



TOWN OF LOS GATOS

CIVIC CENTER
110 E. MAIN STREET
LOS GATOS, CA 95030

May 4, 2018

Honorable Mayor and Town Council:

I am pleased to present to you a balanced Fiscal Year (FY) 2018/19 Proposed Operating Budget for the Town of Los Gatos. The proposed budget addresses Council identified Strategic Priorities and considers other areas of importance to our community, the Council, and the Town organization. The FY 2018/19 Budget programs total revenues and reserve transfers of \$48.3 million and expenditures and allocations of \$47.6 million. The budget anticipates a surplus of \$700,000 and maintains existing service levels while recommending modest additions in strategically important areas. This budget incorporates investments toward future equipment replacement, additional annual discretionary pension payments, and increased capacity for the Town's burgeoning technology infrastructure.

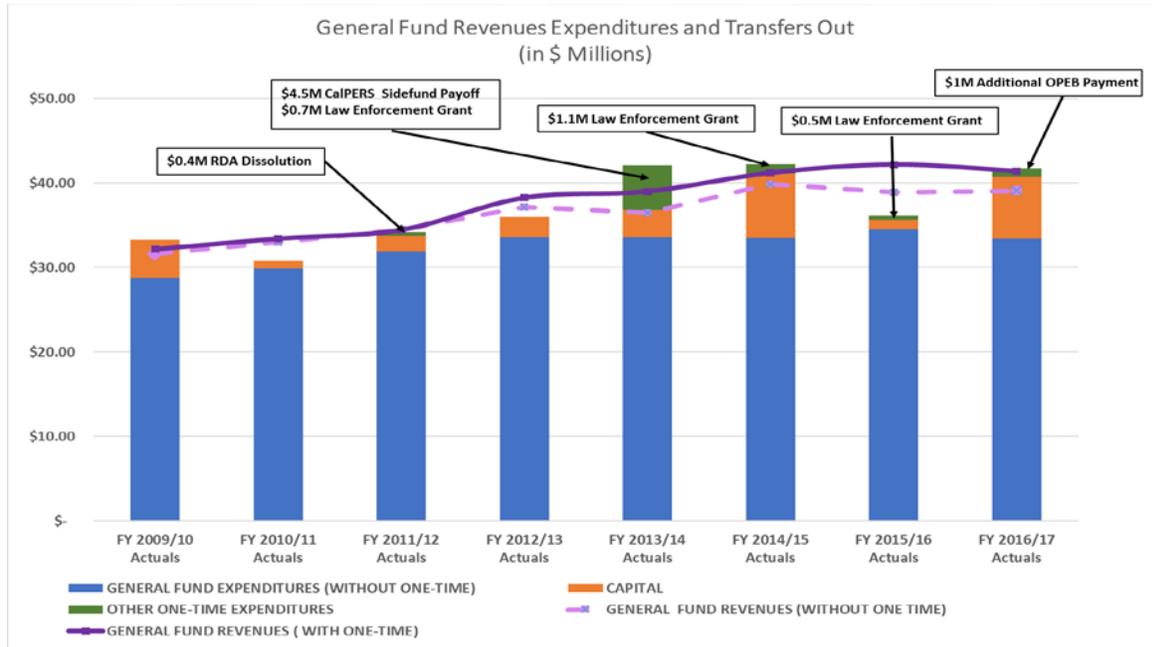
CONTEXT

An important aspect of our budget development process is taking a multi-year approach. Serving as the foundation of the budget planning process, the Town updates the Five-Year Financial Plan beginning in the fall of each year. The Plan includes developing assumptions for Town revenues and expenditures with the goal of defining the expenditure limitations for the forthcoming budget year and forecast period. While we are fortunate to have surpluses projected for this year and next, the remainder of the five year forecast shows very little room for growth in service delivery. In addition as the table below illustrates, the Town organization is vulnerable to any changes in forecasted economic conditions.

	2018/19 Budget	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/2024 Forecast
Total Revenues & Transfers	\$46.8	\$42.6	\$42.9	\$43.7	\$44.7	\$45.8
Total Expenses & Allocations	\$46.2	\$41.8	\$42.9	\$43.6	\$44.4	\$45.6
Net Revenues Less Expenses	\$0.7	\$0.8	\$0.0	\$0.1	\$0.3	\$0.2

To better understand investment strategies for the Town organization's future, it is important to understand the strategic investments made to date. As the data below from the Town's Comprehensive Annual Financial Reports (CAFR) illustrates, the Town's conservative budgeting

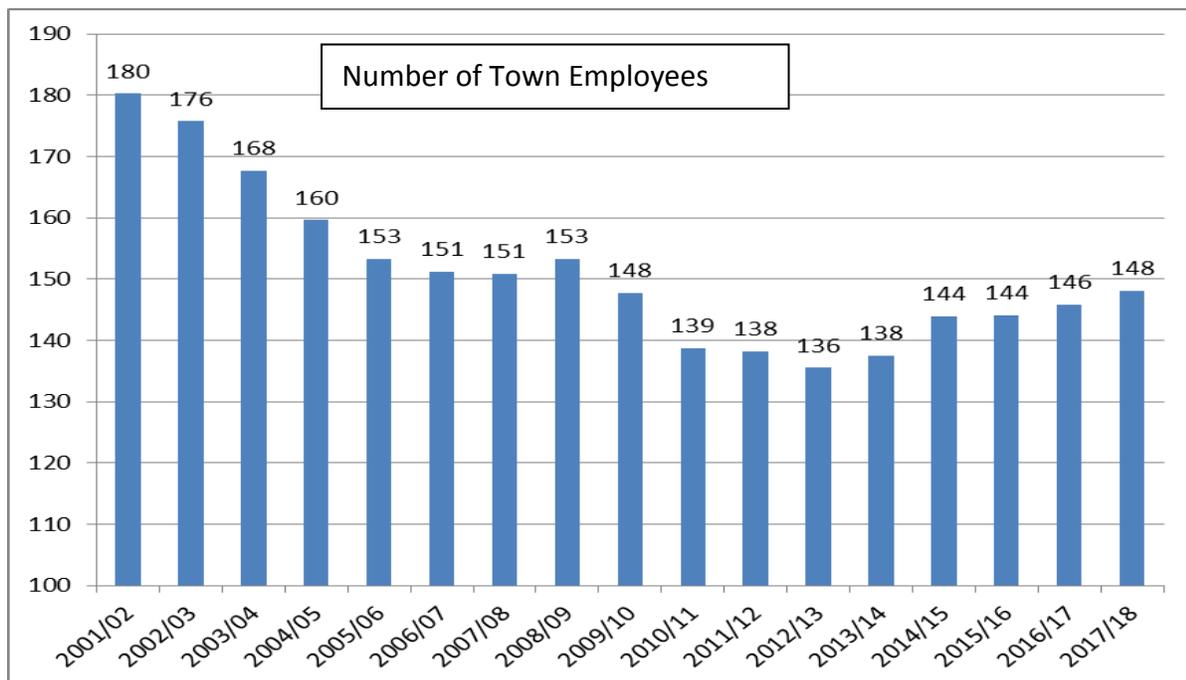
practices has historically yielded ongoing and one-time revenues sufficient to cover ongoing and one-time expenditures. The Town has consistently used excess revenues over the years to enhance our infrastructure through capital projects and address other targeted priorities, such as addressing increases in pension obligations.



In addition to the aforementioned conservative budgeting practices, the Town has also taken significant action to address increases in our pension obligations. The Town of Los Gatos provides a defined benefit pension plan for all full-time employees as part of their total compensation package. The defined benefit pension has been a standard part of compensation in governmental organizations and in Los Gatos is in lieu of participating in Social Security. 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. As illustrated in the table below, the Town has provided \$23.2 million to date in additional discretionary payments towards its pension obligations.

Council Action	Additional Discretionary Funding
The Town authorized payment of the entire approximate \$4.5 million side fund liability associated with the Safety Plan (June 2014).	\$4,500,000.
The Town Council established a General Fund reserve for CalPERS/Other Post-Employment Benefits (OPEB) (May 2016).	Additional minimum of \$300,000 funding annually
The Town authorized the creation of an irrevocable Internal Revenue Code (IRS) Section 115 Trust for the Town's pension obligations (December 2017). The Town Council to date has set aside \$3.4 million towards additional Pension funding (115 Trust) and authorized an additional \$1.0 million to be placed into the CalPERS/OPEB Reserve in the adopted FY 17/18 budget.	\$4,300,000 (accumulated to date)
The Town Council initiated systematic OPEB funding since 2009 for future benefits rather than remaining a pay as you go system.	\$14,500,000 (accumulated to date)
Additional discretionary pension/OPEB funding to date - \$23,200,000	

As noted above, the increase in pension obligations was due to factors beyond the Town's control and not the result of an organizational expansion. To address the projected budget deficits resulting from the 2001 recession and the Great Recession of 2008, the Town had to make significant expenditure reductions and lowered the number of employees providing services by 20%. As the chart below illustrates, staffing levels continue to remain below those of 2009/2010.



As we turn our sights towards the future, it will be essential to maintain the base level of organizational capacity that we have today; however, to maintain and grow the high quality service levels that the Los Gatos community deserves and has come to expect, additional revenue sources must be identified. The Town Council is expected to place a Sales Tax measure on the November 2018 ballot for voter consideration. If approved by a 50 percent plus one majority of voters, this one-eight cent sales tax measure would provide an estimated \$800,000 annually of revenue dedicated exclusively to Los Gatos priorities.

STRATEGIC GOALS AND PRIORITIES

In February 2018, the Town Council determined the Strategic Priorities for 2018-2020, providing guidance to Town staff 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.

Several Strategic Priorities are not one time projects, but rather are ongoing commitments. These commitments include addressing the Town's unfunded pension and other post-employment benefits (OPEB) obligations; developing Measure B transportation projects so the Town is positioned to receive its fair share of the funds; addressing cut-through traffic; fostering emergency preparedness; and participating in regional communications infrastructure that will be critical in the time of an emergency. Specifically for pension and OPEB obligations, the Council expressed interest in the Council Finance Committee continuing to find approaches to reduce the unfunded portion of the obligations.

In terms of capital projects, the Town Council affirmed its interest in completing the remaining reconstruction of Almond Grove streets, investing in bicycle and pedestrian improvements, and improving the condition of the Town's streets. In addition, the Council identified new projects which include preparing a comprehensive parking plan, exploring transportation demand management (TDM) ideas (such as the prospect of a community shuttle), and piloting one-way streets in downtown to help alleviate congestion.

Other Strategic Priorities position the Town for its future. The Council has launched the General Plan Update to engage the community in land use planning and policies to guide development for the next couple of decades. Other Priorities address legal mandates and enhance community vitality.

The following illustrates the Strategic Priorities adopted for FY 2018-2020. Some of these priorities were acted upon during FY 2017/18 and the remaining items are included in the Proposed Operating and Capital Budget and Proposed Capital Improvement Program.

STRATEGIC PRIORITIES FY 2018-2020



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

ONGOING COMMITMENTS

Address Pension and OPEB Obligations
Develop Measure B Transportation Projects
Install Bicycle and Pedestrian Improvements
Participate in Regional Communications and Interoperability
Enhance Community Vitality through Events and Other Efforts
Address Summer Cut Through Traffic
Foster Emergency Preparedness

NEW

*Comprehensive Parking Study
One-Way Downtown Street Pilot
TDM/Community Shuttle
Annexations*

IN PROGRESS AND RECENTLY COMPLETED

Reconstruct remaining Almond Grove Streets (Funded; completion expected in 2019)
Finish North 40 Specific Plan Amendments (90%)
Complete Ordinances as Prioritized by the Town Attorney (Varies; for example, Wireless 10% and Wildlife Fences 80%)
Modify Planned Development Policies (100%)
Sell or Lease Certain Town Properties (40%)
Streamline Land Use Policies (20%)
Address Downtown Parking (10%)
Create a Complete Streets Policy Implementation Plan (10%)
Update the General Plan (1%)
Identify General Plan Amendments for Objective Standards (1%)

SMALL TOWN SERVICE, COMMUNITY STEWARDSHIP, FUTURE FOCUS

UNDERSTANDING THE BUDGET DOCUMENT

The Operating Budget document includes Town-wide information as well as information specific to each fund and each Department. The Town receives revenue from different sources, many of which have restrictions on how they can be used. Separate funds are established to account for the different types of revenues and allowable uses of those revenues.

