



April 18, 2022

Honorable Mayor and Town Council:

I am pleased to present to you a balanced Fiscal Year (FY) 2022/23 Proposed Operating Budget for the Town of Los Gatos. This past year continued to see a gradual return to economic normalcy from the unprecedented repercussions of shuttering large swaths of the economy to mitigate the public health consequences of COVID-19. While the budget is balanced, it was balanced through the use of one-time American Rescue Plan Act (ARPA) resources from the federal government as well as continued status quo budget direction across Town operations.

On January 25, 2022, the Town Council determined the Strategic Priorities for 2022-2024, providing guidance to Town staff and Commissions on workload prioritization. Even with the budgetary challenges of the last several years associated with the COVID-19 pandemic, many of Council's primary goals and priorities have been programed in the FY 2022/23 Operating and Capital Budgets. Specifically, the Council would like continued progress on wildfire protection safety; emergency preparedness; semi-permanent parklets; diversity, equity, and inclusion; community policing; parking study implementation; and the General Plan and Housing Element updates (see the following page).

The initial economic shock from the pandemic is appearing to be episodic in nature; however, the loss of previously projected future growth in revenues in conjunction with increasing expenses continues to illustrate persistent deficits in future years. The deficits are on the order of approximately \$2.0 to \$3.0 million per year and can currently be resolved through a combination of expenditure controls and the use of one-time funds. The proposed Budget also reflects inflationary pressures and the continued Departmental constraints after multiple years of status quo organizational budgets.

Even with areas of continued uncertainty, this Budget positions the organization well for continued excellence in service delivery to the community. However, in the event pre-pandemic revenue growth projections do not return and/or new revenue sources are not identified, the current projected deficits may need to be addressed through service delivery reductions or service outsourcing. If this occurs, the Council will need significant input from the community to identify acceptable organizational changes and service levels.

The FY 2022/23 General Fund Budget programs total revenues and reserve transfers of \$50.4 million and expenditures and allocations of \$50.4 million. The Budget currently anticipates no significant new programming and does maintain existing service with modest staffing additions. This Budget also provides for limited, continued strategic investments toward important wildfire vegetation management as Federal grant funding allows and other necessary infrastructure improvements, as the pandemic is not the only threat to our community's health and safety.

I would like to take this opportunity to thank the Town Council for your stewardship this past year.



## Ongoing Strategic Priorities 2022-2024

### **SAFETY**

- Community Policing
- Emergency Preparedness
  - CERT Recruitment & Training
  - EOC Readiness & Emergency Plan Development
- Fire Protection
  - Vegetation Management
  - Implementation of Ad Hoc Wildfire Mitigation Plan

### **PRUDENT FINANCIAL MANAGEMENT**

- Address Pension & OPEB Obligations
- Explore New Revenue Opportunities
- Sell or Lease Certain Town Properties

### **QUALITY OF LIFE**

- Community Vitality
  - Diversity, Equity & Inclusion Efforts
  - Community Where Older Adults Thrive & Senior Road Map
  - Events & Other Town-Wide Efforts
  - Community Engagement
  - Environmental Sustainability/Climate Resiliency
- Economic Vitality & Pandemic Recovery
  - Policies & Ordinances
  - Semi-Permanent Parklets
- Land Use Planning
  - General Plan 2040
  - Housing Element
  - Affordable Housing
  - Dittos Lane Affordable Housing
  - Objective Standards
  - SB9 Implementation

### **TRAFFIC/TRANSPORTATION**

- Comprehensive Parking Study
  - Short, Medium, and Long-Term Actions
- Transportation Demand Management
  - Measure B Transportation Projects
  - Bicycle & Pedestrian Improvements
  - Community Shuttle
  - Summer/Rush Hour/School Traffic
  - Regional Transportation Issues

## **BUDGET DEVELOPMENT CONTEXT**

An important aspect of the Town's budget development process is taking a multi-year approach to understand revenue and expenditure trends over time. Serving as the foundation of the budget planning process (page A-7), the Town develops a Five-Year Financial Forecast ("Forecast") beginning in the winter of each year. The Forecast enables the Town to evaluate the Town's fiscal condition and to help guide policy, programmatic planning, and budget decisions. Development of a financial forecast as part of the budget development process has been identified as a best practice by the Government Financial Officers Association (GFOA).

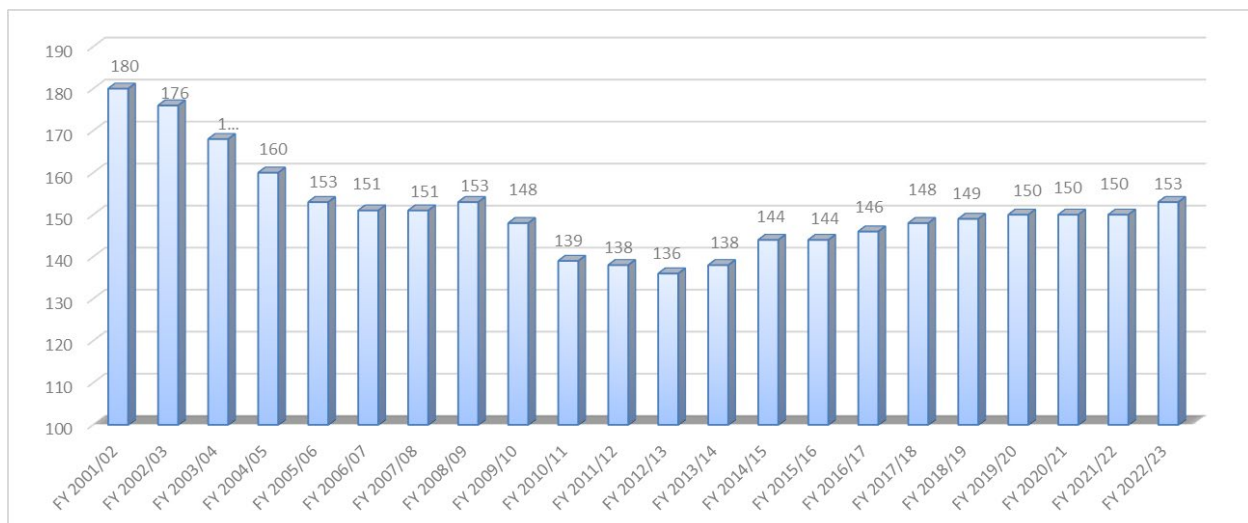
The Forecast takes a forward look at the Town's General Fund revenues and expenditures and is updated regularly. Its purpose is to identify financial trends, potential shortfalls, and other issues so the Town can proactively address them and budget accordingly. It does so by projecting out into the future the fiscal results of continuing the Town's current service levels and policies. This process helps to provide a snapshot of what the future may look like as a result of the decisions made to date.

As we consider the development of the FY 2022/23 Operating Budget and the Five-Year Forecast, it is helpful to provide context from the development and estimated results of the FY 2021/22 Operating Budget. On June 1, 2021, the Town Council, under advisement from the Finance Commission, adopted the use of \$1,912,536 in American Recovery Plan Act (ARPA) funding to balance the FY 2021/22 budget. On February 15, 2022, the Mid-Year Budget reflected a slight reduction in projected deficits into the close of FY 2021/22, with one-time ARPA revenue loss funding having reduced to \$1,444,021 for budget balancing. As information becomes more refined into the close of FY 2021/22, current estimates are for a slight \$600,000 surplus with no revenue loss ARPA funding. To date, no ARPA funding has ultimately been expensed for revenue loss replacement. As discussed in greater detail later, the primary drivers of the reduction in the projected deficit are attributable to increases in Educational Revenue Augmentation Funds (ERAF) property tax distributions, Transient Occupancy Tax (TOT), and continued increases in Sales Taxes.

In addition to the improvements in revenue projections, staff is estimating that there will be year-end operating expenditure savings in FY 2021/22. Savings are attributable to Departmental vacancies and lower cost structures associated with retiree replacements. In addition, vacant positions are often filled with temporary unbenefitted positions, which translate into additional benefit savings. The Town has experienced its share of the "great resignation" and has seen an increase in vacancies throughout the organization. While expenditure savings is welcome news, ultimately vacancies need to be filled to maintain the high level of services provided by the Town.

As with most municipalities, services are provided directly by employees to the Town's residents, businesses, and visitors. As a service delivery enterprise, the cost of salaries and benefits are a significant portion of the budget. The delivery of Town services is highly dependent on recruiting and retaining talent which comprises 66% of budgeted General Fund expenditures for FY 2022/23.

Given the high dependence on labor for service delivery, the Town has helped manage salary escalation (and benefits) through the maintenance of lower staffing levels. As the table below illustrates, since 2001 the Town has reduced its full-time employees by 15.0% to 153 FTE employees.



Even with the Town reducing its full-time employees by 15.0% to 153 FTE employees since 2001, costs per employee continue to escalate as evidenced by pension benefit costs having increased 37.7% in the last five years.

Mandated pension payments to CalPERS have consistently been one of the major cost drivers for the Town over the past decade with persistent unanticipated increases in pension costs. The Town's plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns, changes in actuarial assumptions, and demographic changes which have outweighed any positive plan experiences to date. The outcome of these unfavorable economic and demographic results is the development of unfunded pension and Other Post-Employment Benefit (OPEB) obligations for the Town. According to the 2020 actuarial valuations, the unfunded actuarial liability for pensions was \$61.8 million and \$8.7 million for OPEB as of June 30, 2019.

To address the escalation in pension costs, previous Councils have allocated additional discretionary pension funding totaling \$10.4 million. These additional discretionary payments will ultimately yield an approximate additional \$12.7 million in contribution savings. In addition to the management of the Town's pension obligations, prior Councils have worked to curb cost escalation in Other Post-Employment Benefits (OPEB). In 2009, the Town initiated prefunding of the retiree healthcare benefit and has since established approximately \$27.3 million in OPEB assets from zero in 2009.

The Town has three bargaining units, including the Town Employees' Association (TEA), the American Federation of State, County and Municipal Employees (AFSCME), and the Police Officers' Association (POA). The unrepresented groups are Management and Confidential. The Town and its bargaining groups have also worked to contain benefit costs. The Town closed the

CalPERS retiree Tier 1 benefit for non-safety employees and created a new Tier 2 for non-safety new employees in 2012, implemented the Public Employees' Pension Reform Act (PEPRA) for all new non-classic employees starting in 2013, and participates in the CalPERS discounted prepayment option. The Town's bargaining groups participated in wage freezes and unpaid furloughs for several years to assist in achieving balanced budgets after the 2008 recession. In 2016, the Town's bargaining groups approved the introduction of dependent cost sharing and a reimbursement cap to Medicare eligible employees, and in 2018 the elimination of the Town's existing retiree healthcare benefit prospectively.

