



TOWN OF LOS GATOS

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

May 10, 2019

Honorable Mayor and Town Council:

I am pleased to present to you a balanced Fiscal Year (FY) 2019/20 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 2019/20 General Fund Budget programs total revenues and reserve transfers of \$52.1 million and expenditures and allocations of \$52 million. The budget anticipates a surplus of \$140,000 and maintains existing service levels while recommending modest additions in strategically important areas. This budget incorporates investments toward future equipment replacement, additional funding toward unfunded pension liability, and increased capacity for the Town's technology infrastructure.

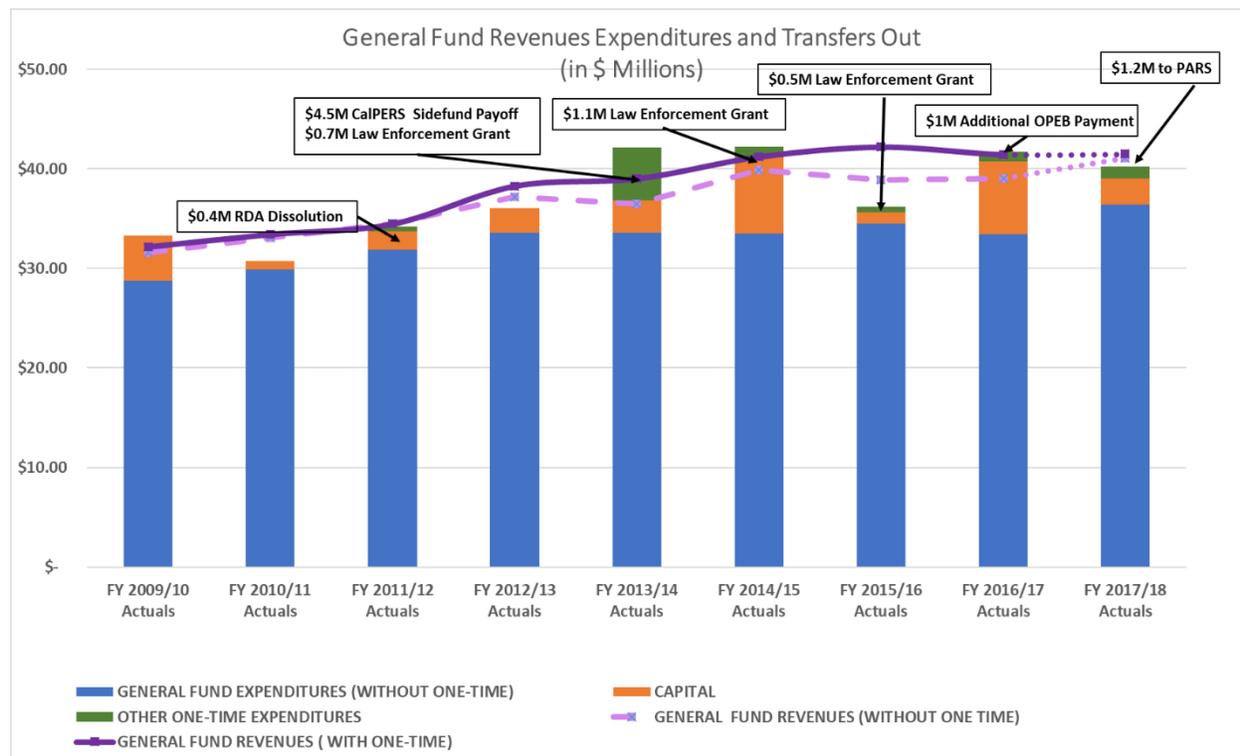
CONTEXT

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, the remainder of the five-year forecast shows very little room for growth in service delivery.

	2019/20 Budget	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
Total Revenues, Transfers & Use of Reserves	\$52.1	\$43.8	\$45.2	\$46.2	\$47.4	\$48.6
Total Expenses & Allocations	\$52	\$45	\$46	\$47	\$47.4	\$48.1
Net Revenues Less Expenses	\$0.1	(\$1.2)	(\$0.8)	(\$0.8)	\$0.0	\$0.5

As discussed with the Town Council in February 2019, sensitivity analyses with respect to revenues and expenditures demonstrate that the Town organization is vulnerable to changes in forecasted economic conditions. Growth in the economy would improve the Town's outlook and a potential recessionary scenario would require careful consideration of priorities to maintain a balanced municipal budget.

To consider 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. In addition, this budgeting methodology has provided the Town Council the latitude over the years to enhance infrastructure in Los Gatos through capital projects and address other targeted priorities, such as addressing increases in pension obligations.



One of the major cost drivers for the Town over the past decade has been unanticipated increases in pension and other post-employment benefits (OPEB). 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 also provides a healthcare benefit for all eligible employees. The healthcare plan pays all, or a portion of, health insurance premiums for qualified retirees and their survivors and dependents.

However, the Town’s plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns, changes in actuarial assumptions, and demographic changes which have outweighed any positive plan experiences. The outcome of these unfavorable economic and demographic results is the development of unfunded pension and OPEB obligations for the Town. As of the 2017 actuarial valuations, the combined unfunded actuarial liability for both pension and OPEB is \$63.6 million. The Town has taken significant action to address these increases in our pension obligations. As illustrated in the tables below, the Town has allocated or programmed approximately \$30.5 million to date in additional discretionary payments towards its pension and OPEB obligations.

Council Action	Additional Discretionary Pension Funding/Savings
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 authorized the creation of an irrevocable Internal Revenue Code (IRS) Section 115 Trust for the Town's pension obligations. The Town Council to date has set aside \$4.4 million towards additional Pension funding (115 Trust) including an additional \$1.0 million adopted in the FY 17/18 budget. (December 2017)	\$4,400,000 (accumulated to date)
The Town Council established a General Fund reserve policy for additional discretionary payments (ADPs) of \$390,000 per year. Under the updated policy 20-year amortization equivalence will be achieved through additional UAL payments of approximately \$390,000 per year. The total savings associated with the ADP methodology is approximately \$13.8 million versus the existing amortization schedules for both plans. (May 2018).	Additional minimum of \$390,000 funding annually (estimated savings \$13.8 million)
Additional discretionary Pension funding allocated and programmed to date - \$16,900,000	

Council Action	Additional OPEB Discretionary Funding
The Town Council proactively initiated prefunding OPEB obligations beginning in 2009 rather than remaining a pay as you go system.	\$13,600,000 (accumulated to date)
The Town Council established a General Fund reserve for CalPERS/Other Post-Employment Benefits (OPEB) (May 2016).	Additional \$300,000 funding annually when GF surpluses exist
Additional discretionary OPEB funding to date - \$13,600,000	

In addition, during the most recent labor negotiations, the Town's bargaining groups and all unrepresented employees partnered to eliminate the Town's existing retiree healthcare benefit prospectively. It is anticipated that this collaboration will yield significant savings in the future.

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.

STRATEGIC GOALS AND PRIORITIES

In January 2019, the Town Council determined the Strategic Priorities for 2019-2021, 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 due to their critical significance in ensuring the Town's fiscal and infrastructure stability and the safety and quality of life for Los Gatos residents, businesses, and visitors. These commitments include continuing to address 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 public safety regional communications infrastructure. 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 pavement 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 a one-way street in downtown.

Other Strategic Priorities position the Town for its future. The Council continues 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 enhancing community vitality.

The following illustrates the Strategic Priorities adopted for FY 2019-20. Some of these priorities were acted upon during FY 2018/19 and the remaining items are included in this Operating and Capital Budget for FY 2019/20.

STRATEGIC PRIORITIES FY 2019-2021



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

ONGOING COMMITMENTS

TRAFFIC/TRANSPORTATION

Comprehensive Parking Study

- Parking Garage

Transportation Demand Management

- One-way Downtown Street Pilot
- Summer/Rush Hour/School Traffic
- Develop Measure B Transportation Projects
- Install Bicycle and Pedestrian Improvements
- Community Shuttle/School Bus Pilot

QUALITY OF LIFE

Community Vitality

- Events and Other Efforts

Streamline Policies

- Land Use/Economic Vitality Measures

General Plan 2040

- Objective Standards
- Environmental Sustainability
- Ordinances

SAFETY

Emergency Preparedness

- CERT Recruitment and Training
- EOC Upgrades
- Community communication

Fire Protection

- Vegetation management on Town properties
- Enhanced community education

Infrastructure Improvements

- Guard Rails
- Pavement

PROSPERITY

Address Pension and OPEB Obligations

- Additional Discretionary Payments (ADPs)
- Reduced Amortization Strategies
- Pension Contribution Management Strategies

Annexation of County Pockets

- Sell or Lease Certain Town Properties
- Short Term Rentals

NEW

Additional Vegetation Management Practices

- Complete ecological study to determine the best management practices to protect life and property and maintain healthy ecosystems

IN PROGRESS

Reconstruct remaining Almond Grove Streets

Create a Complete Streets Policy

Measure G (Sales Tax) Implementation

RECENTLY COMPLETED

North 40 Specific Plan Amendments

Streamline certain policies affecting Town businesses

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 revenues 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.