The budget is prepared in accordance with Generally Accepted Accounting Principles. The budget for governmental funds has been prepared on a modified accrual basis. The modified accrual basis recognizes expenditures when the related fund liability is incurred. Revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

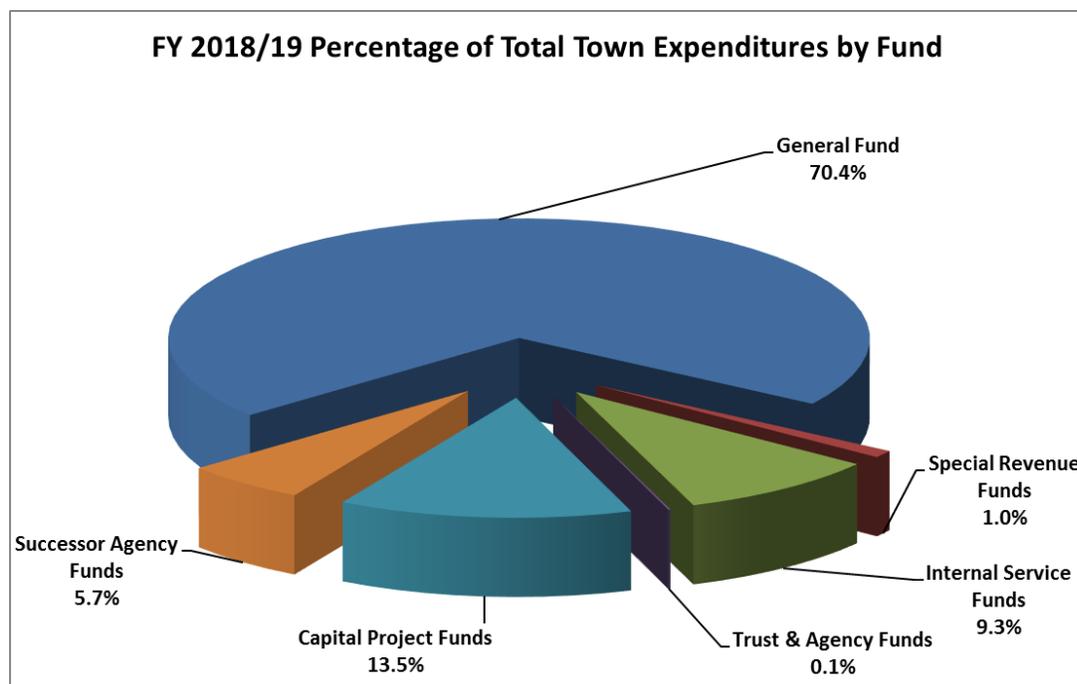
FY 2018/19 FISCAL OUTLOOK

Overview

The workload and budgetary prioritization process took into account the Town's current and long term fiscal picture, as well as high priority service delivery needs. Key principles include:

- Develop and recommend a balanced budget that maintains service levels;
- Continue to make progress on Strategic Priorities identified by the Town Council; and
- Identify opportunities to enhance service delivery through technology and open government.

As shown in the chart below, the Proposed Budget is largely funded by the General Fund (70.4%).

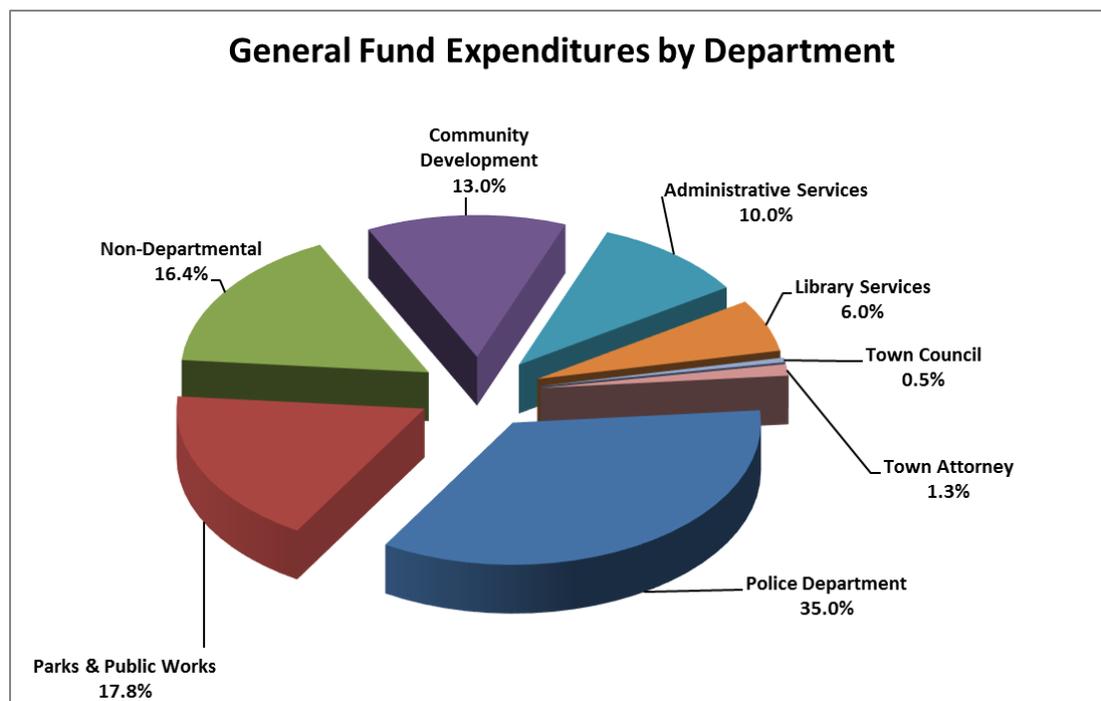


A capital projects amount of \$2,335,220 would be transferred to the General Fund Appropriated Reserves (GFAR) to provide funding for the capital projects identified by the Town Council as well as additional capital needs. For Council's consideration, staff is recommending the following allocations:

- Allocating \$134,792 to the Budget Stabilization and Catastrophic Reserves to maintain the required 25% funding level of the proposed operating budget.
- Replenishing the Equipment Replacement Fund by transferring \$450,000 to the fund.

General Fund

The General Fund pays for core services such as public safety, community development, parks and public works, library, and other services. The revenue used to pay for these services comes primarily from local taxes such as property tax, sales tax, transient occupancy tax, franchise fees, licenses and permits, Town services, fines and forfeitures, and a variety of other sources. As illustrated in the chart below, the majority of General Fund revenue supports the services provided by Police, Parks and Public Works, Community Development, and Library.



General Fund revenue is estimated at \$38.7 million in the FY 2018/19 Proposed Budget, excluding debt service, fund transfers in, and \$1.3 million General Plan Update deferred revenue. This is an increase of \$1.8 million (4.8%) when compared to the FY 2017/18 Adopted Budget. While increased Property Tax accounts for the majority of the increase in revenue, vehicle license fee (VLF) backfill property tax, transient occupancy tax, and business License tax have also increased. Sales tax revenue is projected to decrease over the prior year.

The Town's General Fund operating budget expenditures for FY 2018/19 have increased by \$0.5 million or 1.4% compared to the prior year's Adopted Budget (excluding fund transfers, debt service, \$3.2 million payment to the IRS 115 Pension Trust, and the \$1.3 million General Plan

Update expenses). These expenditures are comprised of six major categories of costs, including salaries and benefits, grants and awards, internal service charges, operating expenses for supplies and services, and debt service. The delivery of Town services is highly dependent on labor, which makes up 57.2% of budgeted General Fund expenditures for FY 2018/19. The FY 2018/19 proposed budget does not include any increases in salaries since negotiations with the Town's unions are pending

Internal Service Funds

Internal Service Funds are used for areas where goods or services are provided to other Town Departments. Internal Service Funds include funds and programs for Information Technology, Liability Insurance, Workers' Compensation, Facilities Maintenance, Equipment Replacement and Vehicle Maintenance. Staff recommends transferring \$450,000 to the Equipment Replacement fund to gradually replenish the funding previously transferred to the General Fund Almond Grove Reserve. The total Town-wide proposed expenditures for Internal Service charges are \$6.3 million, which is \$27,425 or 0.4% higher than budgeted FY 2017/18 amounts. All personnel that were previously funded in Internal Service Fund Programs are programmed in the General Fund beginning in FY 2018/19, increasing total General Fund FTE counts and decreasing the Internal Service Fund FTE Counts by the same amount.

Capital Projects Fund

The Capital Improvement Projects Fund is typically used to account for financial resources that are used for the acquisition or construction of major capital infrastructure or to provide or improve facilities for Town Departments as identified in the five-year Capital Improvement Program (CIP).

The proposed FY 2018/19 Town-wide expenditures from the Capital Projects Funds is \$8.6 million (excluding transfers out) which is inclusive of \$3.8 million in General Fund Appropriated Reserves for the Town's CIP program.

Special Revenue Funds

Special Revenue Funds are a fund type used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Special Revenue Funds account for 1.0% of the Town-wide expenditure budget. The Town's largest Special Revenue Fund is the Urban Run-Off Source Fund. The Total proposed Budget for Special Revenue Funds for FY 2018/19 is \$672,312.

Trust and Agency Funds

Trust and Agency funds are used to account for assets held by the Town as a trustee agent for individuals, private organizations, and other governments. The Town's Trust and Agency Funds are a comprised of four trusts established to provide for the servicing of donations and bequests to the Town's Library program. The FY 2018/19 budgeted expenditures in this trust fund total \$73,500.

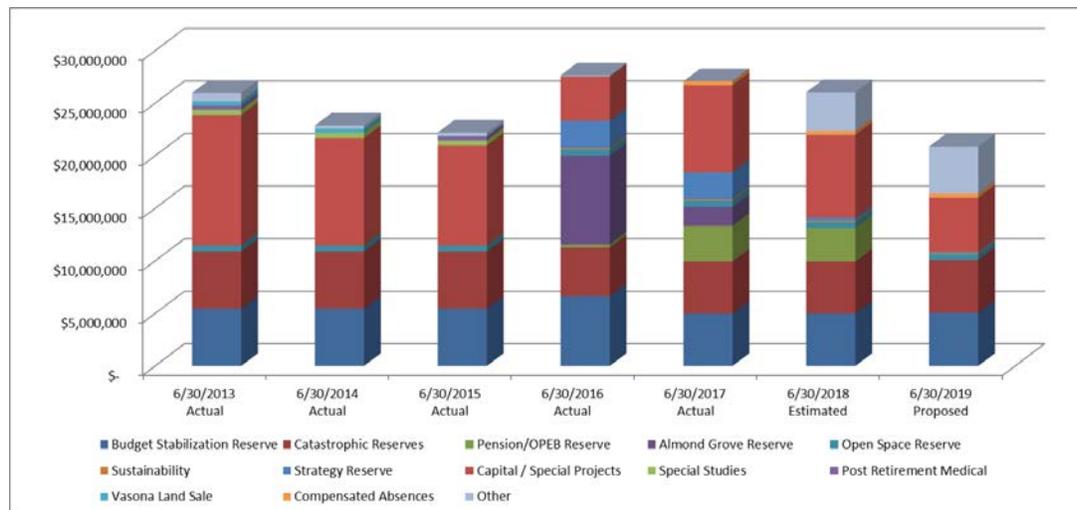
Successor Agency to the Los Gatos RDA Funds

The Successor Agency to the Los Gatos Redevelopment Agency (RDA) is a private purpose trust fund that accounts for the assets, liabilities, and operations transferred from the dissolution of

the Town's RDA. These funds include Certificates of Participation issued to finance several capital improvement projects throughout the Town and repayment of obligations incurred by the Town's RDA prior to its dissolution. The FY 2018/19 budgeted expenditures in this trust fund total \$3.8 million.