While these collective measures have helped to slow the growth in salary and benefit expenses, this budget and forecast anticipates continued increases.

### **FISCAL YEAR (FY) 2022/23 BUDGET BALANCING STRATEGIES**

For FY 2022/23 the Proposed Operating Budget was balanced utilizing two primary budget balancing strategies. The first was direction to all Departments to develop a status quo budget. To that end most Departments programmed existing resources by either maintaining current structures or realigning operations to remain effective while staying within prior year budgets. In addition, Departments were provided guidance to enhance capacity where necessary through limit-dated non-benefited personnel options when possible.

The second strategy is the use of \$1.0 million of the Town's \$5.7 million allocation from the American Rescue Plan Act to replace lost revenue. This is consistent with Council direction in FY 2020/21 (\$1.4 million) and FY 2021/22 (\$1.9 million). To date no ARPA funding has ultimately been expensed for revenue loss replacement.

The FY 2021/22 Budget endeavored to maintain essential public services while controlling operational costs in light of the Five-Year Financial Forecast, which predicts operating shortfalls in subsequent fiscal years. Providing current service levels to the community in future fiscal years will require a strong return to pre-pandemic performance of the Town's economically sensitive revenues and/or revenue enhancements as identified as one of the Town Council's Strategic Priorities.

### **FIVE-YEAR FINANCIAL FORECAST**

Similar to prior years, the Five-Year Forecast serves as the foundation of the budget planning process. The Forecast 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 they ultimately define the expenditure limitations for the upcoming budget year. The 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.

The Five-Year Forecast (FY 2023/24 – 2027/28) is predicated on the estimated ending budget for FY 2021/22 and includes updates to Town revenues and expenditures. Like any forecast, the Forecast's revenue estimates for the first year is the most critical in the process as they ultimately define the expenditure limitations for the upcoming budget year. The Town is highly dependent on three economically sensitive revenues comprising 65% of General Fund forecasted revenues. With that context, updated growth assumptions are provided for each revenue source, and the resultant projected revenues for the new Forecast period. The revenue assumptions provided are informed by the County Tax Assessor, the Town's sales tax consultant, and direct communication with the Town's hospitality industry. These assumptions are described in more detail later in this section.

On the expenditure side, the Forecast budgets positions at the actual rate of pay of employees including benefits as of June 30, 2022. Then, by position, salary costs are updated in accordance with the applicable Memorandum of Understanding (MOU) between the Town and its bargaining units. The Memoranda of Understanding that outline the individual agreements between the Town and each unit related to compensation, health benefits, leave time, and grievance procedures will expire with TEA and AFSCME on June 30, 2022. POA's MOU expired on September 30, 2021. Since all bargaining unit agreements are open for negotiation in 2022, meetings to re-negotiate the agreements in good faith are currently in process. The Management and Confidential groups are unrepresented.

In addition to the economic terms of the MOUs, the Forecast assumes step increases for employees in applicable positions, and merit increases for Management and Confidential employees. In addition, based on prior Council guidance, 2% cost of living wage adjustments (COLA) are included in the Forecast for each year including FY 2022/23. In addition, the Forecast recognizes higher pension costs due to the continued annual payment for prior unfunded actuarial liability (UAL) amortization bases. This information was determined in coordination with the Town's actuarial consultant and CalPERS.

As previously mentioned, the Forecast includes a multitude of primary revenue and expenditure adjustments related to the pandemic, the culmination of which is depicted in the Table on A-7. In addition, a table of the past five years of actual year-end results has been included for comparative purposes to the Proposed Operating Budget and Forecast period on A-8.

Actual results by line item as presented in the Five-Year Forecast are reported in greater detail in the Forecast compared to the Town's Comprehensive Annual Financial Report (ACFR) which uses summary data (an example being Sales & Use Tax and Measure G District Tax are summarized and reported in the ACFR as one line item, Sales Taxes). Similar issues also occur for expenditure line items because they tend to be the primary drivers for forecasting future expense trends. Use of and additions to reserves are presented in the Forecast schedules for tracking and visibility purposes as the use of reserves are not considered actual revenues for ACFR reporting. Changes to reserve balances over the fiscal year are reported in the footnotes accompanying the financial statements in the ACFR.

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

Account	Revenue Category	2021/22 Adjusted Budget	2021/22 Estimates	2022/23 Proposed Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
4100	Property Tax	\$ 15.4	\$ 15.7	\$ 16.6	\$ 15.7	\$ 16.1	\$ 16.6	\$ 17.1	\$ 17.6
4110	VLF Backfill Property Tax	4.2	4.2	4.4	4.5	4.6	4.8	4.9	5.1
4200	Sales & Use Tax	7.0	7.5	7.9	8.2	8.5	8.8	9.1	9.3
4200	Measure G District Sales Tax	1.2	1.2	1.3	1.4	1.4	1.5	1.5	1.5
4250	Franchise Fees	2.5	2.4	2.5	2.6	2.6	2.7	2.8	2.9
4251	Transient Occupancy Tax	1.4	1.4	1.6	1.7	1.8	1.9	1.9	2.0
4400	Business License Tax	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
4400	Licenses & Permits	3.1	3.1	2.8	2.8	2.9	3.0	3.1	3.2
4500	Intergovernmental	4.0	1.1	1.1	1.0	1.0	1.0	1.2	1.1
4600	Town Services	4.2	4.3	4.2	4.0	4.1	4.1	4.2	4.3
4700	Fines & Forfeitures	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
4800	Interest	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
4850	Other Sources	2.6	2.4	2.2	2.2	2.2	2.2	2.3	2.2
4900	Fund Transfers In	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
<b>TOTAL OPERATING REVENUES &amp; TRANSFERS*</b>		\$ 48.1	\$ 45.8	\$ 47.0	\$ 46.4	\$ 47.5	\$ 48.9	\$ 50.4	\$ 51.5
	Use of Capital/Special Project Reserve - Capital	0.6	0.6	2.4	0.8	0.8	0.8	0.8	0.8
	Use of Pension/OPEB Reserve	-	0.3	-	-	-	-	-	-
	Use of Property Surplus Reserve	1.2	1.2	-	-	-	-	-	-
	Use of Measure G Reserve	1.1	1.1	-	-	-	-	-	-
	ARPA Replacement Revenue	-	-	1.0	-	-	-	-	-
<b>TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES</b>		\$ 51.0	\$ 49.0	\$ 50.4	\$ 47.2	\$ 48.3	\$ 49.7	\$ 51.2	\$ 52.3
Account	Expenditure Category	2021/22 Adjusted Budget	2021/22 Estimates	2022/23 Proposed Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
5110	Salary	20.9	19.2	21.5	21.6	22.2	22.5	23.0	23.5
5120	CalPERS Benefits	7.3	6.2	7.3	7.5	7.8	7.7	8.0	8.1
5200	All Other Benefits	4.2	3.4	4.4	4.6	4.7	4.8	5.0	5.1
6211	OPEB Pay as You Go	1.5	1.5	1.5	1.5	1.6	1.7	1.8	1.9
6000	Operating Expenditures	6.4	7.0	6.9	6.8	7.1	7.1	7.4	7.5
7200	Grants & Awards	1.0	0.8	0.2	0.2	0.2	0.2	0.2	0.3
7400	Utilities	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
8060	Internal Service Charges	2.7	2.6	2.7	2.9	3.1	3.4	3.7	3.8
8900	Debt Service	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
<b>TOTAL OPERATING EXPENDITURES</b>		\$ 46.6	\$ 43.3	\$ 47.0	\$ 47.5	\$ 49.3	\$ 50.1	\$ 51.7	\$ 52.9
	GASB 45 Retiree Medical Actuarial	0.1	0.1	-	-	-	-	-	-
	Additional Discretionary Payment - Pension	0.4	0.7	0.4	0.4	0.4	0.4	0.4	0.4
<b>TOTAL OPERATING &amp; DISCRETIONARY EXPENDITURES</b>		\$ 47.1	\$ 44.1	\$ 47.4	\$ 47.9	\$ 49.7	\$ 50.5	\$ 52.1	\$ 53.3
	Capital Transfers Out to GFAR	2.8	2.8	2.3	0.8	0.8	0.8	0.8	0.8
	1/2 of Measure G Proceeds to Capital	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8
<b>AMOUNTS AVAILABLE FOR RESERVE ALLOCATIONS</b>									
	Allocate to Budget Stabilization/Catastrophic	-	0.5	-	-	-	-	-	-
	Allocate to Compensated Absences	-	-	-	-	-	-	-	-
	Allocate to Market Fluctuation	-	-	-	-	-	-	-	-
	Allocate to CalPERS/Pension	-	0.3	-	-	-	-	-	-
<b>TOTAL EXPENDITURES &amp; RESERVE ALLOCATIONS</b>		\$ 50.5	\$ 48.3	\$ 50.4	\$ 49.4	\$ 51.2	\$ 52.0	\$ 53.7	\$ 54.9
<b>NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES &amp; RESERVE ALLOCATIONS FOR FINAL ALLOCATION AFTER YEAR END CLOSE</b>		\$ 0.5	\$ 0.6	\$ -	\$ (2.2)	\$ (2.9)	\$ (2.3)	\$ (2.5)	\$ (2.6)
* Due to rounding of individual categories FY 2021/22 Total Expenditures and Reserve Allocations includes \$0.1 million. General Fund (111) Forecast does not include Pension Trusts activities.									