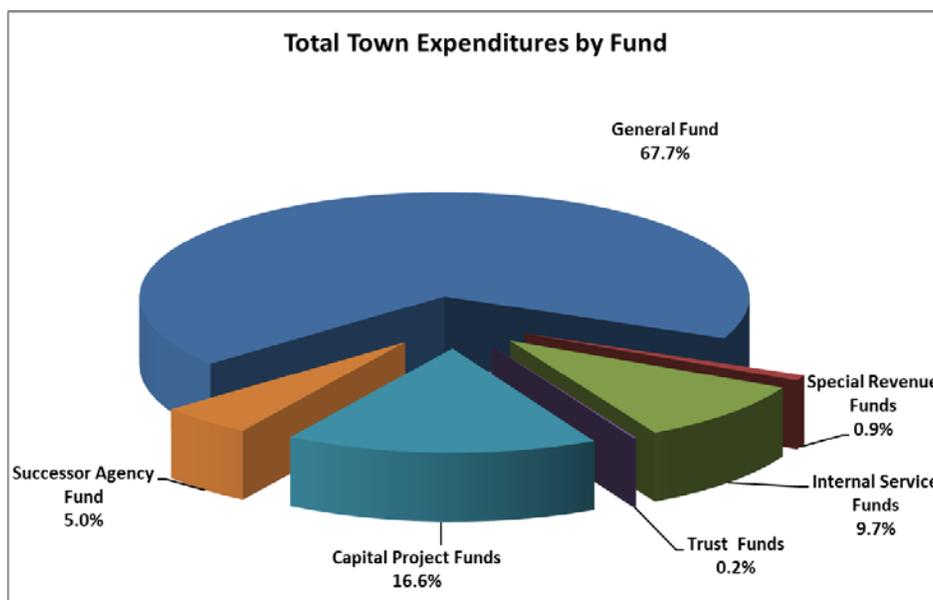
FY 2019/20 FISCAL OUTLOOK

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 new revenue sources, technology, and open government.

As shown in the chart below, the Proposed Budget is largely funded by the General Fund (67.7%).



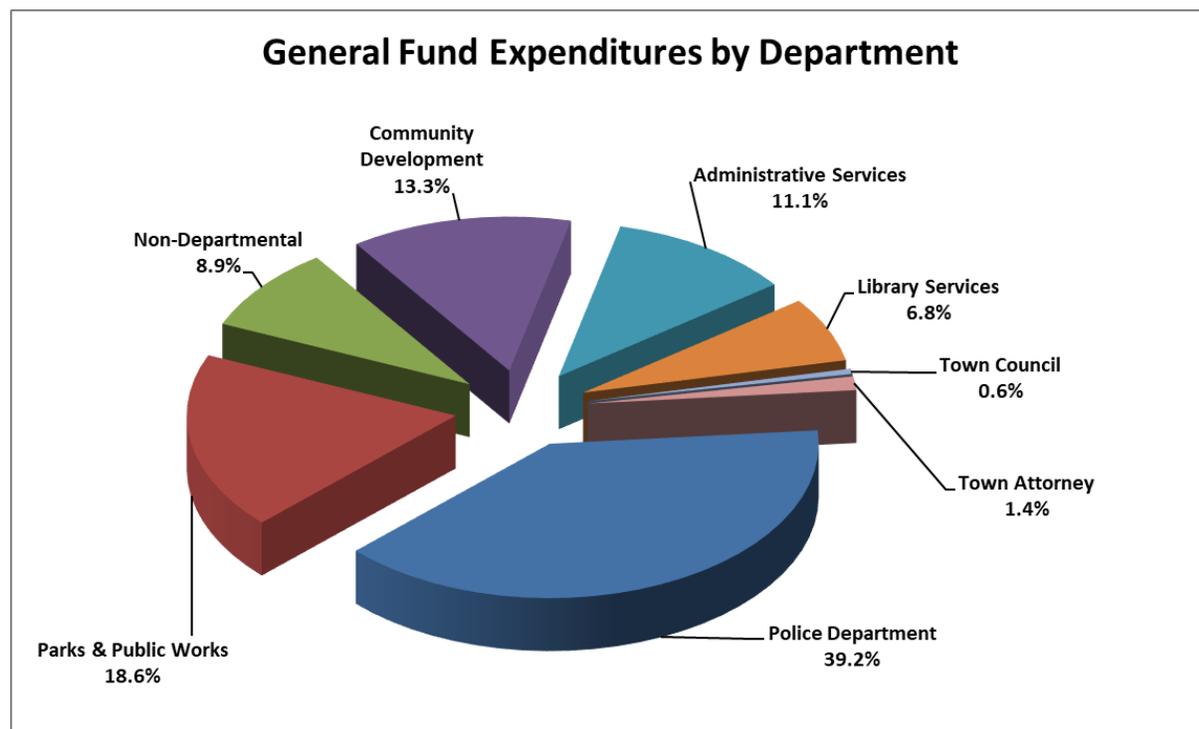
For Council’s consideration, staff is recommending the following allocations:

- \$1,337,500 to the Pension/OPEB Reserve from the Capital/Special Projects Reserve per the Town Council’s Strategic Priority discussion.
- \$755,788 to the Budget Stabilization and Catastrophic Reserves to maintain the required 25% funding level of the proposed operating budget.
- \$129,000 from Budget Strategy Reserve to the Capital/Special Project Reserve and closing the Budget Strategy Reserve.
- \$5,557,500 from the General Fund Appropriated Reserve (GFAR) and \$152,000 from the Open Space Reserve to fund the Capital Improvement Program.
- \$1,061,256 from the available Compensated Absences balance to the Workers’ Compensation Fund given increased claim activities.

Staff is requesting Council’s direction for the allocation of an estimated \$1.9 million Surplus Property Reserve and the estimated \$1.0 million of residual balance available from the proposed closing of the Vehicle Maintenance and Stores Internal Service Funds. Current balances are estimates, final reserve balances will be determined upon fiscal year-end closure an audit. If no allocation is made, these monies would be placed in a Vehicle Maintenance and Stores Residual Reserve for future Council decision-making.

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 \$42.8 million in the FY 2019/20 Proposed Budget, excluding debt service, and fund transfers. This is an increase of \$2.9 million (7.3%) when compared to the FY 2018/19 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 sales tax have also increased. While sales tax revenues are generally expected to decrease over time, in November 2018, the voters approved a 1/8 cent general purpose sales tax dedicated to the Town of Los Gatos. Revenue collection began in April 2019 and is reflected in the revenue estimates.

The Town's General Fund operating budget expenditures for FY 2019/20 have increased by \$0.4 million or 0.9% compared to the prior year's Adopted Budget (excluding fund transfers, and debt service). Last year, the Adopted Budget included a \$3.2 million payment to the IRS 115 Pension Trust. In comparison, the FY 2019/20 Proposed Budget reflects all negotiated salary increases and market adjustments necessary to attract and retain high performing employees. Together, this explains the year over year budget increase. Other components of the expenditures include employee 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 59.7% of budgeted General Fund expenditures for FY 2019/20.

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, and Equipment Replacement. Staff is proposing to close the Office Store and Vehicle Maintenance Internal Services Funds and reallocate the residual fund balances per Council direction. Staff recommends transferring \$1,061,256 to the Workers' Compensation Fund to mitigate increased claim activities. All personnel that were previously funded in Internal Service Fund Programs are programmed in the General Fund beginning in FY 2018/19.

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 2019/20 Town-wide expenditures from the Capital Projects Funds is \$12.2 million (excluding transfers out) which is inclusive of \$9.3 million in General Fund Appropriated Reserve 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 2019/20 is \$579,173.