GENERAL FUND RESERVES

The total General Fund Reserves are forecasted at a balance of approximately \$20.8 million as of June 30, 2019. As indicated in the next chart, the General Fund reserves are decreasing due to programmed payments to the Town's California Public Employees Retirement System (CalPERS) side-fund payoff in June 2014 of \$4.5 million dollars, transfers to the CIP program in FY 2016/17 (\$7.0 million), FY 2017/18 (\$2.4 million), and FY 2018/19 (\$2.4 million), and the \$4.3 million scheduled payment to the IRS 115 Pension Trust Fund.



General Fund Reserve	6/30/2013 Actual	6/30/2014 Actual	6/30/2015 Actual	6/30/2016 Actual	6/30/2017 Actual	6/30/2018 Estimated	6/30/2019 Proposed
Committed to:							
Budget Stabilization Reserve	\$ 5,450,000	\$ 5,450,000	\$ 5,450,000	\$ 6,621,808	\$ 4,969,847	\$ 4,969,847	\$ 5,037,243
Catastrophic Reserves	5,450,000	5,450,000	5,450,000	4,637,406	4,969,847	4,969,847	5,037,243
Pension/OPEB Reserve	-	-	-	300,000	3,388,913	3,188,913	-
Almond Grove Reserve	-	-	-	8,459,973	1,801,318	-	-
Assigned to:							
Open Space Reserve	562,000	562,000	562,000	562,000	562,000	562,000	562,000
Sustainability				140,553	140,553	140,553	140,553
Strategy Reserve				2,600,000	2,600,000	263,882	129,090
Capital / Special Projects	12,427,161	10,218,579	9,511,527	4,222,405	8,273,124	7,881,738	5,096,518
Special Studies	490,000	490,000	490,000	-	34,852	34,852	34,852
Post Retirement Medical	400,000	-	400,000	-	-	-	-
Vasona Land Sale	410,599	411,245	-	-	-	-	-
Compensated Absences					350,329	350,329	350,329
Other	787,294	297,294	339,837	99,284		3,670,447	4,486,166
Total General Fund Reserve	\$ 25,977,054	\$ 22,879,118	\$ 22,203,364	\$ 27,643,429	\$ 27,090,783	\$ 26,032,408	\$ 20,873,994

Catastrophic and Budget Stabilization Reserves

As per the Town's Reserve Policy, the Catastrophic and Budget Stabilization Reserves are to be maintained at combined minimum funding level of 25% of General Fund ongoing operating

expenditures. The funding requirement is equally divided between the Catastrophic Reserve (12.5%) and the Budget Stabilization Reserve (12.5%). Fund balance in these reserves is used to fund future fluctuations in the economy, mitigating the cyclical changes in locally generated revenues from temporary downturns in the local economy. Staff recommends transferring \$134,792 from available prior year-end saving to meet the required 25% funding level, or \$10.1 million total for FY 2018/19.

Pension/OPEB Reserve

Committed fund balance in this reserve will be used to aid in funding pension and Other Post-Employment Benefits (OPEB) unfunded liabilities. This reserve is primarily used to house additional discretionary payments budgeted for deposit into the Town's with Council direction, upon the close of the fiscal year, the CalPERS/OPEB Reserve receives \$300,000 of the available year-end savings. For FY 2018/19 the Council has approved development of an additional reserve policy programming \$400,000 in additional annual discretionary payments to the IRS 115 Pension Trust Fund. The Council Finance Committee makes recommendations for the use of these funds for future Town Council/Oversight Committee consideration.

Almond Grove Reserve

A reserve for Almond Grove Street Rehabilitation project was established in October 2015 to provide funding for the ten streets identified in the project. The Town Council affirmed its interest in completing the Phase II of the Almond Grove streets. Due to a favorable construction bid to complete the project, there are \$2.9 million in excess funds. The excess fund balance was fully programmed at the FY 2018/19 budget.

Strategy Reserve

In early 2017, the Town Council established a General Fund Strategy Reserve in the amount of \$2.6 million from available FY 2015/16 operational savings. The portion of the General Fund Strategy Reserve was programmed in the FY 2018/19 budget for capital projects and additional pension funding.

Capital / Special Projects

With Council direction, upon the close of the fiscal year, the Capital Projects Reserve receives the Town's annual revenues above operating expenditures after funding all legally restricted reserves at their required levels. Fund balance is assigned for the acquisition and construction of capital facilities. It is anticipated the reserve will have approximately \$5.0 million as of June 30, 2019.

Other

The Town has several other smaller reserves that have been classified as other. These reserves include an open space reserve which may be used to make selective open space acquisitions and a sustainability reserve which will be used to fund projects that enhance the community environment. Please refer to the Financial Summaries section (C-1) for additional information.

KEY BUDGET ASSUMPTIONS

Revenues

The FY 2018/19 Budget assumes continued economic growth, with the General Fund revenues (excluding debt payments and fund transfers in) expecting to increase by 3.6% to \$36.8 million. Revenue projections for each category were based upon estimates provided to the Town by Santa Clara County, the Town’s sales tax consultant, and careful examination of revenue trends and patterns. The economy remains generally positive which has resulted in staff proposing an increase in operating revenues of \$0.5 million. This is mostly due to forecasted increases in revenues such as property tax, transient occupancy tax and business license tax. Sales tax revenue is projected to decrease slightly from the prior year.

Staffing

All personnel that were previously funded in Internal Service Fund Programs are programmed in the General Fund beginning in FY 2018/19, increasing total General Fund FTE counts and decreasing the Internal Service Fund FTE Counts by the same amount.

Departments	FY 17/18	FY 18/19
	Authorized/Funded Town Staff Positions	Authorized/Funded Town Staff Positions
Town Council	0.50	0.50
Town Attorney	1.63	1.88
Administrative Services	20.59	20.53
Community Development	19.63	20.08
Police Department	59.00	59.00
Parks & Public Works	34.50	34.50
Library	12.25	12.50
Total Positions	148.10	148.99
All Departments Hourly Employee Staff converted to FTES	12.32	10.21
Total Positions	160.42	159.19

The FY 2018/19 Operating Budget has 159.19 budgeted FTEs, including temporary staff. This reflects a decrease of 1.23 FTEs compared to the prior year. The recommended FY 2018/19 staffing levels also reflect the following changes from the prior year’s adopted budget:

- Administrative Services and Town Offices –The FY 2018/19 budget includes a deletion of 0.5 FTE one time Administrative Analyst in the Human Resources program. The budget also includes an increase of 0.125 FTE to the Deputy Town Attorney position to assist with the workload in the Town Attorney’s Office. In addition, the budget reflects the addition of a newly created IT Analyst position to provide critical support to the burgeoning technology infrastructure necessary to support modern governance throughout the Town.

- Police –A recent retirement at the Lieutenant rank and senior leadership transition in the Police Department during FY 2017/18 allowed an opportunity to re-evaluate the Department’s organizational effectiveness. As a result of these assessments, the Police Department’s FY 2018/19 budget includes the elimination of the Lieutenant rank (2.0 FTE positions). Defunding the Lieutenant rank position allows the Department to return to the two Captain organizational model. The command re-structure also provides for the addition of an Administrative Sergeant position (6.0 FTE Sergeants to 7.0 FTE Sergeants) ensuring an equitable distribution of the Lieutenant’s responsibilities. In addition, the FY 2018/19 budget reflects a reclassification of 1.00 FTE from Administrative Analyst to Senior Administrative Analyst.

- Community Development Department (CDD) – The FY 2018/19 budget reflects a reclassification of 1.00 FTE from Building Inspector to Senior Building Inspector. In addition, the nighttime Code Compliance Community Service Officer is funded completely in CDD with this budget.
- Parks and Public Works (PPW) – The FY 18/19 budget includes multiple personnel adjustments that partially affect the Administration Program. The 0.5 FTE Office Assistant increased to 0.75 FTE overall, and was reclassified as an Administrative Assistant due to the actual duties of this position. In addition, the 1.0 FTE Administrative Assistant was reduced to 0.75 FTE to align the position with the allocated budget. Also, the Administrative Analyst was upgraded to a Senior Administrative Analyst to provide a career ladder for the Administrative job series in a management role and to reflect the complexity of the duties assigned to the position. The FY 18/19 budget reflects several personnel changes that partially affect the Engineering Program. The Town Engineer classification was upgraded to Assistant Parks and Public Works Director/Town Engineer as approved by the Town Council. Also, an Assistant Engineer is being added for increased capital program support. The Senior Public Works Inspector will be reallocated to another Program to reflect the actual job duties, and a vacant Public Works Inspector position will be deleted to offset the addition of an Assistant Engineer.
- Library - The FY 2018/19 Library budget includes some changes in personnel which overall represent no net change in FTE staffing from FY 17/18. These changes defund a Customer Service Supervisor position (1.00 FTE) and a Library Assistant position (1.00 FTE) allowing the creation of a Library Technician position (1.00 FTE) and Library Technology Specialist position (1.00 FTE) which better represent changing workloads and job duties of the organization. In addition, the budget modifies one already fully-benefited Customer Service Specialist position from a 0.75 FTE to a 1.00 FTE which is offset by reducing part-time staffing hours, discontinuing the need for one-time funding to cover on-call part-time staffing, and budgeting a significant portion of on-call part-time staffing to a lower paying classification that better aligns with actual job duties.

Non-Personnel Operating Expenditures

Non-Personnel expenditure budgets were developed based on actual expenditures in prior years, adjusted for FY 2018/19 funding needs. In light of limited available resources, the FY 2018/19 proposed budgeted non-personnel expenditures are conservative, with additions primarily limited to non-discretionary, contractually obligated, or mandated increases.

FIVE-YEAR FINANCIAL PLAN

Serving as a foundation of the budget planning process, the Town updates the Five-Year Financial Plan beginning in the fall of each year. The plan includes updates to Town revenues and expenditures with the first year of the forecast's revenue estimates being the most critical in the process, as that will ultimately define the expenditure limitations for the forthcoming budget year. The multi-year conservative revenue projections further refine the Town's planning for current and future expenditures based on future projections. The preliminary assumptions are used to forecast the Town's fiscal capacity and provide the financial

framework within which the proposed Department service levels must be developed. They also serve as the basis to test the potential impacts of proposed policy and operational modifications based upon the Town Council’s most recently adopted Strategic Priorities.

Indicative of the continued improvement in the local economy, the Five-Year forecast provides some limited opportunities to fund non-discretionary increases related to various costs such as contractually obligated increases and unavoidable increases in certain employee benefit costs such as pension and health care. The forecast includes General Fund one time uses for both salaries and benefits for temporary employees to provide help with special projects, temporary workload relief, and mandated costs.

The table below summarizes the most recent Five-Year Financial Plan prepared in early May 2018. The updated Five-Year Financial Plan spans FY 2018/19 – 2023/24.