**Town of Los Gatos General Fund Historical Year-End Results**  
(in \$ million)

Account	Revenue Category	2015/16 Actuals	2016/17 Actuals	2017/18 Actuals	2018/19 Actuals	2019/20 Actuals	2020/21 Actuals
4100	Property Tax	\$ 10.8	\$ 11.5	\$ 12.5	\$ 13.6	\$ 14.5	\$ 15.8
4110	VLF Backfill Property Tax	3.0	3.2	3.4	3.7	3.9	4.1
4200	Sales & Use Tax	7.5	9.2	7.6	8.0	6.5	6.8
4200	Measure G District Sales Tax	-	-	-	0.2	1.0	1.1
4250	Franchise Fees	2.3	2.4	2.5	2.5	2.5	2.5
4251	Transient Occupancy Tax	1.9	2.3	2.6	2.7	1.9	1.0
4400	Business License Tax	1.5	1.7	1.7	1.5	1.4	1.4
4400	Licenses & Permits	3.5	3.0	3.0	3.1	2.7	3.1
4500	Intergovernmental	1.0	0.9	1.0	0.9	1.0	1.6
4600	Town Services	4.0	3.3	4.4	4.4	4.4	4.6
4700	Fines & Forfeitures	0.9	0.9	0.7	0.5	0.3	0.1
4800	Interest	0.6	0.2	0.2	1.4	2.2	0.1
4850	Other Sources	2.3	4.3	3.2	4.6	2.7	3.7
4900	Fund Transfers In	2.4	0.3	0.8	1.6	0.6	0.7
<b>TOTAL OPERATING REVENUES &amp; TRANSFERS*</b>		\$ 41.7	\$ 43.2	\$ 43.6	\$ 48.7	\$ 45.6	\$ 46.6
	Capital	-	1.4	3.2	2.8	8.0	3.4
	Use of Pension/OPEB Reserve	-	-	-	-	-	4.5
	Use of Almond Grove Reserve	-	5.9	-	-	-	-
<b>TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES</b>		\$ 41.7	\$ 50.5	\$ 46.8	\$ 51.5	\$ 53.6	\$ 54.5
Account	Expenditure Category	2015/16 Actuals	2016/17 Actuals	2017/18 Actuals	2018/19 Actuals	2019/20 Actuals	2020/21 Actuals
5110	Salary	14.5	14.8	16.0	17.9	19.3	20.2
5120	CalPERS Benefits	3.6	3.9	4.3	5.3	6.1	6.4
5200	All Other Benefits	3.2	3.2	3.3	3.6	3.6	3.7
6211	OPEB Pay as You Go	0.9	1.0	1.1	1.2	1.2	1.3
6000	Operating Expenditures	4.7	4.8	5.0	5.6	5.1	5.7
7200	Grants & Awards	0.7	0.2	0.2	0.3	0.3	0.3
7400	Utilities	0.4	0.6	0.5	0.5	0.5	0.6
8060	Internal Service Charges	3.5	3.6	3.9	2.5	2.2	2.3
8900	Debt Service	1.9	1.9	1.9	1.9	1.9	2.0
<b>TOTAL OPERATING EXPENDITURES</b>		\$ 33.6	\$ 34.0	\$ 36.2	\$ 38.8	\$ 40.2	\$ 42.4
	GASB 45 Retiree Medical Actuarial	1.5	2.6	1.6	1.1	1.1	0.6
	Additional Discretionary Payment - Pension	-	-	-	-	-	5.6
<b>TOTAL OPERATING &amp; DISCRETIONARY EXPENDITURES</b>		\$ 35.1	\$ 36.6	\$ 37.8	\$ 39.9	\$ 41.3	\$ 48.6
	Capital Transfers Out to GFAR	0.5	7.3	2.6	2.3	7.0	3.4
	Operating Transfer Out	0.1	-	0.6	0.5	1.1	-
	Fixed Assets/ Equipment	0.4	-	-	-	0.1	-
	Fund	-	-	1.2	3.6	0.4	-
<b>AMOUNTS AVAILABLE FOR RESERVE ALLOCATIONS</b>		\$ 5.6	\$ 6.6	\$ 4.6	\$ 5.2	\$ 3.7	\$ 2.5
	Allocate to Almond Grove Reserve	2.5	-	-	-	-	-
	Stabilization/Catastrophic	-	-	-	-	-	0.1
	Allocate to Compensated Absences	-	-	-	-	-	0.1
	Allocate to Market Fluctuations Reserve	0.3	0.3	-	-	1.2	-
	Allocate to CalPERS/Pension Reserve	-	1.8	-	-	-	0.3
	Allocate to Measure G Reserve	-	-	-	-	1.2	-
	Allocate to VM & Stores Surplus Reserve	-	-	-	1.0	-	-
	Allocate to Authorized Carryforwards	0.1	-	-	-	-	-
	Sales Tax Prior - Year Adjustments	-	0.4	-	-	-	-
	Allocate to Property Surplus Reserve	-	-	-	1.9	-	1.2
<b>TOTAL EXPENDITURES &amp; RESERVE ALLOCATIONS</b>		\$ 39.0	\$ 46.4	\$ 42.2	\$ 49.2	\$ 52.2	\$ 53.7
<b>NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES &amp; RESERVE ALLOCATIONS FOR FINAL ALLOCATION AFTER YEAR END CLOSE</b>		\$ 2.7	\$ 4.1	\$ 4.6	\$ 2.3	\$ 1.4	\$ 0.8

\* Due to rounding of individual categories Total Expenditures and Reserve Allocations may include \$0.1 million.  
General Fund (111) Historical presentaion does not include Pension Trusts activities.



## **STRATEGIC PRIORITIES AND CORE GOALS**

In January 2022, the Town Council determined the Strategic Priorities for 2022-2024, 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. Even with the continuing challenges associated with the COVID-19 pandemic, many of Council's primary goals and priorities are programmed in the FY 2022/23 Operating and Capital Budgets.

Several Strategic Priorities are not one-time projects, but rather are ongoing commitments due to their critical significance to ensure 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; and fostering emergency preparedness and community wildfire resilience.

In terms of capital projects, the Town Council affirmed its interest in investing in bicycle and pedestrian improvements and implementing elements of the Comprehensive Parking Study. In addition to capital projects, the Council identified new policy priorities which include engaging our senior community and implementing diversity, equity, and inclusion efforts.

Other Strategic Priorities will position the Town well for its future. The Council reaffirmed its commitment to explore new revenue opportunities. 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 and address environmental sustainability and climate resiliency. Other Priorities included continuing to enhance economic and community vitality and completing the Housing Element. As the Town emerges from the economic upheaval of the pandemic, the significance of building back stronger will position the Town well for the future.

## **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.

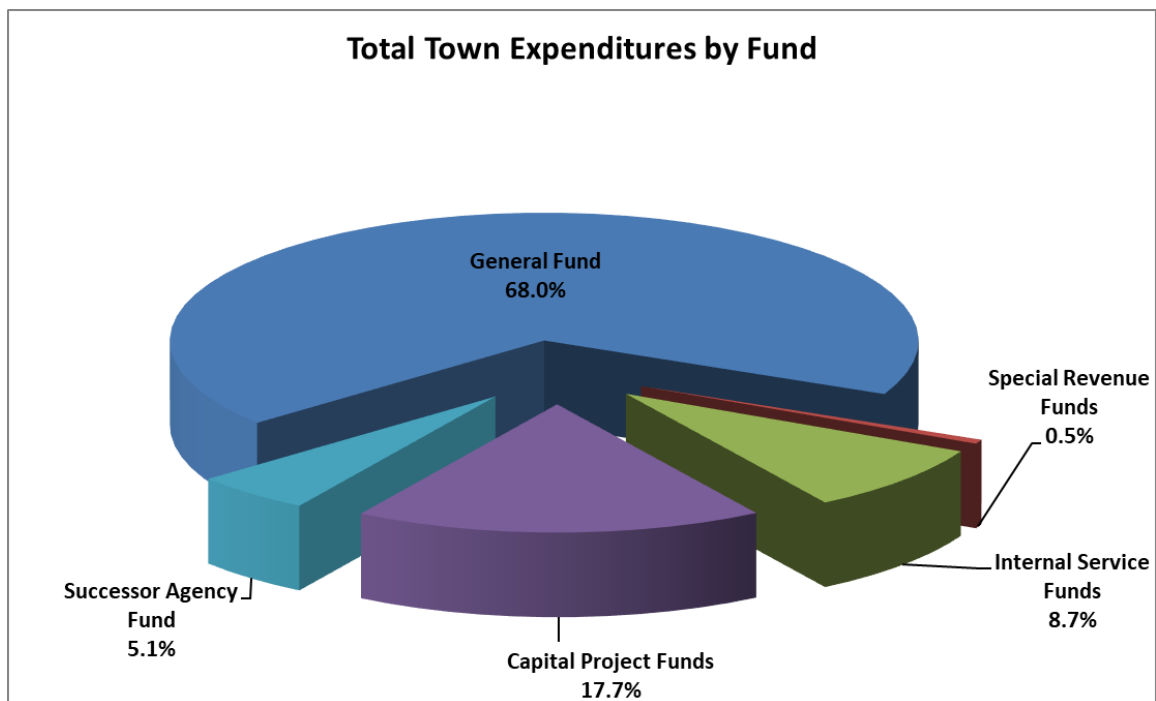
## FY 2022/23 FISCAL OUTLOOK

### Overview

The workload and budgetary prioritization process took into account the Town's current economic reality 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;
- Position for multi-year return to pre pandemic revenue levels;
- Continue to make progress on Strategic Priorities identified by the Town Council;
- Identify opportunities to enhance service delivery through new revenue sources, technology, and open government; and
- Prepare for addressing future deficits in the event new revenue sources do not materialize.

As shown in the chart below, the Proposed Budget is largely funded by the General Fund (68%).