Trust Funds

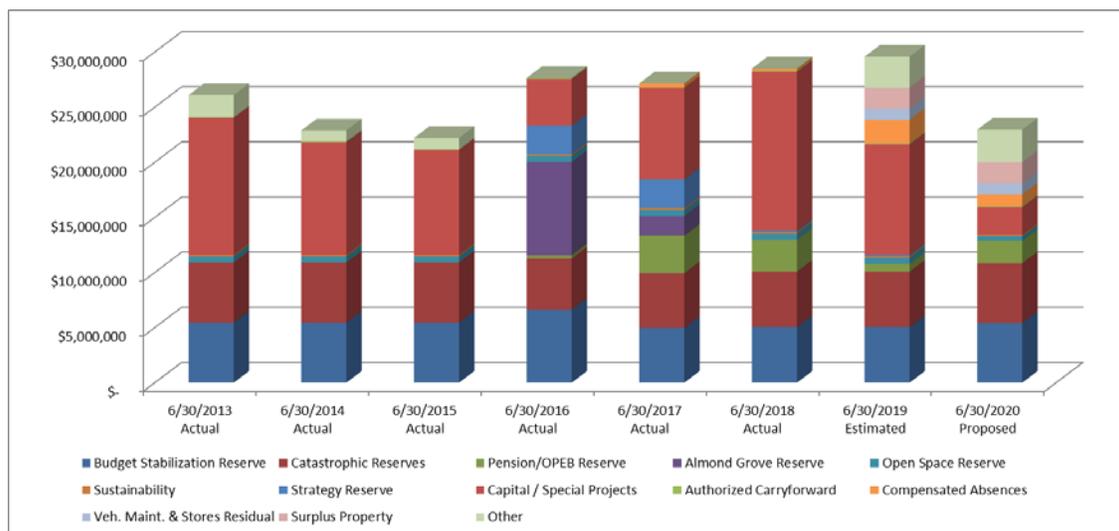
Trust funds are used to account for assets held by the Town as a trustee agent for individuals, private organizations, and other governments. The Town’s Trust Funds are comprised of four trusts established to provide for the servicing of donations and bequests to the Town’s Library program. The FY 2019/20 budgeted expenditures in this trust fund total \$133,255.

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 2019/20 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 \$22.9 million as of June 30, 2020. Additional information on the estimated FY 2018/19 and FY 2019/20 year-end General Fund balances can be found in the Financial Summaries section. As indicated in the next chart, the General Fund reserves are decreasing from the prior year due primarily 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), FY 2018/19 (\$2.4 million), FY 2019/20 (\$5.7 million), and the total of \$4.4 million scheduled payments to the IRS 115 Pension Trust Fund in FY 2017/18 and FY 2018/19.



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 Actual	6/30/2019 Estimated	6/30/2020 Proposed
Committed to:								
Budget Stabilization Reserve	\$ 5,450,000	\$ 5,450,000	\$ 5,450,000	\$ 6,621,808	\$ 4,969,847	\$ 5,037,243	\$ 5,037,243	\$ 5,415,137
Catastrophic Reserves	5,450,000	5,450,000	5,450,000	4,637,406	4,969,847	5,037,243	5,037,243	\$ 5,415,137
Pension/OPEB Reserve	-	-	-	300,000	3,388,913	2,878,913	690,000	2,027,500
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	410,000
Sustainability	140,553	140,553	140,553	140,553	140,553	140,553	140,553	140,553
Strategy Reserve				2,600,000	2,600,000	129,090	129,090	-
Capital / Special Projects	12,427,161	10,218,579	9,511,527	4,222,405	8,332,953	14,421,203	10,035,983	2,514,285
Authorized Carryforward	56,741	56,741	56,741	99,284	34,852	99,927	99,927	99,927
Compensated Absences					350,329	193,647	2,122,512	1,061,256
Veh. Maint. & Stores Residual							1,005,069	1,005,069
Surplus Property							1,905,000	1,905,000
Other	2,004,101	1,001,265	1,032,563				2,807,085	2,950,527
Total General Fund Reserve	\$ 26,090,556	\$ 22,879,138	\$ 22,203,384	\$ 27,643,429	\$ 27,150,612	\$ 28,499,819	\$ 29,571,705	\$ 22,944,391

Catastrophic and Budget Stabilization Reserves

As per the Town's Reserve Policy and reaffirmed by Council, 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 \$755,788 from available prior year-end saving to meet the required 25% funding level, or \$10.8 million total for FY 2019/20.

Pension/OPEB Reserve

Committed fund balance in this reserve will be used to aid in funding pension and Other Post-Employment Benefits (OPEB) unfunded obligations. This reserve is primarily used to house additional discretionary payments budgeted for future allocation. Additional discretionary payments will either be allocated directly to CalPERS, the Town's Pension IRS 115 Trust Fund, or the OPEB IRS 115 Trust Fund. With Council direction, upon the close of the fiscal year, the CalPERS/OPEB Reserve receives \$300,000 of the available year-end savings. In FY 2018/19 the Council approved development of an additional reserve policy to reduce the amortization period for prior amortization bases from 30 years to 20 years. Initial annual programming of \$390,000 was established subject to final adjustment based upon updated CalPERS actuarial valuations. The Council Finance Committee makes recommendations for the use of these funds for future Town Council/Oversight Committee consideration.

Capital / Special Projects

With Council direction, upon the close of the fiscal year, the Capital/Special 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 \$2.5 million as of June 30, 2020.

Compensated Absences Reserve

A reserve is maintained annually to fund 50% of all vested hours of vacation earnings. It is anticipated the reserve will have approximately \$1.1 million as of June 30, 2020.

Vehicle Maintenance and Stores Residual Reserve

A reserve established to hold the residual fund balances transferred to the Town's General Fund upon the closing the Vehicle Maintenance Fund and Stores Internal Service Funds for future Council reallocation. It is anticipated the reserve will have approximately \$1.0 million as of June 30, 2019.

Surplus Property Reserve

A reserve established for placing the proceeds from surplus property sales until further Town Council reallocation. It is anticipated the reserve will have approximately \$1.9 million as of June 30, 2019.

Other

The Town has several other smaller reserves that have been classified as other. These reserves include an authorized carryforward, 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 2019/20 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 the Santa Clara County Assessor, 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, and transient occupancy tax. Sales tax revenue increased in FY 2019/20 and then decreases over time. The sales tax projections include the voter approved one-eighth general purpose sales tax dedicated to the Town of Los Gatos. Revenue collection began in April 2019. Additional details regarding the assumptions used in the development of revenue estimates can be found in the Forecast Assumptions discussion later in this section.

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 18/19 Authorized/Funded Town Staff Positions	FY 19/20 Authorized/Funded Town Staff Positions
Town Council	0.50	0.50
Town Attorney	1.88	1.88
Administrative Services	20.53	20.18
Community Development	20.08	20.08
Police Department	59.00	60.00
Parks & Public Works	34.50	34.50
Library	12.50	12.50
Total Positions	148.99	149.63 *
All Department Hourly Employee Staff Converted to FTE's	10.21	10.68
Total Positions	159.20	160.31

* Due to rounding.

The FY 2019/20 Operating Budget has 160.31 budgeted FTEs, including temporary staff. This reflects an increase of 1.12 of FTEs compared to the prior year. The recommended FY 2019/20 staffing levels also reflect the following changes from the prior year's adopted budget:

- *Administrative Services and Town Offices* - The FY 2019/20 budget reflects the addition of one permanent Accountant/Finance Analyst position in the Finance Department, partially offset by a reduction of temporary hours and the elimination of a 0.35 FTE Account Technician position. The budget also includes a reclassification of 2.0 FTE Office Assistant positions to 1.00 FTE Deputy Town Clerk and 1.00 FTE Administrative Assistant in the Clerk program. The Clerk program also reflects an increase of temporary hours to assist with special projects and tasks related to the programming for Music in the Park. In addition, the budget reflects a title change from the IT Analyst and Network Administrator classifications to a single IT Systems Administrator classification to continue to provide critical support to the Town's technology infrastructure necessary to support modern governance and promote succession planning. The current Network Administrator is dedicated to the support of Police Department technology. To better reflect the resource allocation, 1.00 reclassified FTE IT Systems Administrator will be transferred to the Police Department program. There is also an addition of a part time, two-year position to assist with the Town's emergency preparedness activities and regional emergency management engagement.
- *Police* –The FY 2019/20 budget reflects the transfer of 1.00 FTE IT Systems Administrator from IT to the Police Department program as described above. The program also contains one-time request for a Project Manager and Community Services Officer.
- *Community Development Department (CDD)* –The FY 2019/20 budget reflects a one-time request for a nighttime Code Compliance Community Service Officer.