**Town of Los Gatos General Fund
(in \$ millions)**

Account	Revenue Category	2018/19 Budget	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast
4100	Property Tax	\$ 12.5	\$ 12.7	\$ 13.0	\$ 13.4	\$ 13.8	\$ 14.2
4110	VLF Backfill Property Tax	3.5	3.5	3.6	3.6	3.6	3.7
4200	Sales & Use Tax	7.7	7.8	8.0	8.2	8.4	8.4
4250	Franchise Fees	2.4	2.5	2.5	2.6	2.7	2.8
4251	Transient Occupancy Tax	2.3	2.3	2.3	2.3	2.4	2.4
4400	Business License Tax	1.7	1.7	1.7	1.7	1.7	1.8
4400	Licenses & Permits	3.3	3.4	3.0	3.1	3.2	3.3
4500	Intergovernmental	0.6	0.7	0.7	0.7	0.7	0.7
4600	Charge for Services	4.5	3.3	3.4	3.4	3.5	3.6
4700	Fines & Forfeitures	0.6	0.7	0.7	0.7	0.7	0.7
4800	Interest	0.3	0.3	0.3	0.3	0.3	0.3
4850	Other Sources	2.5	2.3	2.4	2.4	2.4	2.5
4900	Fund Transfers In	0.5	0.5	0.5	0.5	0.5	0.5
TOTAL REVENUES		\$ 42.4	\$ 41.7	\$ 42.1	\$ 42.9	\$ 43.9	\$ 44.9
	Use of Capital Reserve	2.3	0.6	0.6	0.6	0.6	0.6
	Use of Pension/OPEB Reserve	3.1	0	0	0	0	0
	Use of Reserve	0.5	0.4	0.4	0.4	0.4	0.5
TOTAL REVENUES & RESERVE TRANSFERS		\$ 48.3	\$ 42.7	\$ 43.1	\$ 43.9	\$ 44.9	\$ 46.0

Account	Expenditure Category	2018/19 Budget	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2022/23 Forecast
5110	Salary	\$ 17.6	\$ 17.9	\$ 18.0	\$ 18.0	\$ 18.1	\$ 18.1
5200	Benefits	9.5	10.3	11.0	11.4	11.8	12.1
6000	Operating Expenditures	7.9	6.3	6.5	6.7	6.9	7.1
7200	Grants & Awards	0.2	0.2	0.2	0.2	0.2	0.3
7400	Utilities	0.6	0.6	0.6	0.6	0.6	0.7
8060	Internal Service Charges	2.5	2.6	2.7	2.8	2.9	3.1
8900	Debt Service	1.9	1.9	1.9	1.9	1.9	2.0
TOTAL EXPENDITURES		\$ 40.2	\$ 39.8	\$ 40.9	\$ 41.6	\$ 42.4	\$ 43.4
9900	Capital Transfers Out to GFAR	2.3	0.6	0.6	0.6	0.6	0.6
9900	Reserve to Internal Service Funds	0.5	0	0	0	0	0
9900	GASB 45 Retiree Medical Actuarial	1.1	1.1	1.2	1.2	1.2	1.3
9900	Pension/OPEB Transfer to PARS	3.1	0	0	0	0	0
9900	Pension Pre-funding to PARS	0.4	0.4	0.4	0.4	0.4	0.5
TOTAL BUDGETED EXPENDITURES		\$ 47.6	\$ 41.9	\$ 43.1	\$ 43.8	\$ 44.6	\$ 45.8
TOTAL EXPENDITURES & ALLOCATIONS		\$ 47.6	\$ 41.9	\$ 43.1	\$ 43.8	\$ 44.6	\$ 45.8
NET REVENUES & RESERVE TRANSFERS LESS EXPENDITURES & ALLOCATIONS		\$ 0.7	\$ 0.8	\$ -	\$ 0.1	\$ 0.3	\$ 0.2

STATE BUDGET IMPACTS

Details on the State of California FY 2018/19 Proposed Budget will be available as part of the Governor's May Revised Budget and it is not expected to be materially different from the Governor's FY 2018/19 Proposed Budget released in January 2018.

Regarding transportation revenues, the Governor allocated about \$206 million for local road maintenance and repairs, \$485 million for transit, \$358 million to improve trade corridors, and \$120 million for State highway maintenance. The estimated Gas Tax revenue totals approximately \$1.2 million for FY 2018/19 due to the recently enacted Road Recovery and Repair Act of 2017 (SB1). These funds can only be used for new construction and reconstruction of Town streets.

ONGOING BUDGET ISSUES:

Fire Protection Services

Fire Protection Services for the Town of Los Gatos are provided by the Santa Clara County Central Fire Protection District. These services have been provided under an annexation agreement effective March 18, 1970 in which the tax rate then in effect for Town's fire protection services was essentially transferred to the County's Central Fire Protection District. Based upon the latest assessed valuation reports provided by the County of Santa Clara, the property tax collected from Los Gatos residents for FY 2017/18 and remitted to the Santa Clara County Central Fire Protection District for fire protection services is estimated to be approximately \$14.3 million.

Unfunded Other Post-Employment Benefits (OPEB) and Pension Liabilities

The Town's pension unfunded actuarial liability (UAL) as of June 30, 2016 (the "date of value" for our most up to date actuarial valuation from the California Public Employees Retirement System or "PERS") is approximately \$51.8 million. The Town's unfunded actuarial OPEB liabilities are projected to total approximately \$11.2 million. In December 2016, the CalPERS Board approved a gradual reduction in the assumed earnings of its pension fund referred to the "discount rate" which is expected to add stability to the pension trust fund and will also impact the Town's employer contribution rates and increase the unfunded liability calculation.

In addition to prior efforts by the Town to annually appropriate and pre-fund OPEB liabilities and to pay off the pension plan side fund (\$4.5 million in 2014), the Town Council recently approved an additional \$1 million-dollar lump sum payment to be made in FY 2016/17 to further reduce the unfunded OPEB liabilities (see the discussion regarding OPEB on the next page). In March 2017, the Town appointed three residents with financial expertise as non-voting members to the Town Council Finance Committee. The Committee is providing valuable guidance to the Town Council and staff in the development of long term strategies to pay down and manage OPEB and pension liabilities. As a result of the Committee's work on this issue, Council established an Internal Revenue Service Code Section 115 Pension Trust that is set up to be dedicated to fund future pension costs. The Trust provides opportunities to set aside dollars

specifically to address the unfunded liabilities and more flexibility in terms of investment allocations and a prudent investment strategy.

Other Post-Employment Benefits (OPEB)

The FY 2018/19 Proposed Budget includes an allocation of approximately \$1,200,000 in “pay-as-you-go” payments for retiree medical employer contributions. In addition, the proposed budget also includes a \$1,100,000 payment to the Town’s California Employee Retirement Benefit Trust (CERBT). The Trust was established on June 30, 2007 to address the unfunded liability that resulted from the implementation of a new accounting standard for post-employment benefits. The Town makes annual contributions to the CERBT, a multiple-employer defined benefit health care plan administered by CalPERS. The purpose of the CERBT Fund is to provide local governments with a trust through which they may pre-fund retiree medical costs and other post-employment benefits. In addition, in FY 2016/17 the Town Council dedicated an additional \$1,000,000 payment to the fund based on the Council Finance Committee recommendation. To date the retiree health benefits have been paid entirely out of current operating budgets and no withdrawals have been made from the Town’s CERBT “pre-funding” account. The current balance in this account is approximately \$14.5 million as of April 2018.

To help reduce costs related to post-employment benefits, the Town proactively bargained an agreement wherein effective for employees retiring after February 1, 2016 the annuitant of Medicare eligible age is reimbursed to a maximum amount of benefit matching “Kaiser North” Employee or Employee plus One. It is estimated this cap on reimbursement will achieve approximately \$200,000 per year in actuarially required contributions to the OPEB plan.

CONCLUSION

While the global, national, state, and local economy appears to remain positive, it is likely that the economy will weaken within the next couple of years. For this reason, the FY 2018/19 budget proposes to maintain the status quo of the Town’s high service levels with minimal staffing additions, while also addressing the Town Council’s priorities.

In light of future projections, opportunities to enhance service delivery, while lowering operating costs through resource and workload redeployments and organizational restructuring continue to be explored. Developments at the local and State level, including unanticipated changes in major revenue sources or unforeseen State revenue “takes,” will be brought to Town Council’s attention in a timely manner so that an appropriate action can be taken.

Building on the progress of the past we are cautiously programming for the future. With this budget we continue to fund important priorities including; bicycle and pedestrian road improvements, allocate additional discretionary funds toward pension obligations, enhance emergency preparedness, and address aging equipment and facilities. In addition we initiate funding for Council adopted new strategic priorities including; comprehensive parking study, potential community shuttle, and downtown one-way street pilot.

I wish to thank all of the departments, in particular, Department Directors and the members of their management, analytical, and support staff, who worked diligently on the preparation of this budget document. Specifically, I would like to recognize the efforts of:

Stephen Conway, Finance Director
Gitta Ungvari, Finance and Budget Manager
Mark Gaeta, Accountant
Melissa Ynegas, Administrative Analyst
Diane Howard, Payroll Specialist
Kenneth Stiles, Administrative Technician
Arn Andrews, Assistant Town Manager

Respectfully submitted,

A handwritten signature in cursive script that reads "Laurel Prevetti".

Laurel Prevetti
Town Manager



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Town of Los Gatos
California**

For the Fiscal Year Beginning

July 1, 2017

Christopher P. Morill

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) has presented a Distinguished Budget Presentation Award to the Town of Los Gatos, California for its annual budget since the fiscal year beginning July 1, 2003. In order to receive this award, a government unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.



FUND DESCRIPTIONS

The basic accounting and reporting entity for the Town is a fund. A fund is "an independent fiscal and accounting entity used to record all financial transactions related to the specific purpose for which the fund was created." Funds are established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Funds used in government are classified into three broad categories: governmental, proprietary, and fiduciary. Governmental funds include activities usually associated with a typical state or local government's operations (public safety, general government activities, etc.). Proprietary funds are used in governments to account for activities often found in the private sector (utilities, stadiums, and golf courses are prime examples). Trust and Agency funds are utilized in situations where the government is acting in a fiduciary capacity as a trustee or agent. The various funds are grouped in fund types and categories as follow:

MAJOR AND NON-MAJOR GOVERNMENTAL FUNDS

These funds support activities usually associated with the governmental entities' operation (police, fire, and general governmental functions).

General Fund

The **General Fund is a Major Fund** and is the chief operating fund of the Town. All general tax revenues and other receipts not allocated by law or some other contractual agreement to other funds are accounted for in the General Fund. Expenditures of this fund include the general operating expenses traditionally associated with governments such as administration, engineering, and public safety.

Special Revenue Funds

Special Revenues Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes. The following funds are **Non-Major Special Revenue Funds**:

- **Non-Point Source Maintenance Fund** - budgets and accounts for environmental services such as storm water management.
- **Community Development Block Grant Fund** - budgets and accounts for federal Community Development Block Grant monies.
- **Landscape and Lighting Special Assessment District Funds** - budgets and accounts for revenues and expenditures within special districts. The Town provides maintenance of the trees, landscaping, irrigation systems, lighting, sound wall and fences for improvements in the public right-of-way, within specific district boundaries.

☞ FUND DESCRIPTIONS ☜

Capital Project Funds

Capital Project Funds are used to account for the acquisition, construction, and improvement of capital facilities other than those financed by proprietary funds. The Town accounts for the following **Major Capital Project Funds**:

- **General Fund Appropriated Reserve** – established to provide resources for capital projects not fully funded from other sources.

The Town also accounts for the following **Non-Major Capital Project Funds**:

- **Storm Drain Basin Project Funds** – established to account for fees paid in conjunction with the development in specified drainage areas.
- **Construction Tax Funds** – established to levy a tax based upon building additions or alterations. The types of taxes imposed include Capital Improvement, Utility Underground, and Parks.
- **Gas Tax Fund** – established to budget and account for revenues and expenditures pertaining to the maintenance and construction of Town streets.

NON-MAJOR PROPRIETARY FUNDS

There are two classifications of Proprietary Funds: Enterprise Funds and Internal Service Funds. Enterprise Funds are used to account for activities that are operated in a manner similar to a private business enterprise, where the cost of the goods or services are to be financed or recovered primarily through user charges. The Town does not currently utilize Enterprise Funds.