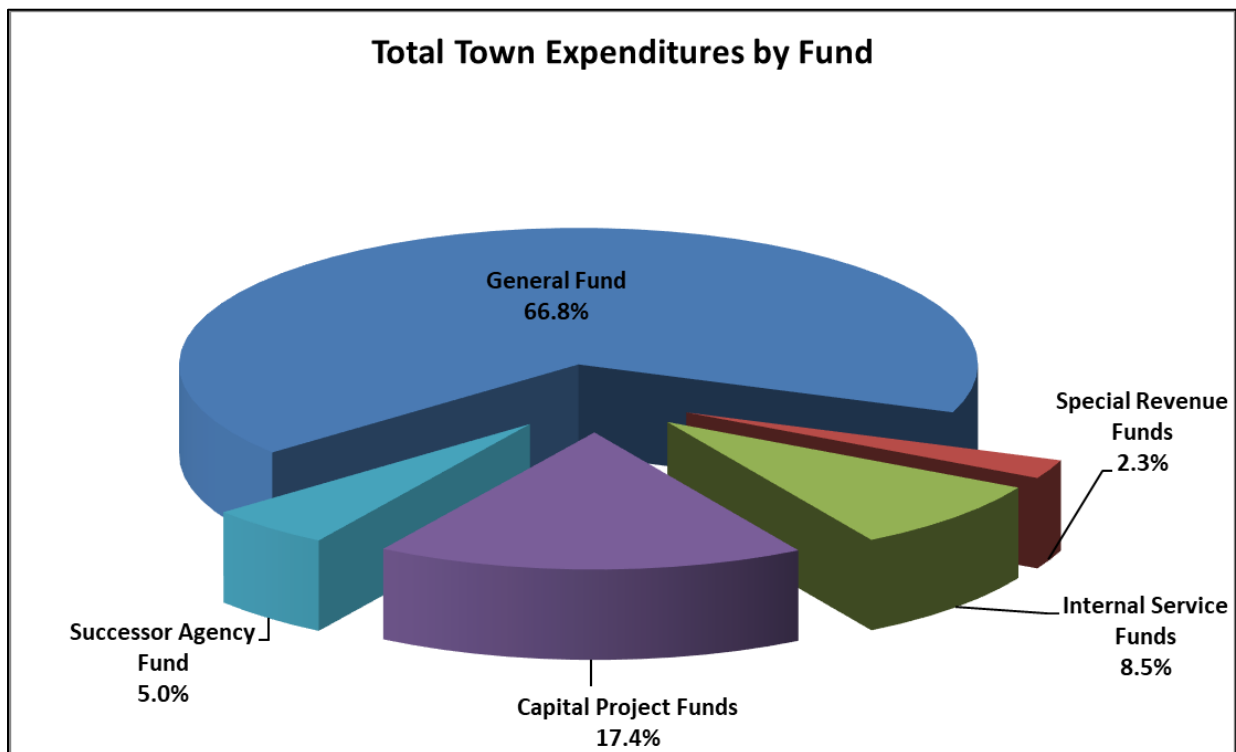
For Council's consideration, staff is recommending the following allocations:

- \$1,304,696 from the American Recovery Act (ARPA) to balance the budget and provide rent forgiveness to certain non-profit organizations who are tenants of Town buildings. The unallocated ARPA funds are placed in the ARPA Reserve.
- \$2,350,000 from the General Fund Capital/Special Projects Reserve to fund to the proposed Capital Improvement Program.

If the Town Council does not agree with these proposed recommendations, the Council should provide specific guidance as to the allocation of these funds.

#### *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 Departments.



General Fund revenue is estimated at \$44.5 million in the FY 2022/23 Proposed Budget, excluding debt service, ARPA receipt, restricted pension trust activity, and fund transfers. This is an increase of \$1.2 million (3%) when compared to the FY 2021/22 estimated revenue and a 0.01% increase when compared to FY 2020/21 actuals. While Property Taxes, Vehicle License Fee (VLF) backfill property tax, Sales Tax, and Transient Occupancy Tax are projected to increase, it is important to note that projected Sales Tax revenue is just now returning to FY 2018/19 levels and TOT revenue projections are still \$1.1 million below FY 2018/19 levels. Anticipated increases in Property Tax are primarily attributable to more favorable projections of Educational Revenue Augmentation Fund (ERAF) distributions. Revenues from Licenses and Permits are expected to decrease.

The Town's General Fund operating budget expenditures for FY 2022/23 are projected to be \$45.4 million which is a slight \$0.2 million increase compared to the prior year's Adjusted Budget (excluding fund transfers, Council Approved ARPA grants and rent forgiveness, Pension Trust Fund activities, and debt service). Compared to the FY 2020/21 actuals, proposed operating expenditures are a 13.8% increase. The increase in FY 2022/23 is primarily attributable to merit step increases, employee promotions, development of three new positions, and increased pension costs. Other components of the expenditures include grants and awards, internal service charges, operating expenses for supplies and services, and debt service. The delivery of Town services is highly dependent on a talented and skilled labor, which makes up 66.1% of budgeted General Fund expenditures for FY 2022/23.

#### *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. The total proposed Budget for Internal Service Funds for FY 2022/23 is \$6,427,499.

#### *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 2022/23 Town-wide expenditures from the Capital Projects Fund is \$13.1 million (excluding transfers out) which is inclusive of \$6.5 million in General Fund Appropriated Reserve for the Town's CIP program.

#### *Special Revenue Funds*

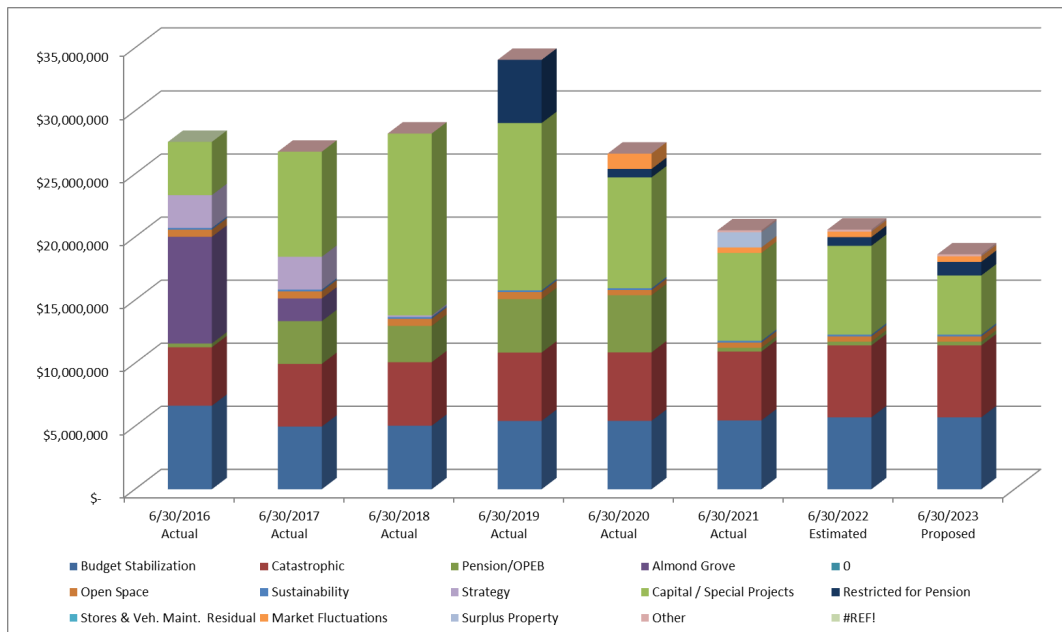
Special Revenue Funds are a fund type used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes including four trusts established to provide for the servicing of donations and bequests to the Town's Library program. Special Revenue Funds account for 0.9% of the Town-wide expenditure budget. The Town's largest Special Revenue Funds are the ARPA and the Urban Run-Off Source Fund. The total proposed Budget for Special Revenue Funds for FY 2022/23 is \$1,705,178.

#### *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 2022/23 budgeted expenditures in this trust fund total \$3.8 million.

## GENERAL FUND RESERVES

The total General Fund Reserves are forecasted at a balance of approximately \$20.9 million as of June 30, 2023. Additional information on the estimated FY 2021/22 and FY 2022/23 year-end General Fund balances can be found in the Financial Summaries section. As indicated in the chart on the next page, the General Fund reserves are decreasing from prior years due primarily to previous programmed payments toward the Town's unfunded pension/OPEB obligations and transfers to the CIP program. Past transfers to the CIP program include \$7.0 million (FY 2016/17), \$2.4 million (FY 2017/18), \$2.4 million (FY 2018/19), \$5.7 million (FY 2019/20), \$3.4 million (FY 2020/21), and \$2.8 million (FY 2021/22). The proposed transfer in FY 2022/23 is \$2.4 million. Pension/OPEB transfers of note include the \$4.5 million California Public Employees Retirement System (CalPERS) side-fund payoff in June 2014 and a \$4.8 million additional discretionary payment (ADP) in FY 2019/20. In FY 2020/21, additional ADPS of \$3.6 million and \$2.1 million were transferred in July and April, respectively.



General Fund Reserve	6/30/2016 Actual	6/30/2017 Actual	6/30/2018 Actual	6/30/2019 Actual	6/30/2020 Actual	6/30/2021 Actual	6/30/2022 Estimated	6/30/2023 Proposed
<b>Restricted for:</b>								
Pension				\$ 5,015,316	\$ 669,978	\$ -	\$ 690,000	\$ 1,080,000
<b>Committed to:</b>								
Budget Stabilization	\$ 6,621,808	\$ 4,969,847	\$ 5,037,243	\$ 5,419,222	\$ 5,427,603	\$ 5,460,485	\$ 5,703,957	\$ 5,703,957
Catastrophic	4,637,406	4,969,847	5,037,243	5,419,222	5,427,603	5,460,485	5,703,957	5,703,957
Pension/OPEB	300,000	3,388,913	2,878,913	4,232,500	4,532,500	300,000	300,000	300,000
Almond Grove	8,459,973	1,801,318	-	-	-	-	-	-
<b>Assigned to:</b>								
Open Space	562,000	562,000	562,000	562,000	410,000	410,000	410,000	410,000
Sustainability	140,553	140,553	140,553	140,553	140,553	140,553	140,553	140,553
Strategy	2,600,000	2,600,000	129,090	-	-	-	-	-
Capital / Special Projects	4,222,405	8,332,953	14,421,203	13,262,303	8,787,958	6,965,356	7,041,938	4,691,938
Authorized Carryforward	99,284	34,852	99,927	413,729	-	-	-	-
Compensated Absences		350,329	2,122,512	1,232,653	1,539,408	1,649,917	1,649,917	1,649,917
To Workers' Compensation				1,232,654				
Measure G District Sales Tax					1,181,162	1,730,490	679,443	679,443
Stores & Veh. Maint. Residual				1,040,375	-	-	-	-
Market Fluctuations					1,218,732	438,333	438,333	438,333
Surplus Property				-		1,200,000	-	-
Other						159,000	159,000	159,000
<b>Total General Fund Reserve</b>	<b>\$ 27,643,429</b>	<b>\$ 27,150,612</b>	<b>\$ 30,428,684</b>	<b>\$ 37,970,527</b>	<b>\$ 29,335,497</b>	<b>\$ 23,914,619</b>	<b>\$ 22,917,098</b>	<b>\$ 20,957,098</b>

#### *Catastrophic and Budget Stabilization Reserves*

As per the Town's General Fund 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 due to catastrophic events and mitigating cyclical changes in locally generated revenues from temporary downturns in the local economy. Staff recommends transferring \$486,944 from available prior year-end savings to meet the required 25% funding level, or \$11.4 million total for FY 2022/23.