Non-Personnel Operating Expenditures

Non-Personnel expenditure budgets were developed based on actual expenditures in prior years, adjusted for FY 2019/20 funding needs. In light of limited available resources, the FY 2019/20 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 strength in the local economy, the first year of 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 healthcare. 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 on the next page summarizes the most recent Five-Year Financial Plan prepared in early May 2019. The updated Five-Year Financial Plan spans FY 2019/20 – 2024/25.

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

Account	Revenue Category	2018/19 Estimates	2019/20 Budget	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
4100	Property Tax	\$ 13.5	\$ 14.2	\$ 13.6	\$ 14.5	\$ 15.1	\$ 15.6	\$ 16.0
4110	VLF Backfill Property Tax	3.7	3.8	3.9	4.0	4.1	4.3	4.4
4200	Sales & Use Tax	7.6	8.0	8.0	8.1	8.1	8.2	8.4
4250	Franchise Fees	2.4	2.5	2.5	2.6	2.7	2.8	2.9
4251	Transient Occupancy Tax	2.6	2.8	2.9	2.9	2.9	3.0	3.0
4400	Business License Tax	1.5	1.4	1.4	1.4	1.4	1.4	1.4
4400	Licenses & Permits	2.8	3.4	3.1	3.2	3.3	3.4	3.5
4500	Intergovernmental	0.8	1.0	0.7	0.7	0.7	0.7	0.8
4600	Charge for Services	4.0	4.3	4.2	4.3	4.4	4.5	4.6
4700	Fines & Forfeitures	0.5	0.5	0.5	0.5	0.5	0.5	0.6
4800	Interest	0.9	0.6	0.4	0.4	0.4	0.4	0.4
4850	Other Sources	6.9	2.3	1.5	1.5	1.5	1.5	1.5
4900	Fund Transfers In	1.5	0.5	0.5	0.5	0.5	0.5	0.5
TOTAL OPERATING REVENUES & TRANSFERS*		\$ 48.9	\$ 45.3	\$ 43.2	\$ 44.6	\$ 45.6	\$ 46.8	\$ 48.0
	Use of Capital/Special Project Reserve - Capital	2.3	5.7	0.6	0.6	0.6	0.6	0.6
	Use of Pension/OPEB Reserve	3.2	0	0	0	0	0	0
	Use of Capital/Special Project Reserve - Other	1.1	0	0	0	0	0	0
	Use of Compensated Absences	0	1.1	0	0	0	0	0
TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES		\$ 55.5	\$ 52.1	\$ 43.8	\$ 45.2	\$ 46.2	\$ 47.4	\$ 48.6
Account	Expenditure Category	2018/19 Estimates	2019/20 Budget	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
5110	Salary	18.2	20.0	19.7	19.9	20.0	20.0	20.0
5120	CalPERS Benefits	5.3	6.9	7.3	7.8	8.3	8.5	8.7
5200	All Other Benefits	3.5	4.1	4.2	4.4	4.4	4.5	4.6
6211	OPEB Pay as You Go	1.2	1.2	1.3	1.3	1.4	1.4	1.4
6000	Operating Expenditures	7.1	6.6	5.6	5.6	5.8	5.9	6.3
7200	Grants & Awards	0.3	0.2	0.2	0.2	0.2	0.2	0.2
7400	Utilities	0.5	0.5	0.6	0.6	0.6	0.6	0.6
8060	Internal Service Charges	2.5	2.3	2.5	2.6	2.7	2.8	2.8
8900	Debt Service	1.9	1.9	1.9	1.9	1.9	1.9	1.9
TOTAL OPERATING EXPENDITURES		\$ 40.4	\$ 43.7	\$ 43.3	\$ 44.3	\$ 45.3	\$ 45.8	\$ 46.5
	GASB 45 Retiree Medical Actuarial	1.1	1.1	0.7	0.7	0.7	0.6	0.6
	Additional Discretionary Payment - Pension	0.4	0.4	0.4	0.4	0.4	0.4	0.4
TOTAL OPERATING & DISCRETIONARY EXPENDITURES		\$ 41.9	\$ 45.2	\$ 44.4	\$ 45.4	\$ 46.4	\$ 46.8	\$ 47.5
	Capital Transfers Out to GFAR	2.3	5.7	0.6	0.6	0.6	0.6	0.6
	Transfer to Internal Service Funds	0.5	1.1	0	0	0	0	0
	Pension/OPEB Transfer to PARS	3.2	0	0	0	0	0	0
	Allocate to Compensated Absences	1.9	0	0	0	0	0	0
	Surplus	1.0	0	0	0	0	0	0
	Allocate to Property Surplus Reserve	1.9	0	0	0	0	0	0
TOTAL EXPENDITURES & RESERVE ALLOCATIONS		\$ 52.7	\$ 52.0	\$ 45.0	\$ 46.0	\$ 47.0	\$ 47.4	\$ 48.1
NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES & RESERVE ALLOCATIONS		\$ 2.8	\$ 0.1	\$ (1.2)	\$ (0.8)	\$ (0.8)	\$ -	\$ 0.5

* Due to rounding of individual categories FY 2018/19 Total Revenues and Transfers includes \$0.2 million.

STATE BUDGET IMPACTS

Details on the State of California FY 2019/20 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 2019/20 Proposed Budget released in January 2019.

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 2019/20 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 CONSTRAINTS:

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 2018/19 and remitted to the Santa Clara County Central Fire Protection District for fire protection services is estimated to be approximately \$15.2 million.

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

The Town's pension unfunded actuarial liability (UAL) as of June 30, 2017 (the "date of value" for our most up to date actuarial valuation from the California Public Employees Retirement System or "PERS") is approximately \$52.5 million. The Town's unfunded actuarial OPEB liabilities are projected to total approximately \$11.1 million.

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.

CONCLUSION

While the 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 2019/20 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 improvements, pavement maintenance, additional discretionary funds toward pension obligations, emergency preparedness, replacement of aging equipment, and maintenance of older facilities. In addition, the Proposed Budget provides resources for the Town Council’s new Strategic Priorities, such as a comprehensive parking study, other transportation demand management options, and a downtown one-way street pilot.

I wish to thank all of the Departments, including Department Directors and the members of their management, analytical, and support staff, who worked diligently on the preparation of this budget document. In addition, I would like to recognize the efforts of the entire Finance Department and the Assistant Town Manager:

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

Respectfully submitted,



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, 2018

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 government 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 three drainage areas.
- **Construction Tax Fund** – 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. This fund is being discontinued with the Fiscal Year 2019/20 Budget. Any fund balance will be added to the General Fund Assigned Reserve. The actual reserve balance will be determined at the year-end close.
- **Information Technology (IT) Fund** – established to budget and account for the cost of maintaining, replacing, and updating existing information technology used by Town Departments.
- **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. This fund is being discontinued with the Fiscal Year 2019/20 Budget. Any fund balance will be added to the General Fund Assigned Reserve. The actual reserve balance will be determined at the year-end close.

∞ FUND DESCRIPTIONS ∞

- **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.
- **The Pooled Liability Assurance Network (PLAN) Self-Insurance Fund** - established to ensure an adequate reserve for future property and liability claims.

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.

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 PRACTICES

REVENUE

- The Town maintains a diversified revenue base that is locally generated to shelter the community from fluctuations in any one revenue source.
- The Town audits and collects all locally generated taxes.
- The Town establishes and maintains all user charges and fees based on the cost of providing services.

BUDGETING and EXPENDITURE

- The Town Council considers and adopts 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 are used only for non-recurring “one-time” and capital projects and not for on-going operations.
- Long-term debt is 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 includes 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 is any single item or piece of equipment which costs more than \$10,000 and has an expected useful life exceeding one year.
- A mid-year budget report is submitted to the Town Council to provide information on the status of the Town’s financial condition.

FUND BALANCE RESERVES

Reserves are established, dedicated, and maintained annually to meet known and estimated unknown future liabilities through actions of the Town Council.

- The specific Fund Balance reserve accounts include but are not limited to a restricted reserve for:

∞ FINANCIAL PRACTICES ∞

- ▶ A fully funded workers' compensation and unemployment insurance
- ▶ Liability insurance including one year's premium payment to the insurance carrier or pool
- Reserves are 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, per Town Council adopted policy, Town Council is required to develop a one to five-year reserve replenishment plan to meet the minimum threshold of 25% of General Fund ongoing, operating expenditures, excluding one-time expenditures.