Internal Service Funds

Used to account for the revenues and expenditures of services provided to Town Departments. The Town has several **Non-Major Internal Service Funds**:

- **Equipment Replacement Fund** – established to accumulate monies for the replacement of major Town equipment and vehicles. When vehicles and equipment are acquired at a cost greater than \$10,000, a normal life span is calculated, and replacement costs are charged directly to the Departments over that life span with funds accruing to the Equipment Reserve Fund.
- **Vehicle Maintenance Fund** – established to budget and account for the cost of operating, maintaining and replacing automotive equipment used by other Town Departments.
- **Information Technology (IT) Fund** – established to budget and account for the cost of maintaining, replacing, and updating existing information technology used by Town Departments.

☞ FUND DESCRIPTIONS ☜

- **Office Stores Fund** - established to budget and account for photocopy equipment, postage and bulk meter expenses are controlled at one source point and expended to the Departments as they requisition the goods or services. Photocopies are charged to Departments at \$.05/copy.
- **Workers' Compensation Fund** – established to budget and account for revenues derived from charges made to operating Departments at rates based on the State Compensation Fund, annually adjusted to ensure an adequate reserve for future claims. This fund is charged for administrative costs of settling claims as well as material and other costs of job-related illness or injury.
- **ABAG Self-insurance Fund** - established to ensure an adequate reserve for future claims related to employee long-term disability.

FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the Town acting in a fiduciary capacity for other entities and individuals. Such funds are operated to carry out the specific actions of trust agreements, ordinances and other governing regulations. There are two categories of fiduciary funds, Trust and Agency.

Trust Funds

Accounts for assets held by the Town in a trustee capacity under formal trust agreement. The Town currently administers the following funds:

- **Library Trust Fund** - established to account for the accounts for assets held in trust, through receipt of donations and bequests. Funds received from individuals, services organizations, and a library specific non-profit organization.
- **Clelles Ness Trust** – established to account for the accounts for a specific bequest subject to an agreement made for its use.
- **Susan McClendon Trust** – established to account for the accounts for a specific bequest subject to an agreement made for its use.
- **Barbara Jones Cassin Trust** – established to account for the accounts for a specific bequest subject to an agreement made for its use.
- **RDA Successor Agency Private Purpose Trust Fund** – established to account for the assets and liabilities transferred from the dissolution of the Town's former Redevelopment Agency and the continuing operations related to the existing Redevelopment Agency obligations.

∞ FUND DESCRIPTIONS ∞

Agency Funds

Accounts for assets held by the Town in the capacity of an agent for individuals, governmental entities and non-public organizations. The Town currently administers one of these funds:

- **Downtown Parking District Assessment Fund** – established to account for the resources held by the Town on behalf of the property owners in this Parking District Assessment District.

DEBT SERVICE FUNDS

A fund established to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest:

FINANCIAL POLICIES

REVENUE

diversified growing revenue base that is locally generated to shelter the community from fluctuations in any one revenue source.

- The Town will follow an aggressive policy of auditing and collecting all locally generated taxes.
- The Town will establish and maintain all user charges and fees based on the cost of providing services.
- The Town Council will adopt an annual balanced budget effective from July 1st to June 30th of the following calendar year. A balanced budget requires current year operating expenses to be fully funded by current year revenues and identified undesignated/unreserved fund balance.
- Fund Balance Reserves will be used only for non-recurring “one-time” and capital projects and not for on-going operations.
- Long-term debt will be confined to capital improvements or special projects that cannot be financed from current revenues.
- The Town Manager is authorized to implement the programs as approved in the adopted budget. Within a specific fund the Town Manager may transfer appropriations between categories, Departments, projects, and programs as needed to implement the adopted budget.
- With the approval of the Town Manager, unexpected appropriations may be carried forward to the next fiscal year provided funds have been previously encumbered for a specific purpose.
- The annual budget will include a \$100,000 Designated Contingency for non-recurring, unanticipated expenditures. The Town Manager may approve expenditures from this contingency if needed during the fiscal year.
- A capital outlay (fixed asset) purchase will be any single item or piece of equipment which costs more than \$10,000 and has an expected useful life exceeding one year.
- Quarterly budget reports will be submitted to the Town Council to provide information on the status of the Town’s financial condition.

BUDGETING and EXPENDITURE

- The Town will encourage a

FINANCIAL POLICIES

FUND BALANCE RESERVES

- Reserves will be established, dedicated, and maintained annually to meet known and estimated unknown future liabilities.
- The specific Fund Balance reserve accounts include but are not limited to a restricted reserve for:
 - ▶ A fully funded workers' compensation and unemployment insurance
 - ▶ Liability insurance including one year's premium payment to the insurance carrier or pool
- A reserve will be maintained annually to fund all vested hours of vacation earnings.
- Reserves will be maintained at a minimum of 25% of General Fund ongoing operating expenditures, equally divided between the Catastrophic Reserve (12.5%) and the Budget Stabilization Reserve (12.5%).

When either fund drops below the minimum, Town Council will develop a 1 to 5 years reserve replenishment plan to meet the minimum threshold of 25% of General Fund ongoing, operating expenditures, excluding one-time expenditures.

- A reserve will be maintained for the depreciation and replacement of equipment.
- A reserve will be maintained for the maintenance of buildings.
- Pension/Other Post Employment Benefits (Pension/OPEB) Reserve will be maintained to use as a supplemental funding source to pay down unfunded pension and other post employment liabilities.

CAPITAL IMPROVEMENT

Capital Improvement Projects will be funded by the following revenue sources:

- Available General Fund Reserves
- Gas Taxes
- Construction Fund Fees
 - ▶ Utility
 - ▶ Capital
 - ▶ Parks
- Storm Drain Basin Fees
- Grant Funding
- Other state and federal funding sources as they become available
- Multi-year plan for capital improvements is updated annually. Future capital expenditures will be projected annually for a 5-year period based on changes in the community or replacement of the infrastructure.

⌘ FINANCIAL POLICIES ⌘

CAPITAL IMPROVEMENT

- The annual Capital Improvement Plan will be based on the multi-year Capital Improvement Program
- The Town will coordinate development of the Capital Improvement Plan with the development of the Operating Budget.
- The Town will identify the estimated costs and potential funding sources for each capital project proposed prior to its submittal to the Town Council for approval.
- Capital projects financed by issuing bonds will be paid back within a period not to exceed the useful life of the project.
- The Town Manager is authorized to implement the projects as approved in the adopted Capital Improvement Plan. Within a specific fund, the Town Manager may transfer appropriations between projects as needed to implement the adopted Capital Improvement Plan.



GENERAL FUND RESERVE POLICY

PURPOSE

The purpose of this policy is to establish a target minimum level of designated reserves in the General Fund to:

- Reduce the financial impacts associated with a disaster or catastrophic event;
- Respond to the challenges of a changing economic environment, including prolonged downturns in the local, state, or national economy; and
- Demonstrate continued prudent fiscal management and creditworthiness.

BACKGROUND

General Fund reserves are classified into two categories: Restricted and Designated. Restricted reserves are those which are restricted and not considered available due to financial, accounting, or legal restrictions. Designated reserves are established by Council policy for an intended purpose and are available for use per Council direction.

GUIDING PRINCIPLES

Following sound financial practices and adhering to the Government Finance Officers' of America (GFOA) recommendations, the Town's designated reserves include reserves for known and unknown contingencies, which take into consideration the:

- Diversity of revenue base
- Volatility of revenue structure
- Changes in political environment
- Frequency of operating surpluses/deficits
- Cash flow management practices

POLICY

The fund balance is the difference between the assets and liabilities reported in a governmental fund. Under current accounting standards, there are five separate components of fund balance, each of which identifies the extent to which the Town is bound to honor constraints on the specific purposes for which amounts can be spent.

The following components are defined by Governmental Accounting Standards Board (GASB) Statement No. 54 and shall constitute the Town's Fund Balance:

- *Nonspendable Fund Balance* (inherently nonspendable)
- *Restricted Fund Balance* (externally enforceable limitations on use)
- *Committed Fund Balance* (self-imposed limitations on use)
- *Assigned Fund Balance* (limitation resulting from intended use)
- *Unassigned Fund Balance* (residual net resources)

☞ GENERAL FUND RESERVE POLICY ☞

The first two components listed above are not specifically addressed in this Policy due to the nature of their restrictions. The example of nonspendable fund balance is inventory. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulations of other governments. This Policy is focused on financial reporting of unrestricted fund balance, or the last three components listed above. These three components are further defined below.

The accounting policies of the Town consider restricted fund balance spent first when expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts of the unrestricted classifications of fund balance could be used, the Town considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

Committed Fund Balance

The Town Council, as the Town's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal action taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose, unless the Town Council removes or changes the specific use through the same type of formal action taken to establish the commitment. The Town Council action to commit fund balance needs to occur within the fiscal reporting period; however, the amount can be determined subsequently at the final close of the fiscal year.

The Town currently sets aside funds into four committed reserves to address unforeseen emergencies or disasters, significant changes in the economic environment, unfunded pension and Other Post-Employment Benefits (OPEB) obligations, and key infrastructure and capital projects. These include the Catastrophic Reserve, Budget Stabilization Reserve, Pension (OPEB) Reserve and Almond Grove Street Projects Reserve.

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% of General Fund ongoing operating expenditures (minus one-time expenditures).

Should a catastrophic disaster occur, the required reserve level should be adequate to meet the Town's immediate financial needs. For example, in the event of natural disaster, the

☞ GENERAL FUND RESERVE POLICY ☞

Catastrophic Reserve would provide necessary coverage for basic operating expenses, including salary and benefits for safety and non-safety Town employees, while still meeting debt service obligations for approximately 60 days. This time frame would enable the Town to explore other available cash alternatives, including the use of internal service funds.

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% of General Fund ongoing operating expenditures (minus one-time expenditures).

Should a loss of the Town’s single highest source of sales tax revenue occur, the required reserve level should be adequate to meet the Town’s immediate financial needs. For example, the reserve level in the Budget Stabilization Fund would provide for an approximate 3-year transition period, giving the Town adequate time to realign its operating costs with available resources, while minimizing service impacts.

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;

☞ GENERAL FUND RESERVE POLICY ☞

- 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% of General Fund ongoing operating expenditures (minus one-time expenditures).

Should a loss of the Town's single highest source of sales tax revenue occur, the required reserve level should be adequate to meet the Town's immediate financial needs. For example, the reserve level in the Budget Stabilization Fund would provide for an approximate 3-year transition period, giving the Town adequate time to realign its operating costs with available resources, while minimizing service impacts.

Almond Grove Street Project Reserve

Funds reserved under this category shall be used to reconstruct the 10 streets identified in the Almond Grove Street Rehabilitation Project specification.

The Council awarded the bid in April 2017 allowing for \$2.9 million savings within the project. The Council reappropriated the use of the savings through the FY 2017/18 budget process. The Almond Grove Reserve should be reduced by the identified \$2.9 million savings. The Almond Grove Street Reserve balance will be reduced at each fiscal year end by the funds expended on the Almond Grove Street Rehabilitation Project during the fiscal year.

Assigned Fund Balance

Amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. This Policy hereby delegates the authority to assign amounts to be used for specific purposes to the Town Manager for the purpose of reporting to assign amounts in the annual financial statements. A few examples of assigned fund balance follow.

- Encumbrances – material s and services on purchase order and contracts which are unperformed.

☞ GENERAL FUND RESERVE POLICY ☞

- Reappropriations – appropriated by the Council for specific projects or programs that were not completed and not encumbered by year end.
- GASB 31 Adjustments – unrealized investment gains that have been recorded in the financial statements in accordance with GASB 31.

Capital and Special Projects Reserve

Funds reserved under this category are designated for key infrastructure and capital/special projects as identified in the Town 5-year Capital Improvement Plan, as there is no ongoing funding source to support the Town's capital needs.