#### *Pension/OPEB Reserve*

Committed fund balance in this reserve is used to fund pension and other post-employment benefits (OPEB) unfunded obligations. This reserve is primarily used to house additional discretionary payments budgeted for future allocation to CalPERS. The Town's Pension/OPEB Oversight Committee has determined that additional discretionary payments will be allocated directly to CalPERS.

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 modified the General Fund Reserve Policy to reduce the amortization period for prior pension 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 prior Council Finance Committee made recommendations for the allocation methodology for 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 or special projects as determined by the Town Council. In FY

2022/23, the amount being allocated to the Capital Improvement Program is \$2.4 million. It is anticipated the Reserve will have approximately \$4.1 million as of June 30, 2023.

#### *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 \$1.6 million as of June 30, 2023.

#### *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 \$0.0 million as of June 30, 2023.

#### *Measure G District Sales Tax Reserve*

A reserve established tracking the receipt and the usage of the 1/8 cents District Tax funds collected by the Town. Pending Council direction on current unallocated reserve balance it is anticipated the reserve will have approximately \$0.0 million as of June 30, 2023.

#### *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.

#### *American Rescue Plan Act (ARPA)*

The ARPA proceeds are accounted in the special revenue fund and revenues are recognized as eligible expenses occurred.

### **KEY BUDGET ASSUMPTIONS**

#### *Revenues*

The FY 2022/23 Budget incorporates the waning impacts of the COVID-19 pandemic and the subsequent economic disruption with the General Fund revenues (excluding debt payments, restricted pension trust activity, and fund transfers in) expected to increase by \$0.9 million to \$46.8 million (not including anticipated ARPA fund receipt) from prior year estimated revenues. 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, patterns, and industry research.

The net increase from FY 2021/22 in overall revenues is mostly due to forecasted increases in some revenues such as property tax, sales tax, and transient occupancy tax. Licenses and permit revenues are expected to decrease in FY 2022/23 and then increase gradually 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 at the end of this section.

### *Expenditures - Staffing*

The proposed Budget includes minor adjustments to staffing.

	<b>FY 2021/22 Authorized/Funded Town Staff Position</b>	<b>FY 2022/23 Authorized/Funded Town Staff Position</b>
<b>Departments</b>		
Town Council	0.50	0.50
Town Attorney	2.13	2.13
Administrative Services	20.18	20.18
Community Development	20.20	20.20
Police Department	60.00	60.00
Parks & Public Works	34.75	36.75
Library	12.50	13.50
<b>Total Position</b>	<b>150.25</b>	<b>153.25</b>
All Hourly Employee Staff Converted to FTE's	11.09	11.46
	<b>161.34</b>	<b>164.71</b>

The FY 2022/23 Operating Budget has 153.25 full time employees and an additional 11.47 full time equivalent (FTE) hourly employees for a total of 164.71 budgeted FTEs, including temporary staff. This reflects an increase of 3 FTE compared to the prior year. Two of the added positions provide important hire ahead capacities in the Parks and Public Works Department. The two positions will help bridge anticipated retirements with staffing returning to prior levels once transitions are completed. The one in the Library is a Senior Library Page as described below. The recommended FY 2022/23 staffing levels also reflect the following changes from the prior year's Adopted Budget:

- *Administrative Services and Town Offices* - The FY 2022/23 Budget reflects the continuation of a limited dated part time position to assist with the Town's emergency preparedness activities and regional emergency management engagement. The FY 2022/23 Budget also includes one-time temporary hours to help with special projects in the Information Technology Program.
- *Community Development Department (CDD)* –The FY 2022/23 Budget includes the part-time Code Compliance Officer position which will be continued for another year.
- *Police* – The FY 2022/23 Budget contains one-time temporary staff hour requests for Community Service Officer Intern, two Police Trainee recruit positions, Background Investigation Staff, and continuation of the Temporary Parking and Project Manager for implementation of the Comprehensive Parking Study.
- *Parks and Public Works (PPW)* – The FY 2022/23 budget includes a one-time (1 FTE) Urban Forest Manager to manage the Town's urban forest and fire safety program a one-time hire ahead Lead Parks and Maintenance worker, and additional 2080 hours for a Temporary Senior Civil Engineer to assist with the grant funded CIP projects. Upon retirement of one of the current Lead Maintenance Worker and the Town Arborist the two positions will be defunded and through a future Council budget action, will be removed from the number of authorized positions. In addition, the proposed budget includes a reclassification of an Executive Assistant position to an Administrative Technician position.



- *Library* – The FY 2022/23 budget includes an additional Senior Library Page position and a reclassification of a Library Technician position to a Library Assistant position. These changes were funded by reduction of temporary hours.

### *Non-Personnel Operating Expenditures*

Non-Personnel expenditure budgets were developed based on actual expenditures in prior years, adjusted for FY 2022/23 funding needs. In light of limited available resources, the FY 2022/23 proposed budgeted non-personnel expenditures are conservative, with additions primarily limited to non-discretionary, contractually obligated, or mandated increases. Additional details regarding the assumptions used in the development of the expenditure estimates can be found in the Forecast Assumptions discussion later in this section.

## **STATE BUDGET IMPACTS**

Preliminary data for the State of California FY 2022/23 Proposed Budget anticipate a \$31 billion surplus. The Legislative Analyst Office (LAO) offers that the \$31 billion surplus is driven by revenue collections coming in over \$10 billion ahead of budget act expectations so far this year. Underlying this growth, the LAO states are significant increases in several measures of economic activity. Retail sales have posted double digit growth during 2021, stock prices have doubled from their pandemic low last spring, and several major firms have posted historically high earnings. As a result, the LAO projects State General Fund revenue will be \$28 billion higher than anticipated in the FY 2022/23 Budget.

Aside from tax payment deferral programs which are largely a question of cash flow, local revenues are well insulated from any State budgetary problem. Unlike in prior recessions, local governments have strong and encompassing constitutional protection from State actions that might affect revenues and mandates. Similarly, it is unlikely that the State will disburse any extra revenue to local governments.

The estimated Gas Tax revenue totals approximately \$1.6 million for FY 2022/23 due to the Road Recovery and Repair Act of 2017 (SB1). These funds can only be used for new construction and reconstruction of Town streets.

## **ONGOING BUDGET CONSIDERATIONS:**

### ***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 2022/23 and remitted to the Santa Clara County Central Fire Protection District for fire protection services is estimated to be approximately \$19.6 million.

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

The Town's pension unfunded actuarial liability (UAL) as of June 30, 2020 (the "date of value" for our most up to date actuarial valuation from the California Public Employees Retirement System (or "PERS")) is approximately \$61.8 million. The Town's unfunded actuarial OPEB liabilities are projected to total approximately \$8.7 million as of June 30, 2019.

On November 3, 2020, voters of Los Gatos approved the Measure A ballot initiative establishing a new Finance Commission and disbanding both the Finance Committee and Sales Tax Oversight Committee. The Commission is comprised of five resident voting members and two non-voting Council Members. Among other things, the Commission is tasked with providing 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 Town and the nation appear to be emerging from the economic turmoil associated with COVID-19 pandemic, its impacts to the current Budget and Five-Year Forecast continue to be felt. For this reason, the FY 2022/23 Budget maintains a conservative posture until greater clarity emerges on the Town's primary revenue sources. To ensure the Town's high service levels are maintained, Council Strategic Priorities are addressed, and essential infrastructure investments are made, the Town's primary revenue sources will need to return to pre-pandemic levels and/or new revenue sources secured.

Considering future anticipated deficits, opportunities to enhance service delivery, while lowering operating costs through resource and workload redeployments and organizational restructuring will continue to be explored, evaluated, and implemented. However, in the event pre pandemic revenue growth projections do not return, and new revenue sources are not identified, the current projected deficits may need to be addressed through service delivery reductions or service outsourcing. If this occurs, the Council will need significant input from the community to identify acceptable organizational changes and service levels.

In the interim, due to the proactive and conservative fiscal policies of the past, the Town is in an enviable position to manage the unprecedented nature of the pandemic. With this Budget, we continue to fund both the Catastrophic and Budget Stabilization Reserves per the Town's General Fund Reserve Policy at a 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%) and currently approximates \$11.4 million in reserves. These contingencies provide ample resources in the event the nascent economic recovery stalls.

I wish to thank all Town Departments, including the 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, Interim Finance Director  
Gitta Ungvari, Finance and Budget Manager  
Melissa Ynegas, Administrative Analyst  
Diane Howard, Administrative Analyst  
Mark Gaeta, Accountant  
Maurice De Castro, Accountant  
Wayne Chen, Administrative Technician  
Arn Andrews, Assistant Town Manager

Again, I wish to thank the current Council for your fiscal stewardship which has left the Town on firm footing to navigate the unprecedented nature of the current pandemic crisis.

Respectfully submitted,

A handwritten signature in dark ink, reading "Laurel Prevetti". The script is cursive and fluid, with the first name "Laurel" being more prominent than the last name "Prevetti".

Laurel Prevetti  
Town Manager

# SUMMARY OF CHANGES

## FROM PROPOSED TO ADOPTED

Per Measure A, the Finance Commission received the Proposed FY 2022/23 Operating and Capital Budgets 21 business days before May 17, 2022, which was the first meeting at which the Proposed Budgets were considered by the Town Council. The Finance Commission held three public meetings at which Commissioners discussed the Proposed Budgets and provided recommendations to the Town Council per Measures A and G. On May 17, 2022, the Town Council conducted a public hearing to discuss the proposed FY 2022/23 Operating and Capital Summary Budget and Proposed FY 2022/23 – 2026/27 Capital Improvement Program. The Town Council considered public testimony, discussed both documents, considered the Finance Commission recommendations to provide \$2.9 million of additional funding for the Capital Improvement Program, and directed staff to bring back the documents for final approval incorporating the Council recommendations.