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

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. Examples of assigned fund reserves:

- Compensated Absences – A reserve is maintained annually to fund 50% of all vested hours of vacation earnings.
- Open Space – Town Council established this reserve in FY 1998/99 with an initial balance of \$500,000 to be used for the preservation of open space, connection of open space trails, the definition of the southern boundary of the Town with passive open space, and protection of unique natural features.
- Sustainability – Established by Town Council in FY 2008/09 budget by closing the Solid Waste Management Fund and placing the initial residual fund balance of \$296,554 in a General Fund reserve dedicated for conservation, recycling, and sustainability.
- Authorized Carry forward - A reserve is maintained for materials and services on approved purchase order and contracts which were issued but not finalized or fulfilled as of the end of the fiscal year but for which funds will be carried forward to the following fiscal year.
- Vehicle Maintenance and Stores Residual – A reserve established to hold the residual fund balances transferred to the Town's General Fund upon closing the Vehicle Maintenance and Stores Internal Service Funds for future Council reallocation.
- Surplus Property – A reserve established for placing the proceeds from surplus property sales until further Town Council reallocation.
- Capital/Special Projects Reserve – Funds reserved under this category are designated for key infrastructure and capital/special projects as identified in the Town's 5-year Capital Improvement Plan, as there is no ongoing funding source to support the Town's capital needs.

CAPITAL IMPROVEMENT

Capital Improvement Projects are 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
-
- The 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 Council priorities or replacement of the infrastructure.
 - The annual Capital Improvement Plan is based on the multi-year Capital Improvement Program.
 - The Town coordinates the development of the Capital Improvement Plan with the development of the Operating Budget.
 - The Town identifies 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 are paid back within a period not to exceed the useful life of the project.
 - The Town Manger 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



TOWN OF
LOS GATOS
CALIFORNIA

COUNCIL POLICY MANUAL

Small Town Service Community Stewardship Future Focus

TITLE: General Fund Reserve Policy

POLICY NUMBER: 4-03

EFFECTIVE DATE: 05/16/2011

PAGES: 7

ENABLING ACTIONS:

**REVISED DATES: 02/21/2017;
05/15/2018; 6/4/2019**

APPROVED:/S/ Rob Rennie

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

The Town of Los Gatos has always maintained a high level of General Fund reserves, which has contributed to superior ratings by credit rating agencies; provided financial flexibility in economic downturns; contributed a source of investment income for General Fund operations; and assured financial coverage in the event of future emergencies.

GUIDING PRINCIPLES

Following sound financial practices and adhering to the Government Finance Officers of American (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

General Fund Reserve Policy

TITLE: General Fund Reserve Policy	PAGE: 2 of 7	POLICY NUMBER: 4-03
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- Frequency of operating surpluses/deficits
- Cash flow management practices

The General Fund Reserve Policy is to be reviewed by the Town Council as part of the annual operating budget review and adoption process.

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)

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.

General Fund Reserve Policy

TITLE: General Fund Reserve Policy	PAGE: 3 of 7	POLICY NUMBER: 4-03
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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 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

⌘ General Fund Reserve Policy ⌘

TITLE: General Fund Reserve Policy	PAGE: 4 of 7	POLICY NUMBER: 4-03
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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.

Pension/OPEB Reserve

Funds reserved under this category shall be used to further mitigate costs associated with pension and OPEB unfunded obligations. These funds will be used as a funding source for potential additional discretionary payments to pay down unfunded pension and other post-employment obligations, or held in the reserve account to be used as a supplemental funding source for unanticipated increases to the annual pension and other post-employment costs resulting from future actuarial assumptions and investment market volatility.

This Policy requires the Town to set aside additional annual discretionary payments (ADPs) to reduce the effective amortization period of the Town’s pension unfunded actuarial liabilities

⌘ General Fund Reserve Policy ⌘

TITLE: General Fund Reserve Policy	PAGE: 5 of 7	POLICY NUMBER: 4-03
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from approximately 30 years to 20 years. To facilitate the implementation of this Policy, staff shall update the estimated unfunded amortization schedules in conjunction with the Town's and CalPERS actuaries. This process will coincide with the annual proposed budget process to determine the additional annual discretionary payment levels required to maintain the goal of lowering the amortization period from a 30-year to a 20-year amortization period for all prior year actuarial bases through FY 18/19. The ADP is currently projected at \$390,000 for FY 2018/19 (subject to annual updates provided by CalPERS actuaries). Per Council direction ADPs will either be allocated directly to CalPERS, the Town's Pension IRS 115 Trust Fund, or the OPEB IRS 115 Trust Fund.

As part of the proposed budget for each forthcoming fiscal year, staff shall annually appropriate, to the extent possible, the amount of annual discretionary payments necessary to maintain the unfunded pension liability amortization shortening from 30 to 20 years.

In the event the annual amount required for additional discretionary payments is not available from operating revenues, the ADP shall be funded by a first lien on any one-time excess revenues above expenditures once other General Fund required reserve levels have been established at the appropriate levels as per the Town's General Fund Reserve Policy. If in any given year neither budgetary appropriations or a first lien on one-time excess revenues are sufficient to fund the annual ADP, that years ADP will be accrued to the following year until paid.

Additionally, effective upon the close of fiscal year 2015/16 and thereafter, if sufficient General Fund year-end savings are available and targeted reserve levels of 25% (12.5% for Catastrophic Reserve and 12.5% for Budget Stabilization Reserve) of the next fiscal year's operating budget and the funding the following year's proposed budget ADP have been met, upon final close of the fiscal year, a minimum of \$300,000 annually shall be deposited into the Pension/OPEB Reserve fund. In addition, Council can assign additional amount deposited to the Pension/OPEB Reserve with a formal Council action from available year end savings.

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.

⌘ General Fund Reserve Policy ⌘

TITLE: General Fund Reserve Policy	PAGE: 6 of 7	POLICY NUMBER: 4-03
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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.
- 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

∞ General Fund Reserve Policy ∞

TITLE: General Fund Reserve Policy	PAGE: 7 of 7	POLICY NUMBER: 4-03
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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.

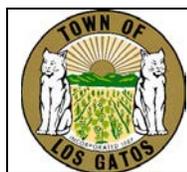
Replenishment of Unreserved Fund Balance

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.

/S/Robert Schultz, Town Attorney



LONG TERM DEBT POLICY



TOWN OF
LOS GATOS
CALIFORNIA

COUNCIL POLICY MANUAL

Small Town Service Community Stewardship Future Focus

TITLE: Long Term Debt Policy

POLICY NUMBER: 4-01

EFFECTIVE DATE: 11/2/16

PAGES: 3

ENABLING ACTIONS: 2016-062

REVISED DATES:

APPROVED:/S/ Barbara Spector

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.

TITLE: Long Term Debt Policy	PAGE: 2 of 3	POLICY NUMBER: 4-01
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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.
 - 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.

⌘ Long Term Debt Policy ⌘

TITLE: Long Term Debt Policy	PAGE: 3 of 3	POLICY NUMBER: 4-01
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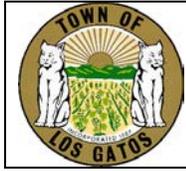
PROCEDURES

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.

/S/ Robert Schultz, Town Attorney



INVESTMENT POLICY



TOWN OF
LOS GATOS
CALIFORNIA

COUNCIL POLICY MANUAL

Small Town Service Community Stewardship Future Focus

TITLE: Investment Policy

POLICY NUMBER: 4-02

EFFECTIVE DATE: 11/1/2016

PAGES: 10

ENABLING ACTIONS: 2016-063

**REVISED DATES: 5/16/2017; 5/15/2018;
9/3/2019**

APPROVED:/S/ Rob Rennie

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. Town Council adopted revisions replace 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

Investment Policy

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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:

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.

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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.

SOCIALLY RESPONSIBLE INVESTING

In addition to and subordinate to the objectives set forth above, investment of funds should be guided by the following socially responsible investment goals when investing in corporate securities and depository institutions. Investments shall be made in compliance with the responsible investment goals to the extent that such investments achieve substantially equivalent safety, liquidity and yield compared to other investments permitted by state law.