Unassigned Fund Balance

At the end of each fiscal year, the Finance Department reports on the audited year-end budgetary fiscal results. Should actual General Fund revenues exceed expenditures and encumbrances, a year-end operating surplus shall be reported. Any year-end surplus which results in the General Fund balance exceeding the level required by this Reserve Policy shall be available for allocation for the following, subject to Council approval:

- Offset projected future deficits
- Anticipated intergovernmental fiscal impacts
- One-time funding, non-recurring needs

Upon funding any of the above reserve levels pursuant to this General Fund Reserve Policy, any remaining surplus of fiscal year revenues above expenditures shall be placed in the Capital and Special Projects Reserve for appropriation within the Capital Improvement Program budget.

Replenishment of Unreserved Fund Balance

In keeping with the principles discussed in this Policy, when either fund is used, Town Council will develop a 1 to 5 year reserve replenishment plan to meet the minimum threshold of 25% of General Fund ongoing, operating expenditures, excluding one-time expenditures.



LONG TERM DEBT POLICY

PURPOSE

The Long Term Debt Policy sets forth certain debt management objectives for the Town and establishes overall parameters for issuing and administering the debt for which the Town is financially obligated or is responsible for managing.

SCOPE

The following long term debt policy sets the considerations for issuing debt and provides guidance in the timing and structuring of long term debt commitments.

POLICY

GENERAL PRACTICES

1. The Town will seek to maintain and improve the current bond rating in order to minimize borrowing costs and preserve access to credit.
2. Bond issue proposals are to be accompanied by an analysis defining how the new issue, combined with current debt, impacts the Town's debt capacity and conformance with Town debt policies.
3. Debt Service costs [General Obligation (GO) Bond, Certificate of Participation (COP), Revenue Bond, and Contractual Debt] are not to exceed 25% of the Town's operating revenue.
4. A ratio of current assets to current liabilities of at least 2/1 will be maintained to ensure the Town's ability to pay short-term obligations.

THE TOWN WILL CONSIDER THE ISSUANCE OF LONG TERM OBLIGATIONS UNDER THE FOLLOWING CONDITIONS:

1. The Town will use debt financing only for one-time capital improvement projects and unusual equipment purchases, and only under the following circumstances:
 - a. When the project is included in the Town's five-year capital improvement program and is in conformance with the Town's General Plan.
 - b. When the project is not included in the Town five-year capital improvement plan, but it is an emerging critical need whose timing was not anticipated in the five-year capital improvement program, or it is a project mandated immediately by State or Federal requirements.
 - c. When the project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing.
 - d. When there are designated revenues sufficient to service the debt, whether from project revenues, other specified and reserved resources, or infrastructure cost-sharing revenues.

☞ LONG TERM DEBT POLICY ☞

- e. Debt financing (other than tax and revenue anticipation notes) is not considered appropriate for any recurring purpose such as current operating and maintenance expenditures.
2. The costs of developing and maintaining the Successor Agency to the Town of Los Gatos Redevelopment Agency (Agency) long term debt policy will be borne by the Agency and will be developed in conjunction with amendments to existing redevelopment project area plans and/or new proposals to issue debt by the Successor Agency to the Town of Los Gatos Redevelopment Agency.
3. The Town will follow all State and Federal regulations and requirements regarding bond provisions, issuance, taxation and disclosure.
4. Costs incurred by the Town, such as bond counsel and financial advisor fees, printing, underwriters' discount, and project design and construction costs, will be charged to the bond issue to the extent allowable by law.
5. The Town will monitor compliance with bond covenants and adhere to federal arbitrage and disclosure regulations.

PROCEDURES

This Long Term Debt Policy shall be adopted by resolution of the Town Council. The Treasurer shall present this Long Term Debt Policy as needed to the Town Council for review to ensure its consistency with the Town's long term debt objectives, and current law. Any amendments to this Long Term Debt Policy shall be approved by the Town Council.

INVESTMENT POLICY

PURPOSE

The Town of Los Gatos (the "Town"), incorporated in 1887, is located approximately 60 miles south of San Francisco, in the southwestern portion of Santa Clara County. The Town operates under the Council/Manager form of government. The Town Council is the legislative body for the Town. It has five members elected to serve staggered four year terms. The Town Manager is appointed by the Town Council.

The Town Council has adopted this Investment Policy in order to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the Town. All Town funds will be invested in accordance with this Investment Policy and with applicable sections of the California Government Code.

This Investment Policy was originally adopted by the Town Council of the Town of Los Gatos November 1, 2016. It replaces any previous investment policy or investment procedures of the Town.

SCOPE

This Investment Policy applies to all of the Town's short-term operating funds. These funds are described in the Town's annual financial report and include, but are not limited to:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Debt Service Funds
- Enterprise Fund
- Internal Service Funds
- Fiduciary Funds

Specifically excluded from this Investment Policy are amounts which are held by a trustee or fiscal agent and pledged as payment or security for bonds or other indebtedness, obligations under a lease, or obligations under certificates of participation. Such funds are invested in accordance with statutory provisions, ordinance, resolution, or indenture governing the issuance of the obligations. In addition, this Investment Policy is not applicable to the Town's Deferred Compensation Plan. These investments are directed by each employee participant in accordance with the rules of the Deferred Compensation Plan.

POLICY

OBJECTIVES

The Town's funds shall be invested in accordance with all applicable Town policies and codes, State statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

∞ INVESTMENT POLICY ∞

1. Preservation of capital and protection of investment principal.
2. Maintenance of sufficient liquidity to meet anticipated cash flows.
3. Attainment of a market value rate of return.
4. Diversification to avoid incurring unreasonable market risks.

DELEGATION OF AUTHORITY

Management responsibility for the Town's investment program is delegated annually by the Town Manager to the Town Treasurer/Finance Director (the "Treasurer") pursuant to California Government Code Section 36510. The Treasurer may delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized staff members. The Treasurer shall maintain a list of persons authorized to transact securities business for the Town. No person may engage in an investment transaction except as expressly provided under the terms of this Investment Policy.

The Treasurer shall develop written administrative procedures and internal controls, consistent with this Investment Policy, for the operation of the Town's investment program. Such procedures shall be designed to prevent losses arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees.

The Town may engage the support services of outside investment advisors in regard to its investment program, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the Town's financial resources.

PRUDENCE

The standard of prudence to be used for managing the Town's investments shall be California Government Code Section 53600.3, the prudent investor standard which states, "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The Town's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Town recognizes that no investment is totally without risk and that the investment activities of the Town are a matter of public record. Accordingly, the Town recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the Town.

The Treasurer and authorized investment personnel acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that the deviations from expectations are reported in a timely fashion to the Town Council and appropriate action is taken to control adverse developments.

ETHICS AND CONFLICTS OF INTEREST

Elected officials and Town employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Elected officials and Town employees shall disclose to the Town Council any business interests they have in financial institutions that conduct business with the Town and they shall subordinate their personal investment transactions to those of the Town. In addition, the Town Manager and the Treasurer shall file a Statement of Economic Interests each year pursuant to California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

AUTHORIZED SECURITIES AND TRANSACTIONS

All investments and deposits of the Town shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686, except that pursuant to California Government Code Section 5903(e), proceeds of bonds and any moneys set aside or pledged to secure payment of the bonds may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of the bonds. Any revisions or extensions of these code sections will be assumed to be part of this Investment Policy immediately upon being enacted. However, in the event that amendments to these sections conflict with this Investment Policy and past Town investment practices, the Town may delay adherence to the new requirements when it is deemed in the best interest of the Town to do so. In such instances, after consultation with the Town's attorney, the Treasurer will present a recommended course of action to the Town Council for approval. All investment limits specified in the Policy are calculated at the time of investment.

The Town has further restricted the eligible types of securities and transactions as follows:

1. United States Treasury bills, notes, bonds, or certificates with a final maturity not exceeding five years from the date of trade settlement.
2. Federal Agency Obligations for which the faith and credit of the United States are pledged for the payment of principal and interest and which have a final maturity not exceeding five years from the date of trade settlement. There is no limit on the percentage of the portfolio that can be invested in this category, however, no more than 20% of the town's total portfolio shall be invested in the combination of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) mortgage-backed securities.
3. Federal Instrumentality (government sponsored enterprise) debentures, discount notes, callable securities, step-up securities, and mortgage-backed securities (including FNMA and FHLMC) with a final maturity not exceeding five years from the date of trade settlement. There is no limit on the percentage of the portfolio that can be invested in this category, however, no more than 20% of the town's total portfolio shall be invested in the combination of GNMA, FNMA, and FHLMC mortgage-backed securities.

∞ INVESTMENT POLICY ∞

4. Prime Commercial Paper with a maturity not exceeding 270 days from the date of trade settlement with the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph A. or sub-paragraph B. below:

A. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of five hundred million dollars (\$500,000,000) and (3) Have debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

B. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond and (3) have commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

Purchases of eligible commercial paper shall not exceed:

- 10% of the outstanding commercial paper of any single corporate issuer,
- 5% of the Town's total portfolio in the commercial paper of any one issuer, and
- 25% of the Town's total portfolio.

5. Eligible Bankers Acceptances with a maturity not exceeding 180 days from the date of trade settlement, issued by a state or national bank with combined capital and surplus of at least \$250 million, whose deposits are insured by the FDIC, and whose senior long-term debt is rated at least A or the equivalent by a NRSRO at the time of purchase. No more than 5% of the Town's total portfolio shall be invested in banker's acceptances of any one issuer, and the aggregate investment in banker's acceptances shall not exceed 30% of the Town's total portfolio.

6. Medium Term Notes (Corporate Notes) issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a final maturity not exceeding five years from the date of trade settlement, and rated at least "A" or the equivalent by a NRSRO. No more than 5% of the Town's total portfolio shall be invested in the medium-term notes of any one issuer and the aggregate investment in medium term notes shall not exceed 30% of the Town's total portfolio.

7. Municipal & State Obligations:

A. Municipal bonds including registered notes or bonds of any of the 50 states, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the 50 states.

INVESTMENT POLICY

- B. In addition, bonds, notes, warrants, or other evidences of indebtedness of any local agency in California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, operated by the local agency, or by a department, board, agency, or authority of the local agency.

Municipal bonds must be rated at least "A" or the equivalent by a NRSRO with maturities not exceeding five years from the date of the trade settlement. No more than 5% of the Town's total portfolio shall be invested in "A" rated bonds or in the bonds of any one municipality. In addition, the aggregate investment in municipal bonds may not exceed 30% of the total portfolio.

8. Certificates of Deposit with a final maturity not exceeding five years from the date of trade settlement. The aggregate investment in certificates of deposit shall not exceed 30% of the Town's portfolio, and no more than 5% of the portfolio shall be held in any one deposit or allocated to any one issuer. Certificates of Deposit shall be issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank or by a federally licensed branch of a foreign bank provided that the senior debt obligations of the issuing institution are rated at least "A" or the equivalent by a NRSRO.

Negotiable certificates of deposit issued by a nationally or state-chartered bank, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposits are subject to the limitations of Section 53601(i), shall be fully insured by the FDIC with a corresponding FDIC certification number, and shall be delivered through the Depository Trust Company.

Non-Negotiable certificates of deposit issued by a nationally or state-chartered bank, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of non-negotiable certificates of deposit are subject to the limitations of Sections 53601(n) and 53638 and shall be fully insured by the FDIC with a corresponding FDIC certification number.

Private sector entities may be used to place certificates of deposit subject to the limitations of Section 53601.8.

9. State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1. The aggregate amount invested in LAIF shall not exceed the maximum allowed by the fund.
10. Money Market Funds registered under the Investment Company Act of 1940 that (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) have a constant net asset value per share of \$1.00; (3) invest only in government securities, and (4) have a rating of at least AAA or the equivalent by at least two NRSROs. No more than 10% of the Town's total portfolio shall be invested in money market funds of any one issuer, and the aggregate investment in money market funds shall not exceed 20% of the Town's total portfolio.

