-	0.1	0.1	-	-	-	-	-	-	-
9900	Operating Transfers Out	-	-	-	-	-	0.1	-	-	-	-
9900	Capital Transfers Out to GFAR	1.9	2.7	2.6	7.0	7.3	0.4	0.4	0.4	0.4	0.4
9900	GASB 45 Retiree Medical Actuarial	1.2	1.3	5.8	1.3	1.3	1.5	1.6	1.6	1.6	1.6
<b>EXPENDITURES</b>		<b>35.3</b>	<b>36.4</b>	<b>41.5</b>	<b>43.8</b>	<b>41.6</b>	<b>37.9</b>	<b>37.8</b>	<b>38.5</b>	<b>39.3</b>	<b>40.0</b>
9900	Allocation	-	-	-	-	-	-	-	-	-	-
9900	Projects Reserve	-	-	-	0.1	0.1	-	-	-	-	-
9900	Transfer to Stabilization Reserve	-	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES &amp; ALLOCATIONS</b>		<b>\$ 35.3</b>	<b>\$ 36.4</b>	<b>\$ 41.5</b>	<b>\$ 43.9</b>	<b>\$ 41.7</b>	<b>\$ 37.9</b>	<b>\$ 37.8</b>	<b>\$ 38.5</b>	<b>\$ 39.3</b>	<b>\$ 40.0</b>
<b>REVENUES LESS EXPENDITURES</b>		<b>\$ 2.3</b>	<b>\$ (0.1)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2.7</b>	<b>\$ -</b>	<b>\$ 0.1</b>	<b>\$ 0.1</b>	<b>\$ 0.3</b>	<b>\$ 0.4</b>
ONGOING SHORTFALL MITIGATION		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>NET REVENUES LESS EXPENDITURES</b>		<b>\$ 2.3</b>	<b>\$ (0.1)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2.7</b>	<b>\$ -</b>	<b>\$ 0.1</b>	<b>\$ 0.1</b>	<b>\$ 0.3</b>	<b>\$ 0.4</b>

\*FY 2014/15 \$7.4 million in use of Reserves/Deposit is for capital projects funding, inclusive of 44.2 million for Phase 1 of the Almond Grove Street Rehabilitation Project.

Notably, in the Five-Year Forecast FY 2014/15 year-end estimates indicate excess revenues over expenditures in the amount of \$2.7 million. This \$2.7 million is inclusive of the Town's savings related to the payoff of the Town's CalPERS side fund liability. The side fund payoff was approved in June 2014 along with adoption of the proposed FY 2014/15 Operating Budget. Because the FY 2014/15 was adopted prior to the side fund pay-off, the \$700,000 in savings was moved to non-departmental so it would not be spent. In addition, approximately \$1.3 million of this year end savings resulted from an unusual number of separations and vacancies throughout the fiscal year.