Investment Policy

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(1) Environmental, Social Responsibility and Governance Concerns

Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation. All corporate securities within the portfolio will be monitored by an independent third-party who will provide the Town with an ESG (Environmental, Social Responsibility, and Governance) rating. The Town will prefer companies when appropriate that maintain a higher ESG rating as opposed to those companies that have a lower ESG Rating.

(2) Community Investments

Investments are encouraged in entities that promote community economic development, and investments are discouraged in entities that finance high-cost check-cashing and deferred deposit (payday-lending) businesses. Investments are encouraged in entities that have a demonstrated involvement in the development or rehabilitation of low income affordable housing, and have a demonstrated commitment to reducing predatory mortgage lending and increasing the responsible servicing of mortgage loans. Securities investments are encouraged in financial institutions that have a Community Reinvestment Act (CRA) rating of either Satisfactory or Outstanding, as well as financial institutions that are designated as a Community Development Financial Institution (CDFI) by the United States Treasury Department, or otherwise demonstrate commitment to community economic development.

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.

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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.

 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.

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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.
 - 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.

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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.

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

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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.

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.

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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."

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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.

/S/ Robert Schultz, Town Attorney

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 use 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 five trust funds. The Town does not currently have any agency funds. Trust funds are subject to trust agreement guidelines.

Summary of Budget Development

The Town develops its budgets with a team-based 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 winter 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, consistent with Section 2.30.295(b) of the Los Gatos Town Code which requires the Town Manager to annually prepare and submit a budget to the Town Council. This is accomplished in June at a subsequent noticed public hearing.

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

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 that may be approved at any Town Council meeting.

The Town Council considers the status of the revenues and expenditures as of December 31st during a Mid-Year Review. This typically occurs in February and the Council may act on additional budget modifications at that time.

BUDGET CALENDAR

September/October/November/December

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

December/January

Council Strategic Priorities Established

January

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

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

- Town Council Strategic Goals
- 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 to determine Department / program revisions

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

2nd Draft briefing and revisions with Town Manager and Departments

Public Hearings for proposed User Fee Schedule

April

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

Proposed community grant awards

Budget revisions finalized and proposed budgets assembled

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

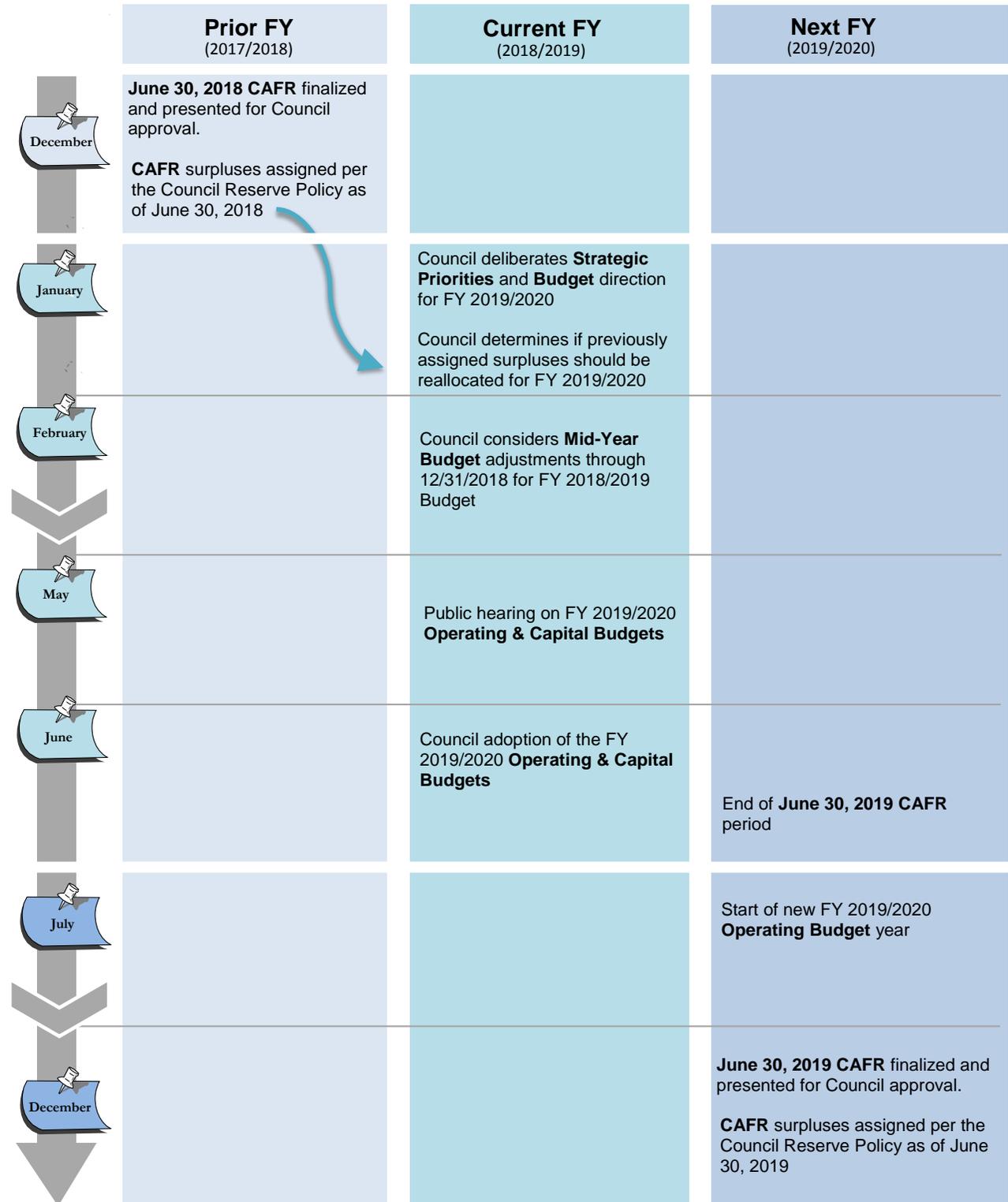
Public hearings for final adoption of the Gann Appropriation Limit, Operating and Capital Budget, and 5-year CIP Budget

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

July/August/September

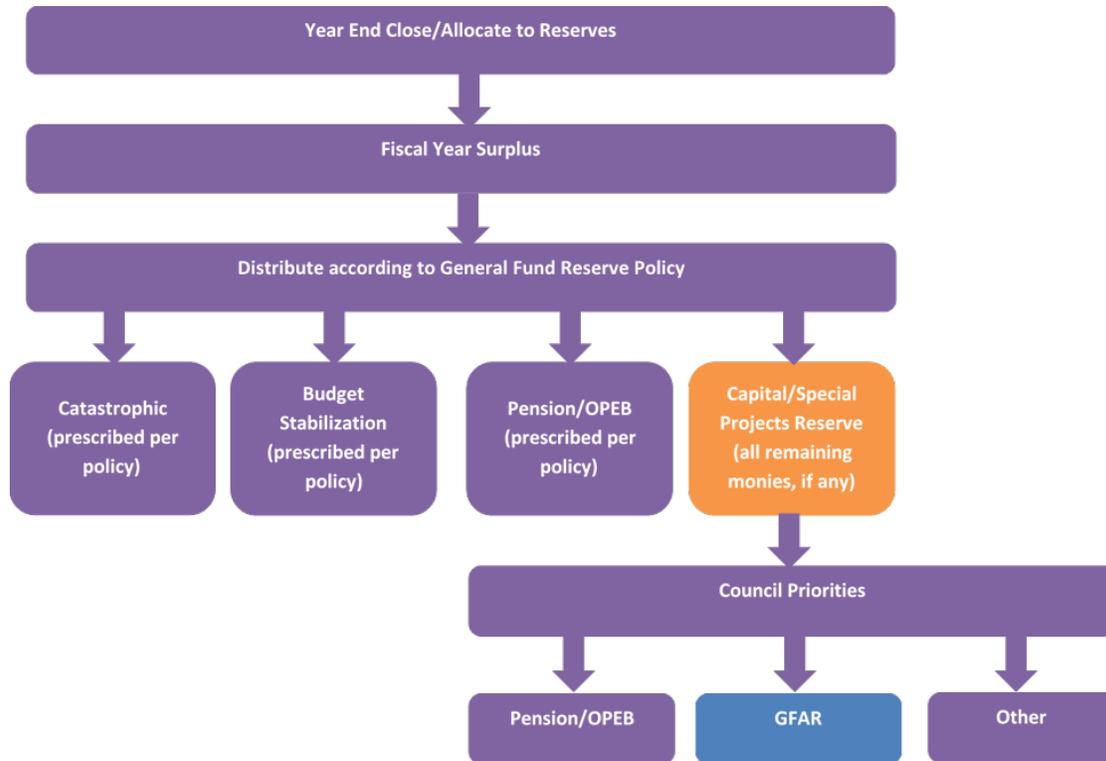
Adopted Operating and CIP Budget documents finalized, printed and distributed