After the Council's direction on May 17, 2022, the Town successfully completed negotiations with all bargaining units. To meet the financial terms of the agreements, the Council adopted a balanced budget at the June 21, 2022 meeting utilizing additional funding from the OPEB 115 Trust to fund retiree pay-go medical payments directly (\$900,000) and allocating the remaining residual Measure G balance (\$700,000) to the General Fund for FY 2022/23.

The following table represent the changes from the proposed budget to the adopted budget.

	2022/23 Proposed Budget	Estimated Budget Revision	2022/23 Adopted Budget
<b>REVENUES</b>			
General Fund	\$48,378,548	\$ 1,626,919 (1)	\$ 50,005,467
Special Revenue Funds	1,775,576	-	1,775,576
Internal Service Funds	4,125,957	-	4,125,957
Capital Project Funds (does not include carryforwards)	12,753,575	2,900,000 (2)	15,653,575
Successor Agency Funds	3,799,926	-	3,799,926
<b>TOTAL REVENUES</b>	<b>\$70,833,582</b>	<b>\$ 4,526,919</b>	<b>\$ 75,360,501</b>
<b>OTHER FUNDING SOURCES</b>			
Designated One-Time Use of General Fund Reserves	2,350,000	\$ 679,443	3,029,443 (3)
<b>TOTAL TOWN REVENUES &amp; OTHER FUNDING SOURCES</b>	<b>\$73,183,582</b>	<b>\$ 5,206,362</b>	<b>\$ 78,389,944</b>
<b>TOTAL TOWN EXPENDITURES, TRANSFERS OUT &amp; CARRYFORWARD APPROPRIATION</b>			
General Fund	\$50,338,548	\$ 2,306,362 (4)	\$ 52,644,910
Special Revenue Funds	1,705,178	12,246 (4)	1,717,424
Internal Service Funds	6,427,499	-	6,427,499
Capital Project Funds (does not include carryforwards)	13,081,287	2,900,000 (2)	15,981,287
Successor Agency Funds	3,799,752	125 (4)	3,799,877
<b>TOTAL TOWN EXPENDITURE &amp; OTHER FUNDING USES</b>	<b>\$75,352,264</b>	<b>\$ 5,218,733</b>	<b>\$ 80,570,997</b>
GENERAL FUND SOURCE(USE) OF FUND BALANCES	\$ 390,000		\$ 390,000
OTHER FUNDS SOURCE(USE) OF FUND BALANCES	(2,558,682)		(2,571,053) (5)
<b>TOTAL SOURCE(USE) OF FUND BALANCES</b>	<b>\$ (2,168,682)</b>	<b>\$ (12,371)</b>	<b>\$ (2,181,053)</b>

(1) Additional General Fund Revenues

\$902,579 OPEB Trust Reimbursement for Retiree Medical

\$624,340 Additional ARPA Proceeds for Revenue Replacement

\$100,000 Additional Business License Tax

(2) Additional Transfer to Capital Projects (GFAR)

\$2,900,000 General Fund Reimbursement Revenues (ARPA)

(3) Designated One-Time Use of the General Fund Reserves during FY 2022/23

\$2,350,000 - Transfer to Capital Projects (GFAR)

\$679,443 - Measure G Residual for Operation

(4) General fund Expenditures

\$2,318,733 - Increases to Negotiated Salary Increases

(5) 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.

Numbers may differ between exhibits due to rounding.

While the Adopted Budget document reflects all of the approved changes, the Town Manager Transmittal Letter dated April 18, 2022 represents the proposed FY 2022/23 Operating and Capital Budgets as it was submitted on April 18, 2022. The five-year forecast on the following page has been partially updated to reflect the adjustments to salary and benefit costs included in the June 21, 2022 FY 2022/23 Adopted Budget.

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

Account	Revenue Category	2021/22 Adjusted Budget	2021/22 Estimates	2022/23 Proposed Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
4100	Property Tax	\$ 15.4	\$ 15.7	\$ 16.6	\$ 15.7	\$ 16.1	\$ 16.6	\$ 17.1	\$ 17.6
4110	VLF Backfill Property Tax	4.2	4.2	4.4	4.5	4.6	4.8	4.9	5.1
4200	Sales & Use Tax	7.0	7.5	7.9	8.2	8.5	8.8	9.1	9.3
4200	Measure G District Sales Tax	1.2	1.2	1.3	1.4	1.4	1.5	1.5	1.5
4250	Franchise Fees	2.5	2.4	2.5	2.6	2.6	2.7	2.8	2.9
4251	Transient Occupancy Tax	1.4	1.4	1.6	1.7	1.8	1.9	1.9	2.0
4400	Business License Tax	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4
4400	Licenses & Permits	3.1	3.1	2.8	2.8	2.9	3.0	3.1	3.2
4500	Intergovernmental	4.0	1.1	1.1	1.0	1.0	1.0	1.2	1.1
4600	Town Services	4.2	4.3	4.2	4.0	4.1	4.1	4.2	4.3
4700	Fines & Forfeitures	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
4800	Interest	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
4850	Other Sources	2.6	2.4	3.1	2.2	2.2	2.2	2.3	2.2
4900	Fund Transfers In	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
<b>TOTAL OPERATING REVENUES &amp; TRANSFERS*</b>		<b>\$ 48.1</b>	<b>\$ 45.8</b>	<b>\$ 48.0</b>	<b>\$ 46.5</b>	<b>\$ 47.6</b>	<b>\$ 49.0</b>	<b>\$ 50.5</b>	<b>\$ 51.6</b>
	Capital	0.6	0.6	2.4	0.8	0.8	0.8	0.8	0.8
	Use of Pension/OPEB Reserve	-	0.3	-	-	-	-	-	-
	Use of Property Surplus Reserve	1.2	1.2	-	-	-	-	-	-
	Use of Measure G Reserve	1.1	1.1	0.7	-	-	-	-	-
	ARPA Replacement Revenue	-	-	1.6	-	-	-	-	-
<b>TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES</b>		<b>\$ 51.0</b>	<b>\$ 49.0</b>	<b>\$ 52.7</b>	<b>\$ 47.3</b>	<b>\$ 48.4</b>	<b>\$ 49.8</b>	<b>\$ 51.3</b>	<b>\$ 52.4</b>
Account	Expenditure Category	2021/22 Adjusted Budget	2021/22 Estimates	2022/23 Proposed Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
5110	Salary	20.9	19.2	23.2	23.0	23.5	23.9	24.5	25.0
5120	CalPERS Benefits	7.3	6.2	7.7	7.9	8.3	8.1	8.4	8.5
5200	All Other Benefits	4.2	3.4	4.6	4.4	4.5	4.6	4.7	4.8
6211	OPEB Pay as You Go	1.5	1.5	1.5	1.5	1.6	1.7	1.8	1.9
6000	Operating Expenditures	6.4	7.0	6.9	6.8	7.1	7.1	7.4	7.5
7200	Grants & Awards	1.0	0.8	0.2	0.2	0.2	0.2	0.2	0.3
7400	Utilities	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
8060	Internal Service Charges	2.7	2.6	2.7	2.9	3.1	3.4	3.7	3.8
8900	Debt Service	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
<b>TOTAL OPERATING EXPENDITURES</b>		<b>\$ 46.6</b>	<b>\$ 43.3</b>	<b>\$ 49.3</b>	<b>\$ 49.2</b>	<b>\$ 50.8</b>	<b>\$ 51.6</b>	<b>\$ 53.3</b>	<b>\$ 54.4</b>
	GASB 45 Retiree Medical Actuarial	0.1	0.1	-	-	-	-	-	-
	Additional Discretionary Payment - Pension	0.4	0.7	0.4	0.4	0.4	0.4	0.4	0.4
<b>TOTAL OPERATING &amp; DISCRETIONARY EXPENDITURES</b>		<b>\$ 47.1</b>	<b>\$ 44.1</b>	<b>\$ 49.7</b>	<b>\$ 49.6</b>	<b>\$ 51.2</b>	<b>\$ 52.0</b>	<b>\$ 53.7</b>	<b>\$ 54.8</b>
	Capital Transfers Out to GFAR	2.8	2.8	2.3	0.8	0.8	0.8	0.8	0.8
	1/2 of Measure G Proceeds to Capital	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8
<b>AMOUNTS AVAILABLE FOR RESERVE ALLOCATIONS</b>									
	Stabilization/Catastrophic	-	0.5	-	-	-	-	-	-
	Allocate to CalPERS/Pension	-	0.3	-	-	-	-	-	-
<b>TOTAL EXPENDITURES &amp; RESERVE ALLOCATIONS</b>		<b>\$ 50.5</b>	<b>\$ 48.3</b>	<b>\$ 52.7</b>	<b>\$ 51.1</b>	<b>\$ 52.7</b>	<b>\$ 53.5</b>	<b>\$ 55.3</b>	<b>\$ 56.4</b>
<b>NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES &amp; RESERVE ALLOCATIONS FOR FINAL ALLOCATION AFTER YEAR END CLOSE</b>		<b>\$ 0.5</b>	<b>\$ 0.6</b>	<b>\$ -</b>	<b>\$ (3.8)</b>	<b>\$ (4.3)</b>	<b>\$ (3.7)</b>	<b>\$ (4.0)</b>	<b>\$ (4.0)</b>
* Due to rounding of individual categories FY 2021/22 Total Expenditures and Reserve Allocations includes \$0.1 million. General Fund (111) Forecast does not include Pension Trusts activities.									

The following table illustrates the previous projected deficits relative to the partially updated Forecast.