∞ INVESTMENT POLICY ∞

Securities that have been downgraded to a level that is below the minimum ratings described herein may be sold or held at the Town's discretion. The portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

The foregoing list of authorized securities and transactions shall be strictly interpreted. Any deviation from it must be preapproved by resolution of the Town Council.

PORTFOLIO MATURITIES AND LIQUIDITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The Town will not invest in securities maturing more than five years from the date of trade settlement, unless the Town Council has by resolution granted authority to make such an investment at least three months prior to the date of investment.

SELECTION OF BROKER/DEALERS

The Treasurer shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the Town to purchase securities only from those authorized firms. To be eligible, a firm must meet at least one of the following criteria:

- Be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a primary dealer within their holding company structure; or
- Report voluntarily to the Federal Reserve Bank of New York; or
- Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

In addition, authorized broker/dealers must be licensed by the State of California as a broker/dealer as defined in Section 25004 of the California Corporations Code.

The Town may engage the services of investment advisory firms to assist in the management of the portfolio and investment advisors may utilize their own list of approved broker/dealers. Such broker/dealers will comply with the selection criteria above and the list of approved firms shall be provided to the Town on an annual basis or upon request.

In the event that an external investment advisor is not used in the process of recommending a particular transaction in the Town's portfolio, authorized broker/dealers shall attest in writing that they have received and reviewed a copy of the this Investment Policy and shall be required to submit and annually update a Town approved Broker/Dealer Information request form, which includes the firm's most recent financial statements.

The Town may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item 4 of the Authorized Securities and Transactions section of this Investment Policy.

COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

∞ INVESTMENT POLICY ∞

If the Town is offered a security for which there is no other readily available competitive offering, the Treasurer will document quotations for comparable or alternative securities.

SELECTION OF BANKS

The Treasurer shall maintain a list of banks and savings banks approved to provide banking services for the Town. To be eligible, a bank must be a member of the Federal Deposit Insurance Corporation, must qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5 and shall secure deposits in excess of FDIC coverage in accordance with California Government Code Section 53652.

Authorized banks that accept deposits from the Town shall meet high standards with regard to liquidity, asset quality, profitability and capital adequacy. The Treasurer shall utilize a commercial bank rating service to perform credit analysis on banks seeking authorization. Banks that in the judgment of the Treasurer no longer offer adequate safety to the Town shall be removed from the Town's list of authorized banks.

SAFEKEEPING AND CUSTODY

The Treasurer shall select one or more financial institutions to provide safekeeping and custodial services for the Town. A Safekeeping Agreement shall be executed with each custodian bank prior to utilizing that bank's safekeeping services.

Custodian banks will be selected on the basis of their ability to provide services for the Town's account and the competitive pricing of their safekeeping related services.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. All securities shall be perfected in the name of the Town. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, purchased by the Town, will be delivered by book entry and will be held in third-party safekeeping by a Town approved custodian bank or its Depository Trust Company (DTC) participant account.

All Fed wireable book entry securities owned by the Town shall be held in the Federal Reserve System in a customer account for the custodian bank which will name the Town as "customer."

All DTC eligible securities shall be held in the custodian bank's DTC participant account and the custodian bank shall provide evidence that the securities are held for the Town as "customer."

∞ INVESTMENT POLICY ∞

PORTFOLIO PERFORMANCE

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the Town's investments shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's weighted average effective maturity. When comparing the performance of the Town's portfolio, its rate of return will be computed net of all fees and expenses.

REPORTING

No less than quarterly, the Treasurer shall prepare a report of the investment earnings and performance results of the Town's investment portfolio. The report shall be submitted to the Town Clerk within 45 days after the end of each quarter for inclusion as an agenda item at the next scheduled Town Council meeting. The report shall include the following information:

1. Investment type, issuer, date of maturity, par value and dollar amount invested in all securities, and investments and monies held by the Town;
2. A market value as of the date of the report (or the most recent valuation as to assets not valued monthly) and the source of the valuation;
3. Realized and unrealized gains or losses calculated by amortized cost and by fair value.
4. The weighted average maturity of the portfolio and a percentage breakdown of the total portfolio by maturity.
5. A description of the funds, investments and programs that are under the management of contracted parties;
6. A statement of compliance with this Investment Policy or an explanation for non-compliance; and
7. A statement of the ability to meet expenditure requirements for the next six months, and an explanation of why money will not be available if that is the case.

PROCEDURES

This Investment Policy shall be adopted by resolution of the Town Council. Annually the Town Manger shall present this Investment Policy to the Town Council for review to ensure its consistency with the Town's investment objectives, current law and economic trends. Any amendments to this Investment Policy shall be approved by the Town Council.

BUDGET PROCESS OVERVIEW

The Town of Los Gatos adopts an annual Operating and Capital Budget and an annual budget update of the five year Capital Improvement Plan for the Town of Los Gatos. The budgets contain summary level information for revenue and expenditure appropriations for the fiscal year beginning July 1st and ending June 30th. The budget documents are prepared in accordance with generally accepted accounting principles (GAAP).

Budget Purpose

The Operating and Capital Summary Budget and the Capital Improvement Plan serve as the Town's financial plan, as well as a policy document, a communications tool, and an operations guide. Developed with an emphasis on long range planning, service delivery, and program management, a fundamental purpose of these documents is to provide a linkage between the services and projects the Town intends to accomplish, and the resources committed to get the work done.

The format of the budget facilitates this linkage by clearly identifying the program purpose, key projects, and work plan goals in relation to revenue and expenditures appropriations.

Basis of Budgeting and Accounting

Developed on a program basis with fund level authority, the Operating and Capital Budgets represent services and functions provided by the Town in alignment with the resources allocated during the fiscal year.

The Town's Governmental Funds consist of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds for both the Town and the Successor Agency.

Basis of Accounting and Budget refers to the timing factor concept in recognizing

transactions. This basis is a key component of the overall financial system because the budget determines the accounting system. For example, if the budget anticipates revenues on a cash basis, the accounting system must record only cash revenues as receipts. If the budget uses an accrual basis, accounting must do likewise. The Town's budgeting and accounting systems both use a combination of modified accrual and full accrual basis in the accounting and budget systems.

Governmental Fund budgets are developed using the modified accrual basis of accounting. Under this basis, revenues are estimated for the period if they are susceptible to accrual, (e.g. amounts can be determined and will be collected within the current period). Principal and interest on general long term debt are budgeted as expenditures when due, whereas other expenditures are budgeted for liabilities expected to be incurred during the current period.

Proprietary Fund budgets are adopted using the full accrual basis of accounting whereby revenue budget projections are developed recognizing revenues expected to be earned during the period, and expenditures are developed for expenses anticipated to be incurred in the fiscal year. The Town maintains one type of proprietary fund: Internal Service Funds.

The Town's Fiduciary Funds are also budgeted under the modified accrual basis. The Town administers four trust funds and one agency fund. Trust funds are subject to trust agreement guidelines, and the Agency Fund is held in a purely custodial capacity involving only the receipt, temporary investment, and remittance of resources.

Summary of Budget Development

The Town develops its budgets with a team-based budgeting approach. Town Management and the Finance Department guide the process through budget development; however, program budgets and work plans are developed with each Department's Director, Analyst, and Program Manager's oversight and expertise. This approach allows for hands-on planning and creates a clearer understanding for both management and staff of a program's goals and functions to be accomplished in the next budget year.

The Development Process

Typically both the Operating and Capital Budget and Capital Improvement Plan (CIP) processes begin in the fall with the Town Council and Town Manager's cooperative development and refinement of initiatives and directives for the upcoming budget year. The CIP is reviewed during this time to determine funding capabilities, project priorities, and to refine project work plans. Although the CIP budget document is prepared separately from the Operating and Capital Budget, CIP program information is incorporated into the Operating and Capital Summary Budget document through the resulting financial appropriations and service level requirements.

In January, the budget preparation process begins officially for staff with a budget kickoff meeting. Budget assumptions, directives and initiatives developed by Town Council and Management are provided to set the Town's overall objectives and strategic priorities determined by the Council. Department staff identifies and analyzes program revenue and expenditure projections in coordination with Finance/Budget staff and Town Management. Capital improvement projects are assessed and refined, and CIP funding and appropriation requirements are finalized.

Through rounds of budget briefings and revisions, the final proposed program budget and work plans are developed by the end of April; operational and capital work plans are finalized, and the Finance/Budget staff prepares financial summary information. Per the Town Code, the Town Manager submits the entire proposed budget package to the Town Council for its consideration, including Departmental budgets and work plans.

Budget Adoption

During the month of May, the Town Council reviews the proposed Operating and Capital Summary Budget, and the Capital Improvement Plan for the five-year period in a public hearing. Notice of the hearing is published in a local newspaper at least ten days prior to the Council's public hearing date. The public is invited to participate, and copies of the proposed budgets are available for review in the Town Clerk's office, on the Town website, and at the budget hearing.

Under requirements established in Section 65401 of the State Government Code, the Town's Planning Commission also reviews the proposed Capital Improvement Plan and reports back to the Town Council as to the conformity of the CIP with the Town's Adopted General Plan.

Final Council-directed revisions to the proposed budget are made and the budget documents are resubmitted to the Town Council for adoption, again in a publicized public hearing prior to the beginning of the fiscal year.

Section 2.30.295(b) of the Los Gatos Town Code requires the Town Manager to annually prepare and submit a budget to the Town Council. This is accomplished in June, when the final proposed budget is formally submitted to the Town Council in the subsequent public hearing.

The approved resolutions to adopt the CIP and operating budgets and the appropriation limitation (aka Gann Limit) follow this section.

Budget Amendments

During the course of the fiscal year, work plan changes and unanticipated needs necessitate adjustments to the adopted budgets. The Town Manager is authorized to transfer appropriations between categories, Departments, projects, and programs within a fund in the adopted budget, whereas the Town Council holds the authority for budget increases and decreases and transfers between funds.



BUDGET CALENDAR

**September/
October/
November /
December**

Council Strategic Priorities Established

CIP work plan proposals and development

- Determine project priority
- Prepare upcoming work plan, timing schedules
- Prepare cost estimates
- Determine revenue sources

Determine and refine initiatives and directives for upcoming budget year

Update User Fee Schedule

January

Prepare Internal Service and Equipment Replacement Fund analyses and schedules, finalize internal service rates

Budget Kick-off Meeting – General information to staff on:

- State of the Town/Town Council Strategic Goals
- Budget Principles presented to Council
- Budget assumptions, directives, initiatives, and goals
- Development of Department and program work plans
- Asset/Internal Services/Staffing request procedures

1st Draft revenue projections due to Budget Office

Analyze budget projections and review with Town Manager

February

1st Draft staffing requests due to Budget Office

Review and finalize staffing positions and requests

1st Draft asset, internal service requests, and expenditure requests due

1st Draft CIP Budget due to Budget Office

Review Internal Service requests with responsible Program Managers

1st Draft Internal Service budgets due to Budget Office

Incorporate approved staffing, assets, internal services and program expenditure requests into a 1st Draft budget

March

Review and analyze 1st Draft budget, briefing with Town Manager

1st Draft CIP budget briefing – determine program revisions

1st Draft budget briefings with Town Manager, Department Heads, and Analysts – determine Department / program revisions

2nd Draft budget revisions and work plans due to Budget Office

2nd Draft briefing and revisions with Town Manager, Departments

April

Program narratives, financial and supplemental schedules, financial summaries, and charts prepared

Grant distribution finalized

Budget revisions finalized and proposed budgets assembled

Public Hearings for proposed User Fee Schedule

Proposed budget briefing with Town Manager

May

Distribute Proposed Operating and CIP budgets to Town Council

Public Hearings for proposed Operating and Capital, and CIP Budgets

Town Council revisions incorporated into budget documents

**May/
June**

Public hearings for final adoption of the User Fee Schedule, Gann Appropriation Limit, Operating and Capital Budget, and 5-year CIP Budgets

Final document preparation of financial and supplemental schedules, charts, reference materials, etc.