TOWN OF LOS GATOS ANNUAL BUDGET/CAFR CYCLE

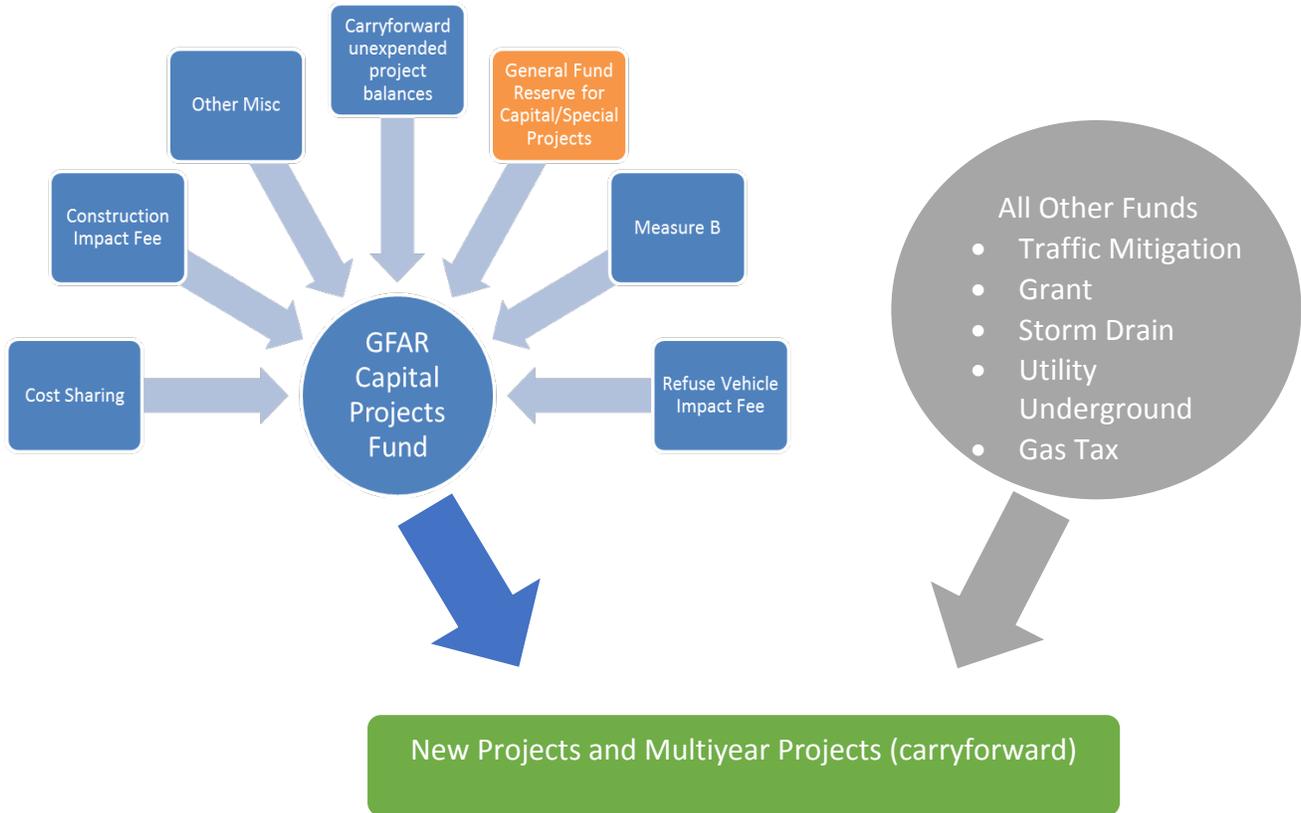


All Council deliberations and actions include opportunities for public input

FISCAL YEAR SURPLUS FLOW OF FUNDS



CAPITAL IMPROVEMENT PROGRAM



FORECAST ASSUMPTIONS

REVENUE BASELINE AND PROJECTION FACTORS

Type of Revenue	FY 2019/20	FY 2020/21 Forecast	FY 2021/22 Forecast	FY 2022/23 Forecast	FY 2023/24 Forecast	FY 2024/25 Forecast
Property Tax - General	Current baseline set by SCC Assessor Office May 2019 Report.	3%	3%	3%	3%	3%
Property Tax - Educational Revenue Augmentation Fund (ERAF)	Current baseline set by SCC Assessor Office May 2019 Report.	Based on SCC Actual Forecast				
Property Tax - VLF Backfill	Current baseline set by SCC Assessor Office May 2019 Report.	3%	3%	3%	3%	3%
Sales Tax	Current baseline set by MuniServices actual estimates per April 2019 forecast.	Based on MuniServices Actual Forecast				
Sales Tax - Measure G	\$800,000 anticipated in FY 2019/20	1%	1%	1%	1%	1%
Franchise Fee	Current baseline set by FY 2019/20 Proposed Budget	3%	3%	3%	3%	3%
Transient Occupancy Tax	Current baseline set by FY 2019/20 Proposed Budget. \$200,000 addition for anticipated AirBNB collection and short term rental collection.	1%	1%	1%	1%	1%
Business License Tax	Current baseline set by FY 2019/20 Proposed Budget	0%	0%	0%	0%	0%
License & Permits	Current baseline set by FY 2019/20 Proposed Budget	3%	3%	3%	3%	3%
Town Services	Current baseline set by FY 2019/20 Proposed Budget	3%	3%	3%	3%	3%
Fine & Forfeitures	Current baseline set by FY 2019/20 Proposed Budget	Varies	Varies	Varies	Varies	Varies
Interest	Current baseline set by FY 2019/20 Proposed Budget	1%	1%	1%	1%	1%
Other Sources	Current baseline set by FY 2018/19 Adopted Budget.	Varies	Varies	Varies	Varies	Varies

FORECAST ASSUMPTIONS

EXPENDITURE BASELINE AND PROJECTION FACTORS

The Town budgets vacant and non-sworn positions at the top step of the range for the position. Sworn and management positions are budgeted at one step higher than the current step in anticipation of potential merit increases in the upcoming fiscal year. For the Forecast, positions are budgeted at the actual rate of pay of employees including benefits as of July 1, 2019.

Growth Rate						
Type of Expenditure	FY 2019/20	FY 2020/21 Forecast	FY 2021/22 Forecast	FY 2022/23 Forecast	FY 2023/24 Forecast	FY 2024/25 Forecast
Salaries - POA	4%	0%	0%	0%	0%	0%
Salaries - TEA, Confidential, and Management	3%	0%	0%	0%	0%	0%
Benefit - Medical*	Current baseline set by FY 2019/20 Proposed Budget	7%	7%	7%	7%	7%
Operating Expenditures	Current baseline set by FY 2019/20 Proposed Budget	3.0%	3%	3%	3%	3%
Grants & Awards	Current baseline set by FY 2019/20 Proposed Budget	0%	0%	0%	0%	0%
Utilities	Current baseline set by FY 2019/20 Proposed Budget	3.0%	3%	3%	3%	3%
Internal Service Charges	Current baseline set by FY 2019/20 Proposed Budget	Varies	Varies	Varies	Varies	Varies
Debt Service	Current baseline set by FY 2019/20 Proposed Budget	Debt Service Schedules	Debt Service Schedules	Debt Service Schedules	Debt Service Schedules	Debt Service

*Benefit increase estimates are provided by CalPERS/Public Employees' Medical and Hospital Care Act (PEMHCA)

The Town's required contribution toward retirement and unfunded liabilities are provided by CalPERS as a percentage of current payroll. The actual percentage used in the forecast are summarized in the table below. CalPERS employer contribution are shown as a percentage of payroll.