Original 5 Year Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)
Original Surplus/Deficit	(\$2.2)	(\$2.9)	(\$2.3)	(\$2.5)	(\$2.6)
Updated Surplus/Deficit	(\$3.8)	(\$4.3)	(\$3.7)	(\$4.0)	(4.0)

# FORECAST ASSUMPTIONS

## REVENUE BASELINE AND PROJECTION FACTORS

Type of Revenue Base Line Estimate	FY 2022/23 Budget	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast
<b>Property Tax/VLF Backfill</b> SCC Assessor Office January 2022 report.	3%	3%	3%	3%	3%	3%
<b>North 40 Property Sales</b> Starting in FY 2021/22	North 40 Sales	3%	3%	3%	3%	3%
<b>ERAF</b> SCC Assessor Office March 2022 report	SCCA recommend 70% of FY 2021/22 anticipated proceeds	\$400K	\$400K	\$400K	\$400K	\$400K
<b>Sales Tax</b>	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates
<b>Sales Tax - Measure G</b>	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates	MuniServices 3/16/2022 Most Likely Estimates
<b>Franchise Fee</b> Current baseline set by FY 2021/22 Year End Estimates	Current baseline set by FY 2021/22 Year End Estimates	3%	3%	3%	3%	3%
<b>Transient Occupancy Tax</b> Current baseline set by FY 2021/22 Year End Estimates	Current baseline set by FY 2021/22 Year End Estimates	5%	5%	3%	3%	3%



# FORECAST ASSUMPTIONS

## REVENUE BASELINE AND PROJECTION FACTORS

Type of Revenue Base Line Estimates	FY 2022/23 Budget	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast
<b>Business License Tax</b> Current baseline set by FY 2021/22 Year End Estimates	3%	3%	3%	0%	0%	0%
<b>License &amp; Permits</b> Current baseline set by FY 2021/22 Year End Estimates	3%	3%	3%	3%	3%	3%
<b>Town Services</b> Current baseline set by FY 2021/22 Year End Estimates	3%	3%	0%	3%	3%	3%
<b>Fine &amp; Forfeitures</b> Current baseline set by FY 2021/22 Year End Estimates	3%	Varies	Varies	Varies	Varies	Varies
<b>Interest</b> Current baseline set by FY 2021/22 Year End Estimates	Varies based on portfolio	Varies based on portfolio	Varies based on portfolio	Varies based on portfolio	Varies based on portfolio	Varies based on portfolio
<b>Other Sources</b> Current baseline set by FY 2021/22 Year End Estimates	Varies	Varies	Varies	Varies	Varies	Varies

## FORECAST ASSUMPTIONS

### EXPENDITURE BASELINE AND PROJECTION FACTORS

Beginning in FY 2020/21, the Town is budgeting salaries at the actual salary plus a one-step increase. 68% of the workforce is already at top step or one step below top step. In the Five-Year Forecast, positions are forecasted at the actual rate of pay including salaries and benefits as of April 1, 2022 and rate is increasing in the actual anniversary date.

*\*Salary increases are based on actual step increases and approved Memoranda of Understanding with the bargaining units.*

*\*\*Benefit increase estimates are provided by CalPERS/Public Employees' Medical and*

Type of Expenditure	FY 2022/23 Budget	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast
<b>Salaries*(TEA, Conf, Temp)</b>	3-8%	3%	2%	2%	2%	2%
<b>Salaries *(POA)</b>	7.25%	3%	2%	2%	2%	2%
<b>Salaries*(AFSCME)</b>	7.5%	3%	2%	2%	2%	2%
<b>Salaries * (Management)</b>	3%	3%	2%	2%	2%	2%
<b>Benefit - Medical**</b>	7%	7%	7%	7%	7%	7%
<b>Operating Expenditures***</b>	Varies	3%	3%	3%	3%	3%
<b>Grants &amp; Awards</b>	0%	0%	0%	0%	0%	0%
<b>Utilities***</b>	Varies	3%	3%	3%	3%	3%
<b>Internal Service Charges***</b>	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement
<b>Debt Service</b>	Debt Service Schedules					

*Hospital Care Act (PEMHCA).*

*\*\*\*Based on historical trends.*

The Town's required employer contribution rate estimates were developed using data provided by each plan's most recent CalPERS actuarial valuation. The employer contribution rates reflect percentages of covered payroll. Rates shown for FY 2022/23 are actual rates as prescribed by CalPERS. Forecasted rates for FY 2023/24 and subsequent years are based on the most recent CalPERS actuarial valuation

## FORECAST ASSUMPTIONS

reports and staff assumptions regarding staff's current estimate of returns for FY 2021/22 which are presently expected to below the 6.8% discount rate.

Beginning in FY 2021/22, the estimates of employer contributions were credited with an anticipated reductions associated with the approximate \$4.8 million additional discretionary payment (ADP) toward the 2016 unfunded amortization base paid off in October 2019 and the total of approximately \$5.8 million in ADPs toward unfunded 2013 and 2015 amortization bases that were paid off in FY 2020/21. Employer contribution rate projections also include small percentage increases reflecting the anticipation of CalPERS gradually lowering its discount rate over the Five-Year Forecast period in accordance with the CalPERS adopted risk mitigation strategy, and the lowering of the discount rate to the present rate of 6.8% as of 6/30/2022. Estimates were also informed by recent rate estimates developed by the Town's actuary using the most recent actuarial valuation updated with current year projections of covered payrolls by plan type.

Type of Expenditure	FY 2022/23 Budget	FY 2023/24 Forecast	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast
<b>Safety POA</b>	69.44%	72.01%	74.61%	75.68%	76.69%	76.66%
<b>Safety Management POA</b>	72.44%	75.01%	77.61%	78.68%	79.69%	79.66%
<b>Safety POA - PEPRA</b>	14.62%	14.65%	13.78%	13.75%	13.76%	13.76%
<b>Miscellaneous TEA/AFSCME/Confidential/Management</b>	29.92%	30.04%	30.64%	28.45%	28.73%	28.42%
<b>Miscellaneous TEA/AFSCME/Confidential/Management PEPRA</b>						
Separate PEPRA rate for Miscellaneous has not been established yet by CalPERS.	29.92%	30.04%	30.64%	28.45%	28.73%	28.42%

*\*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.*



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

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**Town of Los Gatos  
California**

For the Fiscal Year Beginning

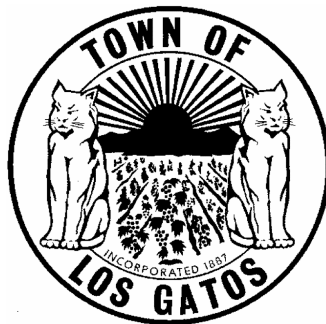
**July 01, 2021**

*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.
- **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 Fund** – established to account for the accounts for a specific bequest subject to an agreement made for its use.

## FUND DESCRIPTIONS

- **Susan McClendon Trust Fund** – established to account for the accounts for a specific bequest subject to an agreement made for its use.
- **Barbara Jones Cassin Trust Fund** – established to account for the accounts for a specific bequest subject to an agreement made for its use.

### 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 discontinued with the Fiscal Year 2019/20 Budget. Any fund balance was added to the General Fund Assigned Vehicle Maintenance and Store Residual Reserve.
- **Information Technology (IT) Fund** – established to budget and account for the cost of maintaining, replacing, and updating existing information technology used by Town Departments.

## FUND DESCRIPTIONS

- **Office Stores Fund** - established to budget and account for photocopy equipment, postage and bulk meter expenses are controlled at one source point and expended to the Departments as they requisition the goods or services. Photocopies are charged to Departments at \$.05/copy. This fund discontinued with the Fiscal Year 2019/20 Budget. Any fund balance was added to the General Fund Assigned Vehicle Maintenance and Store Residual Reserve.
- **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

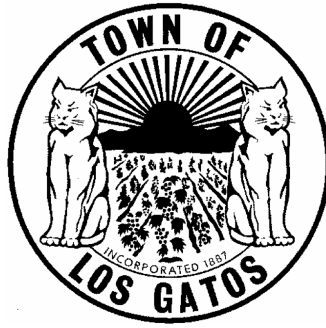
Accounts for assets held by the Town in a trustee capacity under formal trust agreement. The Town currently administers the following fund:

- **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 1<sup>st</sup> to June 30<sup>th</sup> 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.

Restricted fund balance is either imposed by law or constrained by grantors, contributors, or other governmental.

## FINANCIAL PRACTICES

- IRS 115 Trusts are established for management of the Town's unfunded pension and other post employment benefit obligations.
- The specific Fund Balance Reserves include but are not limited to a restricted Reserve for:
  - A fully funded workers' compensation and unemployment insurance
  - Liability insurance including one year's premium payment to the insurance carrier or pool
- 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 Reserve 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.

## **FINANCIAL PRACTICES**

- 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. The Council may also allocate funds from this Reserve for other purposes.

### **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 Manager is authorized to implement the projects as approved in the adopted Capital Improvement Plan. Within a specific fund, the Town Manager may transfer appropriations between projects as needed to implement the adopted Capital Improvement Plan.



# GENERAL FUND RESERVE POLICY



TITLE: General Fund Reserve Policy

POLICY NUMBER: 4-03

EFFECTIVE DATE: 05/16/2011

PAGES: 6

ENABLING ACTIONS:

REVISED DATES: 02/21/2017; 05/15/2018;  
06/04/2019; 09/21/2021

APPROVED:

## 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 America (GFOA) recommendations, the Town's designated reserves include reserves for known and unknown contingencies, which take into consideration the:

- Diversity of revenue base
- Volatility of revenue structure

## GENERAL FUND RESERVE POLICY

- Changes in political environment
- 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.

#### *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,

## GENERAL FUND RESERVE POLICY

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 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;



## GENERAL FUND RESERVE POLICY

- 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 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.

## GENERAL FUND RESERVE POLICY

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.

### 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 – \$10,000 or higher unrealized investment gains that have been recorded in the financial statements in accordance with GASB 31.

## GENERAL FUND RESERVE POLICY

### Capital and Special Projects Reserve

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

### Unassigned Fund Balance

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

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

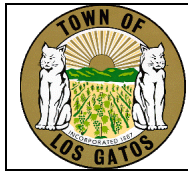
Upon funding any of the above reserve levels pursuant to this General Fund Reserve Policy, any remaining surplus of fiscal year revenues above expenditures shall be placed in the Capital and Special Projects Reserve for appropriation within the Capital Improvement Program budget.

### Replenishment of Unreserved Fund Balance

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

/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:

### 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.

## **LONG TERM DEBT POLICY**

### **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.

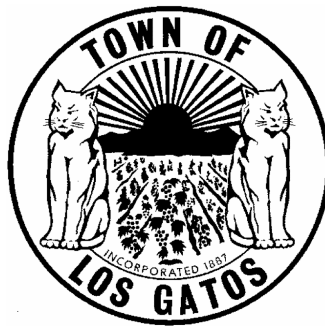
## **PROCEDURES**

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

**BOND RATING:**

The Town of Los Gatos continues to maintain its Moodys “Aaa” General Obligation bond rating indicative of what Moody’s describes as a “excellent credit position and very healthy financial position” enabling the Town to consistently provide high-quality services to the community. The Town has no outstanding bonded indebtedness, however there are two outstanding Certificates of Participation issued outstanding that are an indebtedness of the Town’s Successor Agency to the Town’s former Redevelopment Agency.