**July/
August/
September**

Adopted Operating and CIP Budget documents finalized, printed and distributed

GANN APPROPRIATION LIMIT

On November 6, 1979 California voters approved Proposition 4, commonly known as the Gann Spending Limitation Initiative, establishing Article XIIB of the State Constitution. This proposition, which became effective in Fiscal Year 1980/81, mandated an appropriations (spending) limit on the amount of tax revenues that the State and most local government jurisdictions may appropriate within a fiscal year. This limit grows annually by a population and cost-of-living factor.

The State Appropriation Limit was since modified by two subsequent initiatives – Proposition 98 in 1988 and Proposition 111 in 1990. Proposition 98 established the return of tax revenues exceeding appropriation limit levels to the State or citizens through a process of refunds, rebates, or other means. Proposition 111 allowed more flexibility in the appropriation calculation factors.

Only tax proceeds are subject to this limit. Charges for services, fees, grants, loans, donations and other non-tax proceeds are excluded. Exemptions are also made for voter-approved debt, debt which existed prior to January 1, 1979, and for the cost of compliance with court or Federal government mandates.

The Town Council adopts an annual resolution establishing an appropriations limit for the following fiscal year using population and per capita personal income data provided by the State of California’s Department of Finance. Each year’s limit is based on the amount of tax proceeds that were authorized to be spent in fiscal year 1978/79, with inflationary adjustments made annually to reflect increases in population and the cost of living.

APPROPRIATION LIMIT CALCULATION

The following schedule reflects historical appropriation factors for the prior ten years, and the calculation for FY 2018/19:

For YE June 30	Beginning Appropriation Limit	County Population Factor	Town Population Factor	Per Capita Income Factor	Ending Appropriation Limit	% Limit Increase
2009	26,416,980	1.0172	1.0318	1.0429	28,426,367	7.61%
2010	28,426,367	1.0156	1.0108	1.0062	29,048,811	2.19%
2011	29,048,811	1.0126	1.0101	0.9746	28,667,689	-1.31%
2012	28,667,689	1.0089	1.0096	1.0251	29,669,366	3.49%
2013	29,669,366	1.0124	1.0081	1.0377	31,169,671	5.06%
2014	31,169,671	1.0157	1.0147	1.0512	33,279,977	6.77%
2015	33,279,977	1.0150	1.0102	0.9977	33,701,485	1.27%
2016	33,701,485	1.0113	1.0020	1.0382	35,384,256	4.99%
2017	35,384,256	1.0126	1.0070	1.0537	37,754,174	6.70%
2018	37,754,174	1.0081	1.0040	1.0369	39,464,396	4.53%
2019	39,464,396	1.0099	1.0050	1.0367	41,317,775	4.70%

GANN APPROPRIATION LIMIT

The Town of Los Gatos' appropriation limit for fiscal year 2017/18 is calculated as follows:

FY 2018/19 Calculation

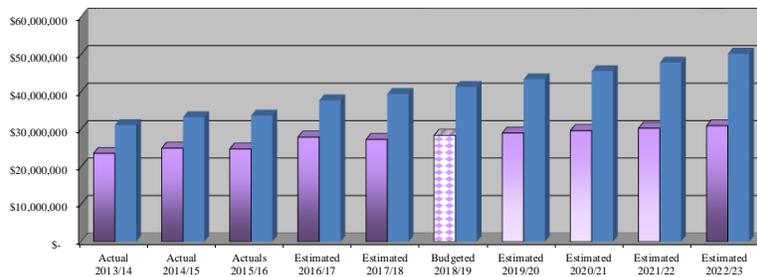
County Population Factor	Per Capita Income Factor	Appropriation Factor	2016/17 Appropriation Limit	2018/19 Appropriation Limit
1.0099	X 1.0367	= 1.04696333	X \$ 39,464,396	= \$ 41,317,775

As illustrated above, the total amount of tax revenues appropriated to the Town in FY 2018/19 is not to exceed \$41,317,775. The FY 2017/18 budget anticipates \$28,397,482 in tax revenues which equates to \$12,920,293 less than, or approximately 69% of, the appropriation limit for FY 2018/19. Therefore, the Town's tax revenues fall substantially below the appropriation limit.

APPROPRIATION TREND

Located in the Silicon Valley, Los Gatos has seen a significant increase in the county's population in recent years. A picturesque and charming town, Los Gatos is a desirable community known for its hometown feel and excellent schools, which is reflected in the steady increases in property values. Together, these factors contribute to a stable appropriation limit while maintaining a comfortable margin between tax revenues received and the revenue limitation established under the Gann Proposition. With a conservative forecast for an annual 2.22% revenue growth and 5.0% appropriation growth (based on prior year averages), there remains a strong expectation for an ongoing level of comfort in future year's appropriation margins.

Tax Revenues to Appropriation Limit
10 Year Trend



	Actual 2013/14	Actual 2014/15	Actuals 2015/16	Estimated 2016/17	Estimated 2017/18	Budgeted 2018/19	Estimated 2019/20	Estimated 2020/21	Estimated 2021/22	Estimated 2022/23
Tax Revenues	\$ 23,603,489	\$ 25,007,677	\$ 24,784,336	\$ 27,955,180	\$ 27,332,565	\$ 28,397,482	\$ 29,022,227	\$ 29,660,716	\$ 30,313,251	\$ 30,980,143
Appropriation Limit	\$ 31,169,671	\$ 33,279,977	\$ 33,701,485	\$ 37,754,174	\$ 39,464,396	\$ 41,317,775	\$ 43,383,664	\$ 45,552,847	\$ 47,830,490	\$ 50,222,014
Revenue to Limit %	76%	75%	74%	74%	69%	69%	67%	65%	63%	62%

APPROPRIATION LIMIT ADOPTION

The resolution to adopt the appropriation limit of \$41,317,775 was adopted by the Council on June 6, 2018.

GANN APPROPRIATION RESOLUTION

RESOLUTION 2018-027

RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS ESTABLISHING THE FY 2018/19 APPROPRIATIONS LIMIT FOR THE TOWN OF LOS GATOS

WHEREAS, Article XIII B of the California Constitution (Limitation of Government Appropriations) was passed by the California electorate on November 6, 1979, and became effective on July 1, 1980; and

WHEREAS, Chapter 1205, Statute of 1980, Section 7900 of the California Government Code formally implements methods for governmental entities to establish and define annual appropriations limits; and

WHEREAS, the growth factors used to calculate the Annual Appropriations Limit are County or Town population change and the increase in the California per capita income.

THEREFORE, BE IT RESOLVED: that the Annual Appropriations Limit for the Town of Los Gatos for FY 2018/19 is \$41,317,775 as reflected in Exhibit A.

PASSED AND ADOPTED at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 5th day of June, 2018 by the following vote:

COUNCIL MEMBERS:

AYES: Marcia Jensen, Steve Leonardis, Marico Sayoc, Barbara Spector, Mayor Rob Rennie

NAYS: None.

ABSENT: None.

ABSTAIN: None.

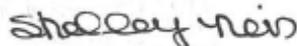
SIGNED:



MAYOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

DATE: 6/6/18

ATTEST:



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

DATE: 6/6/18



TOWN OF LOS GATOS

ANNUAL BUDGET RESOLUTION

RESOLUTION 2018-028

**RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS
APPROVING THE FISCAL YEAR (FY) 2018/19 OPERATING BUDGET AND FY 2018/19 –
2022/23 CAPITAL BUDGET, NEW APPROPRIATIONS, OTHER APPROVED
ADJUSTMENTS, MINOR CORRECTIONS, AND CARRY-FORWARD APPROPRIATIONS**

WHEREAS, Section 2.30.295(b) of the Los Gatos Town Code requires the Town Manager to annually prepare and submit a budget to the Town Council and be responsible for its administration; and

WHEREAS, the Town Manager submitted to the Town Council a proposed Operating Budget for the FY 2018/19 on May 15, 2018; and

WHEREAS, the Town Manager submitted to the Town Council a proposed five-year Capital Improvement Program for FY 2018/19 – 2022/23 on May 15, 2018; and

WHEREAS, the Town Council has considered and reviewed said proposed Budget and Capital Improvement Program during public hearings on May 15, 2018 and the Town Council directed no modifications to the Operating and Capital Budgets, respectively; and

WHEREAS, on June 5, 2018, Town Council considered and reviewed the proposed Budget and Capital Improvement Program making final determinations.

NOW, THEREFORE, BE IT RESOLVED: that the Town Council hereby adopts as the Operating Budget for the Town of Los Gatos for the 2018/19 fiscal year as depicted in Exhibit A entitled "Total Town Revenues By Fund and Total Town Expenditures By Fund" including the first year (FY 2018/19) of the Town's Capital Improvement Program budget as contained in the Town's FY 2018/19 – 2022/23 Capital Improvement Program.

BE IT FURTHER RESOLVED, that the final adopted Budget documents include minor corrections, and approved appropriations for unspent prior year allocations, and that they be carried forward from prior years in a Reserve for Encumbrances whereby within each fund there is an amount sufficient to cover approved outstanding encumbrances as of June 30, 2018.

PASSED AND ADOPTED at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 5th day of June, 2018 by the following vote:

COUNCIL MEMBERS:

AYES: Marcia Jensen, Steve Leonardis, Marico Sayoc, Barbara Spector, Mayor Rob Rennie

NAYS: None.

ABSENT: None.

ABSTAIN: None.

SIGNED:



MAYOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

DATE: 6/6/18

ATTEST:



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

DATE: 6/6/18

∞ ANNUAL BUDGET RESOLUTION ∞

TOTAL TOWN REVENUES BY FUND AND TOTAL TOWN EXPENDITURES BY FUND

	2018/19 Proposed Budget	Estimated Budget Revision	2018/19 Recommended Budget
TOWN REVENUES & OTHER FUNDING SOURCES			
General Fund	\$42,363,657	\$ -	\$ 42,363,657
Designated One-Time Use of General Fund Reserves	5,974,133 *		5,974,133 *
Special Revenue Funds	624,074		624,074
Internal Service Funds	4,362,795	-	4,362,795
Trust & Agency Funds	78,650		78,650
Capital Project Funds (does not include carryforwards)	6,549,106		6,549,106
Successor Agency Funds	3,828,296		3,828,296
TOTAL TOWN REVENUES & OTHER FUNDING SOURCES	\$63,780,711	\$ -	\$ 63,780,711
<i>* Designated One-Time Use of the General Fund Reserves during FY 2018/19</i>			
<i>Payments to the Town IRS 115 Trust Fund</i>	<i>\$ 3,188,913</i>		
<i>Transfer to Capital Projects (GFAR)</i>	<i>2,335,220</i>		
<i>Transfer to Equipment Replacement Fund</i>	<i>450,000</i>		
Total	\$ 5,974,133		
TOTAL TOWN EXPENDITURES, TRANSFERS OUT & CARRYFORWARD APPROPRIATION			
General Fund	\$47,522,071	\$ -	\$ 47,522,071
Special Revenue Funds	672,312		672,312
Internal Service Funds	6,306,524		6,306,524
Trust & Agency Funds	73,500		73,500
Capital Project Funds (does not include carryforwards)	9,131,757		9,131,757
Successor Agency Funds	3,831,229		3,831,229
TOTAL TOWN EXPENDITURE & OTHER FUNDING USES	\$67,537,393	\$ -	\$ 67,537,393
GENERAL FUND SOURCE(USE) OF FUND BALANCES	\$ 815,719		\$ 815,719
OTHER FUNDS SOURCE(USE) OF FUND BALANCES	(4,572,401) **		(4,572,401) **
TOTAL SOURCE(USE) OF FUND BALANCES	\$ (3,756,682)	\$ -	\$ (3,756,682)

*** Other Funds Source(Use) represents planned one-time uses of Internal Service Fund, Special Revenue Fund, Trust Fund, and Capital project Funds primary for infrastructure and equipment investment.*

EXHIBIT A