CalPERS Employer Contribution - Actual Percentage of Payroll						
Type of Expenditure	FY 2019/20	FY 2020/21 Forecast	FY 2021/22 Forecast	FY 2022/23 Forecast	FY 2023/24 Forecast	FY 2024/25 Forecast
Safety* POA	52.22%	55.06%	59.79%	65.58%	65.76%	67.39%
Safety POA - PEPR	15.02%	15.05%	15.17%	15.29%	15.50%	17.00%
Miscellaneous TEA/Confidential/ Management	33.18%	37.43%	40.14%	42.42%	43.74%	44.74%
Miscellaneous TEA/Confidential/ Management PEPR	33.18% Separate PEPR rate for the Miscellaneous group has not been established yet by CalPERS.	37.43%	40.14%	42.42%	43.74%	44.74%

*Safety Classic Rate reflects 3% decrease in employer's contribution rate to reflect 3% contribution as negotiated with the Town's POA during the collective bargaining process effective FY 2019/20.

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 2019/20:

APPROPRIATION LIMIT FACTORS						
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%
2020	41,317,775	1.0033	0.9998	1.0385	43,050,108	4.19%

GANN APPROPRIATION LIMIT

The Town of Los Gatos' appropriation limit for fiscal year 2019/20 is calculated as follows:

FY 2019/20 Calculation

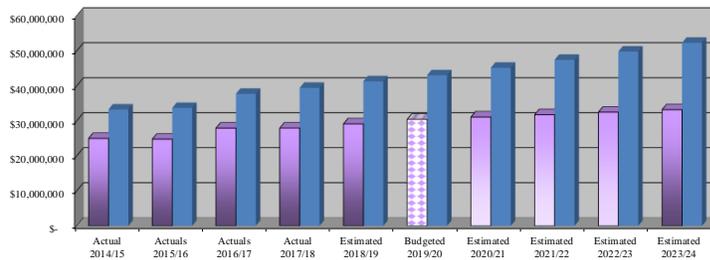
County Population Factor		Per Capita Income Factor		Appropriation Factor		2018/19 Appropriation Limit		2019/20 Appropriation Limit
1.0033	X	1.0385	=	1.041927	X	\$ 41,317,775	=	\$ 43,050,108

As illustrated above, the total amount of tax revenues appropriated to the Town in FY 2019/20 is not to exceed \$43,050,108. The FY 2019/20 budget anticipates \$30,447,571 in tax revenues which equates to \$12,602,537 less than, or approximately 71% of, the appropriation limit for FY 2019/20. Therefore, the Town's tax revenues fall substantially below the appropriation limit.

APPROPRIATION TREND

Located in the Silicon Valley which has experienced significant job and population growth since the Great Recession, Los Gatos has benefited from a strong local and regional economy. 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 2014/15	Actuals 2015/16	Actuals 2016/17	Actual 2017/18	Estimated 2018/19	Budgeted 2019/20	Estimated 2020/21	Estimated 2021/22	Estimated 2022/23	Estimated 2023/24
Tax Revenues	\$ 25,007,677	\$ 24,784,336	\$ 27,955,180	\$ 27,962,762	\$ 29,158,522	\$ 30,447,571	\$ 31,117,418	\$ 31,802,001	\$ 32,501,645	\$ 33,216,681
Appropriation Limit	\$ 33,279,977	\$ 33,701,485	\$ 37,754,174	\$ 39,464,396	\$ 41,317,775	\$ 43,050,108	\$ 45,202,613	\$ 47,462,744	\$ 49,835,881	\$ 52,327,675
Revenue to Limit %	75%	74%	74%	71%	71%	71%	69%	67%	65%	63%

APPROPRIATION LIMIT ADOPTION

The resolution to adopt the appropriation limit of \$43,050,108 was presented for Council adoption on August 20, 2019.

GANN APPROPRIATION RESOLUTION

RESOLUTION 2019-045

RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS RESCINDING RESOLUTION 2019-031 AND ADOPTING A REVISED RESOLUTION ESTABLISHING THE FY 2019/20 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.

WHEREAS, the Council approved Resolution 2019-031 establishing the Fiscal Year 2019/20 Appropriations Limit; and

WHEREAS, the Resolution 2019-031 contained a numerical error.

THEREFORE, BE IT RESOLVED: that the Resolution 2019-031 is hereby rescinded and the Annual Appropriations Limit for the Town of Los Gatos for FY 2019/20 is \$43,050,108 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 20th day of August 2019 by the following vote:

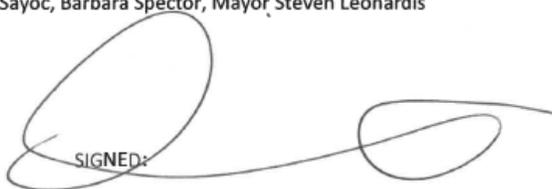
COUNCIL MEMBERS:

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

NAYS: None

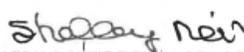
ABSENT: None

ABSTAIN: None

SIGNED: 

MAYOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

DATE: 8/23/19

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

DATE: 8/23/19



TOWN OF LOS GATOS

ANNUAL BUDGET RESOLUTION

RESOLUTION 2019-029

RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS APPROVING THE FISCAL YEAR (FY) 2019/20 OPERATING BUDGET AND FY 2019/20 – 2023/24 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 FY 2019/20 on May 21, 2019; and

WHEREAS, the Town Manager submitted to the Town Council a proposed five-year Capital Improvement Program for FY 2019/20 – 2023/24 on May 21, 2019; and

WHEREAS, the Town Council has considered and reviewed said proposed Budget and Capital Improvement Program during public hearings on May 21, 2019 and the Town Council directed modifications to the Operating and Capital Budgets to allocate one time monies to community grants, sidewalk cleanings, pension/Other Post-Employment Benefit obligations, and downtown revitalization; and

WHEREAS, on June 4, 2019, 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 2019/20 fiscal year as depicted in Exhibit A entitled "Total Town Revenues by Fund and Total Town Expenditures By Fund" including the first year (FY 2019/20) of the Town's Capital Improvement Program budget as contained in the Town's FY 2019/20 – 2023/24 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, 2019

1 of 3

Resolution 2019-029

June 4, 2019

PASSED AND ADOPTED at a regular meeting of the Town Council of the Town of

Los Gatos, California, held on the 4th day of June 2019 by the following vote:

COUNCIL MEMBERS:

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

NAYS: None

ABSENT: None

ABSTAIN: None

SIGNED:

MAYOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

DATE: 6/7/19

ATTEST:

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

DATE: 6/12/2019

2 of 3

Resolution 2019-029

June 4, 2019

ANNUAL BUDGET RESOLUTION

	2019/20 Proposed Budget	Estimated Budget Revision	2019/20 Recommended Budget
REVENUES			
General Fund	\$45,282,132	\$ -	\$ 45,282,132
Special Revenue Funds	634,074	-	634,074
Internal Service Funds	4,793,285	-	4,793,285
Trust Funds	79,150	-	79,150
Capital Project Funds (does not include carryforwards)	12,490,679	972,384	13,463,063
Successor Agency Funds	3,823,202	-	3,823,202
TOTAL REVENUES	\$67,102,522	\$ 972,384	\$ 68,074,906

OTHER FUNDING SOURCES			
Designated One-Time Use of General Fund Reserves	6,770,756	\$ 1,005,069	7,775,825 *
TOTAL TOWN REVENUES & OTHER FUNDING SOURCES	\$73,873,278	\$ 1,977,453	\$ 75,850,731

* Designated One-Time Use of the General Fund Reserves during FY 2019/20

Additional Grants & Sidewalk Cleaning	\$ 32,685
Transfer to Capital Projects (GFAR)	6,681,884
Transfer to Workers Comp	1,061,256
Total	\$ 7,775,825

TOTAL TOWN EXPENDITURES, TRANSFERS OUT & CARRYFORWARD APPROPRIATION

General Fund	\$51,909,446	\$ 1,005,069	\$ 52,914,515
Special Revenue Funds	669,410		669,410
Internal Service Funds	7,440,914		7,440,914
Trust Funds	133,255		133,255
Capital Project Funds (does not include carryforwards)	12,726,009	972,384	13,698,393
Successor Agency Funds	3,823,202		3,823,202
TOTAL TOWN EXPENDITURE & OTHER FUNDING USES	\$76,702,236	\$ 1,977,453	\$ 78,679,689

GENERAL FUND SOURCE(USE) OF FUND BALANCES	\$ 143,442		\$ 143,442
OTHER FUNDS SOURCE(USE) OF FUND BALANCES	(2,972,400)		(2,972,400) **
TOTAL SOURCE(USE) OF FUND BALANCES	\$ (2,828,958)	\$ -	\$ (2,828,958)

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