BASE CASE

Town of Los Gatos General Fund 5-Year Forecast (in \$ million)								
Account	Revenue Category	2020/21 Budget	2020/21 Estimates	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
4100	Property Tax	\$ 14.7	\$ 13.9	\$ 14.1	\$ 15.2	\$ 15.6	\$ 16.2	\$ 16.6
4110	VLF Backfill Property Tax	4.0	4.1	4.2	4.3	4.4	4.5	4.7
4200	Sales & Use Tax	7.0	6.7	7.3	7.5	7.7	7.8	7.9
4200	Measure G District Sales Tax	1.0	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	2.8
4251	Transient Occupancy Tax	2.3	0.7	1.0	1.1	1.2	1.2	1.3
4400	Business License Tax	1.3	1.1	1.2	1.2	1.2	1.2	1.2
4400	Licenses & Permits	3.1	3.0	2.9	2.9	3.0	3.1	3.1
4500	Intergovernmental	1.0	1.3	0.7	0.8	0.8	0.8	0.9
4600	Town Services	4.0	3.8	3.5	3.5	3.5	3.5	3.6
4700	Fines & Forfeitures	0.4	0.1	0.3	0.3	0.3	0.3	0.3
4800	Interest	0.6	0.6	0.5	0.3	0.2	0.2	0.3
4850	Other Sources	2.3	3.5	2.3	2.3	2.3	2.3	2.3
4900	Fund Transfers In	0.6	0.6	0.5	0.5	0.5	0.5	0.5
<b>TOTAL OPERATING REVENUES &amp; TRANSFERS*</b>		<b>\$ 44.8</b>	<b>\$ 42.9</b>	<b>\$ 42.1</b>	<b>\$ 43.6</b>	<b>\$ 44.5</b>	<b>\$ 45.5</b>	<b>\$ 46.6</b>
	Use of Capital/Special Project Reserve - Capital	3.4	3.4	0.6	0.6	0.6	0.6	0.6
	Use of Pension/OPEB Reserve	4.2	4.5	0	0	0	0	0
	Use of Capital/Special Project Reserve - Other	0.9	0.9	0	0	0	0	0
<b>TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES</b>		<b>\$ 53.3</b>	<b>\$ 51.7</b>	<b>\$ 42.7</b>	<b>\$ 44.2</b>	<b>\$ 45.1</b>	<b>\$ 46.1</b>	<b>\$ 47.2</b>
Account	Expenditure Category	2020/21 Budget	2020/21 Estimates	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
5110	Salary	20.2	20.3	19.7	19.7	19.9	20.1	20.2
5120	CalPERS Benefits	7.3	6.4	7.5	7.5	7.2	7.5	7.6
5200	All Other Benefits	4.1	3.7	3.9	3.9	4.0	4.1	4.2
6211	OPEB Pay as You Go	1.3	1.3	1.4	1.4	1.4	1.5	1.8
6000	Operating Expenditures	6.7	6.1	5.4	5.4	5.6	5.7	5.8
7200	Grants & Awards	0.2	0.2	0.2	0.2	0.2	0.2	0.3
7400	Utilities	0.6	0.6	0.6	0.6	0.6	0.6	0.6
8060	Internal Service Charges	2.4	2.4	2.6	2.6	2.8	3.0	3.2
8900	Debt Service	1.9	1.9	1.9	1.9	1.9	1.9	1.9
<b>TOTAL OPERATING EXPENDITURES</b>		<b>\$ 44.7</b>	<b>\$ 42.8</b>	<b>\$ 43.1</b>	<b>\$ 43.1</b>	<b>\$ 43.7</b>	<b>\$ 44.6</b>	<b>\$ 45.7</b>
	GASB 45 Retiree Medical Actuarial	0.6	0.6	0.6	0.5	0.4	0.3	0.2
	Additional Discretionary Payment - Pension	4.6	4.9	0.4	0.4	0.4	0.4	0.4
<b>TOTAL OPERATING &amp; DISCRETIONARY EXPENDITURES</b>		<b>\$ 49.9</b>	<b>\$ 48.3</b>	<b>\$ 44.1</b>	<b>\$ 44.0</b>	<b>\$ 44.5</b>	<b>\$ 45.3</b>	<b>\$ 46.3</b>
	Capital Transfers Out to GFAR	3.4	3.4	0.6	0.6	0.6	0.6	0.6
	Transfer to Internal Service Funds	0	0	0	0	0	0	0
	Pension/OPEB Transfer to Pension Trust Fund	0	0	0	0	0	0	0
	Allocate to Compensated Absences	0	0	0	0	0	0	0
	Allocate to Vehicle Maintenance and Stores Surplus	0	0	0	0	0	0	0
	Allocate to Property Surplus Reserve	0	1.2	0	0	0	0	0
<b>TOTAL EXPENDITURES &amp; RESERVE ALLOCATIONS</b>		<b>\$ 53.3</b>	<b>\$ 52.9</b>	<b>\$ 44.7</b>	<b>\$ 44.6</b>	<b>\$ 45.1</b>	<b>\$ 45.9</b>	<b>\$ 46.9</b>
<b>NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES &amp; RESERVE ALLOCATIONS</b>		<b>\$ -</b>	<b>\$ (1.2)</b>	<b>\$ (2.0)</b>	<b>\$ (0.4)</b>	<b>\$ -</b>	<b>\$ 0.2</b>	<b>\$ 0.3</b>

\* Due to rounding of individual categories FY 2020/21 Total Expenditures and Reserve Allocations omits \$0.1 million.