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# Los Gatos 5-year budget forecast predicts \$10 million deficit

Staff: forecast should change based on tax revenues



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Los Gatos staff predicted that the town will accrue a \$10 million-plus budget deficit over the next five years, but the turbulent economy means that figure is likely to change. Factors include transit occupancy tax from Hotel Los Gatos, pictured, and other hotels in town.

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Los Gatos staff predicted that the town will accrue a \$10 million-plus budget deficit over the next five years, but the turbulent economy means that figure is likely to change.

Los Gatos staff presented the town's five-year budget forecast earlier this month, which showed an average of \$2 million in deficit every year for the next five years.

Still, after two unpredictable years of economic recession and the bounce-back caused by the vaccine, followed by another stall when Omicron hit, it's hard to say what will happen.

"Staff feels there's still been enough volatility with trying to predict revenue streams, we are not necessarily predicting those deficits will remain in perpetuity," Assistant Town Manager Arn Andrews said.

Los Gatos' deficit of \$1.4 million for fiscal year 2021-22 was offset with American Rescue Plan Act funding. The deficit came in \$500,000 lower than predicted, which left council with extra funds to create an urban forest manager position and hold eight summer Promenade events.

Members of the Los Gatos Community Alliance said they were upset with the council's attitude about lower-than-predicted deficit.

"To us, when you're in debt, you don't take a windfall reduction of \$500,000 and say, 'Well, now we're only \$1.4 million in the hole instead of \$1.9 million, so let's spend the extra \$500,000,'" Jak Van Nada said.

Los Gatos staff said certain taxes brought in more revenues than predicted, which led to the lower deficit. The town's Transient Occupancy Tax, or TOT, which is the tax revenue from hotels, dropped from approximately \$2.4 million in annual revenue to approximately \$700,000 during the pandemic.

Revenue started to rebound, reaching \$900,000 last year and \$1.4 million by the midyear budget review.

"[It's] a positive development, but we're still a million below our normal projection for TOT," Andrews said.

Last year, the finance commission recommended factoring 2% salary increases for staff into the budget to improve the forecast. That move, Andrews said, "is



In 2016, the town increased the TOT from 10% to 12% to generate more revenue. In 2018, the town increased its sales taxes as well.

Town Council hired a cannabis consultant earlier this year to consider the potential tax revenue the town could generate if marijuana dispensaries were legalized in town.

"We think we need another year to see how all these variables are going to finally settle after the pandemic, and then we'll have a better understanding," Andrews said. "From there, they can trim expenditures or find new revenues."

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