# INVESTMENT POLICY

			<b>COUNCIL POLICY MANUAL</b> <i>Small Town Service    Community Stewardship    Future Focus</i>	
TITLE: Investment Policy			POLICY NUMBER: 4-02	
EFFECTIVE DATE: 11/1/16			PAGES: 8	
ENABLING ACTIONS: 2016-063		REVISED DATES: 5/16/17;5/15/2018; 9/3/2019; 11/03/2020, 09/21/2021		
APPROVED:				

## 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



## **INVESTMENT POLICY**

### **Special Revenue Funds**

Capital Project Funds  
Debt Service Funds  
Enterprise Fund  
Internal Service Funds  
Fiduciary Funds

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

## **POLICY**

### **OBJECTIVES**

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

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.

## **INVESTMENT POLICY**

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

### **PRUDENCE**

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

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

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

### **ETHICS AND CONFLICTS OF INTEREST**

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

## **INVESTMENT POLICY**

### **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.

#### **(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.

## INVESTMENT POLICY

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

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

## INVESTMENT POLICY

Purchases of eligible commercial paper shall not exceed:

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

5. Eligible Bankers Acceptances with a maturity not exceeding 180 days from the date of trade settlement, issued by a state or national bank with combined capital and surplus of at least \$250 million, whose deposits are insured by the FDIC, and whose senior long-term debt is rated at least A or the equivalent by a NRSRO at the time of purchase. No more than 5% of the Town's total portfolio shall be invested in banker's acceptances of any one issuer, and the aggregate investment in banker's acceptances shall not exceed 30% of the Town's total portfolio.
6. Medium Term Notes (Corporate Notes) issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a final maturity not exceeding five years from the date of trade settlement and rated at least "A" or the equivalent by a NRSRO. No more than 5% of the Town's total portfolio shall be invested in the medium-term notes of any one issuer and the aggregate investment in medium term notes shall not exceed 30% of the Town's total portfolio.
7. Municipal & State Obligations:
  - A. Municipal bonds including registered notes or bonds of any of the 50 states, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the 50 states.
  - 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.

## INVESTMENT POLICY

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

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

Non-Negotiable certificates of deposit issued by a nationally or state-chartered bank, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of non-negotiable certificates of deposit are subject to the limitations of Sections 53601(n) and 53638 and shall be fully insured by the FDIC with a corresponding FDIC certification number. Private sector entities may be used to place certificates of deposit subject to the limitations of Section 53601.8.

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

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.

## **INVESTMENT POLICY**

### **PORTFOLIO MATURITIES AND LIQUIDITY**

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

### **SELECTION OF BROKER/DEALERS**

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

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

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

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

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

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

### **COMPETITIVE TRANSACTIONS**

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

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.

## **INVESTMENT POLICY**

### **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."

### **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



## **INVESTMENT POLICY**

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. The Town of Los Gatos Environmental, Social and Governance (ESG) scores;
7. A statement of compliance with this Investment Policy or an explanation for non-compliance; and
8. 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**

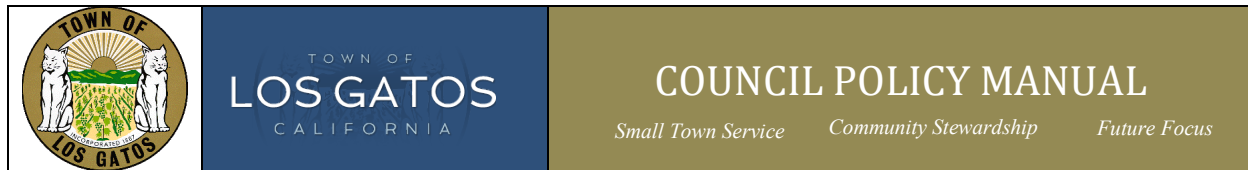
This Investment Policy shall be adopted by resolution of the Town Council. Annually the Town Manger shall present this Investment Policy to the Town Council and the Finance Commission for review to ensure its consistency with the Town's investment objectives, current law and economic trends. Any amendments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

APPROVED AS TO FORM:

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Robert Schultz, Town Attorney

# IRS SECTION 115 PENSION TRUST AND OPEB TRUST INVESTMENT POLICY



TITLE: Town of Los Gatos IRS Section 115 Pension Trust  
and OPEB Trust Investment Policy

POLICY NUMBER: 4-04

EFFECTIVE DATE: 11/7/17

PAGES: 3

ENABLING ACTIONS: 2017-062

REVISED DATES: 12/18/2018; 12/03/2019

APPROVED:

## PURPOSE

The Town of Los Gatos (the "Town") has established IRS Section 115 Trusts for both pension and other post-employment benefits (OPEB). The Pension Trust is administered by the CalPERS California Employers' Pension Prefunding Trust (the "CEPPT") and the OPEB trust is administered by the California Employers' Retiree Benefit Trust (the "CERBT"), collectively the "115 Trusts". The 115 Trusts provide for funding of pension, retiree health and other post-employment benefits for the City's eligible retirees. The CEPPT acts as an additional investment vehicle for the overall funding of pension liabilities associated with the Town's Miscellaneous and Safety Pension Plans (the "Pension Plans"). Funds in the 115 Pension Trust may be used for long-term capital accumulation and appreciation, additional discretionary payments (ADPs), and pension contribution management strategies. The CERBT is the single investment vehicle for the Town's OPEB Plan ("OPEB Plan"). The Town has established the 115 Trusts Oversight Committee (the "Oversight Committee") to oversee the assets of the 115 Trusts and to perform the duties and responsibilities set forth in this Investment Policy (IP).

## COMPOSITION

The membership of the Oversight Committee is composed of the entire Town Council.

## FIDUCIARY DUTIES AND RESPONSIBILITIES

1. The Oversight Committee has exclusive control of the investments of the 115 Trusts. The Oversight Committee will manage the funds under the Trusts:

## **IRS SECTION 115 PENSION TRUST AND OPEB TRUST INVESTMENT POLICY**

- a) solely in the interest of, and for the exclusive purposes of providing for funding of benefits for participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the Trusts;
  - b) with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims; and
  - c) by diversifying the investments of the Trusts so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.
2. The work of the Oversight Committee shall be consistent with written statement of Investment Policy (i.e., this Investment Policy for the Trusts). At least once every three years, the Oversight Committee will evaluate the appropriateness of the Investment Policy and, based on such evaluation, either confirm the tenets of the Investment Policy as then in effect, or amend the 115 Trusts Investment Policy as appropriate. The Investment Policy must include the following:
- a) document investment objectives, performance expectations and investment guidelines for assets under the Trusts;
  - b) establish an appropriate investment strategy for managing all assets under the Trusts, including an investment time horizon, risk tolerance ranges and asset allocation to provide sufficient diversification and overall return over the long-term time horizon of the Trusts; and
  - d) establish periodic performance reporting requirements that will effectively monitor investment results and ensure that the investment policy is being followed.

### **INVESTMENT OBJECTIVES**

1. The primary objective of the 115 Trusts investment portfolios is to satisfy the Pension Plans and OPEB Plan obligations to pay benefits to members and their beneficiaries. To do so, the 115 Trusts will seek to achieve long-term net returns in excess of the actuarial investment return assumption while maintaining a reasonable level of investment risk.
2. The funds will be managed as an ongoing concern with a long-term investment horizon, consistent with demographic profile of the members and beneficiaries of the plans.

## **IRS SECTION 115 PENSION TRUST AND OPEB TRUST INVESTMENT POLICY**

3. A range of risks will be managed in connection with the trusts, with an emphasis on the following:
  - a) The impact of the investment decisions on the funded status of the plans and the resulting volatility of contributions.
  - b) Risk of loss of plan assets.
4. In determining the investment strategies of the 115 Trusts, various factors will be considered including, but not limited to:
  - a) The structure and duration of the Pension Plans and OPEB Plan liabilities.
  - b) Modern Portfolio Theory.
  - c) The liquidity needs of Pension Plans and OPEB Plan.

### **INVESTMENT STRATEGY/ASSET ALLOCATION**

The Oversight Committee has delegated the investment management function to third parties. These third parties offer multiple asset allocation options with varying degrees of risk return profiles. The Oversight Committee has the sole discretion to select the asset allocation which best aligns with the aforementioned fiduciary standards and investment objectives.

The Oversight Committee will review the selected asset allocations annually. However, the Oversight Committee can review the current asset allocation selections at any time in light of market conditions.

### **MONITORING AND REPORTING**

1. Monitor the 115 Trusts investment managers on an ongoing basis and may be terminated by Oversight Committee at any time due to performance or other developments that call into question the investment manager's ability to continue to effectively manage assets of the 115 Trusts.
2. Review and assess the performance of any Investment Manager(s) appointed by the Oversight Committee to perform services related to the Trusts quarterly.
3. Measure and evaluate the annual and quarterly performance of investment managers relative to appropriate long-term performance benchmark.
4. Measure and evaluate annual and quarterly fees.

## **IRS SECTION 115 PENSION TRUST AND OPEB TRUST INVESTMENT POLICY**

5. Review quarterly cash flow statements associated with the Trusts.
6. Review the actuarial pension evaluation annually.
7. Review the actuarial OPEB evaluation biennially.
8. Monitor compliance with this Investment Policy for the Trusts.

/S/ Robert Schultz, Town Attorney

# BUDGET PROCESS OVERVIEW

The Town Council 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 1<sup>st</sup> and ending June 30<sup>th</sup>. The budget documents are prepared in accordance with generally accepted accounting principles (GAAP).

## ***Budget Purpose***

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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***

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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

## **BUDGET PROCESS OVERVIEW**

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***

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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***

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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. Beginning in 2021, per a recent voter initiative, the draft Budget documents are provided to the Town Finance Commission for its review and comment at least 20 days before the Council's first consideration of the Budgets. The Commission is advisory to the Town Council.

## **BUDGET PROCESS OVERVIEW**

### ***Budget Adoption***

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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 this year exclusively on the Town website due to COVID-19 pandemic.

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***

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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 31<sup>st</sup> during a Mid-Year Review. This typically occurs in February and the Council may act on additional budget modifications at that time.

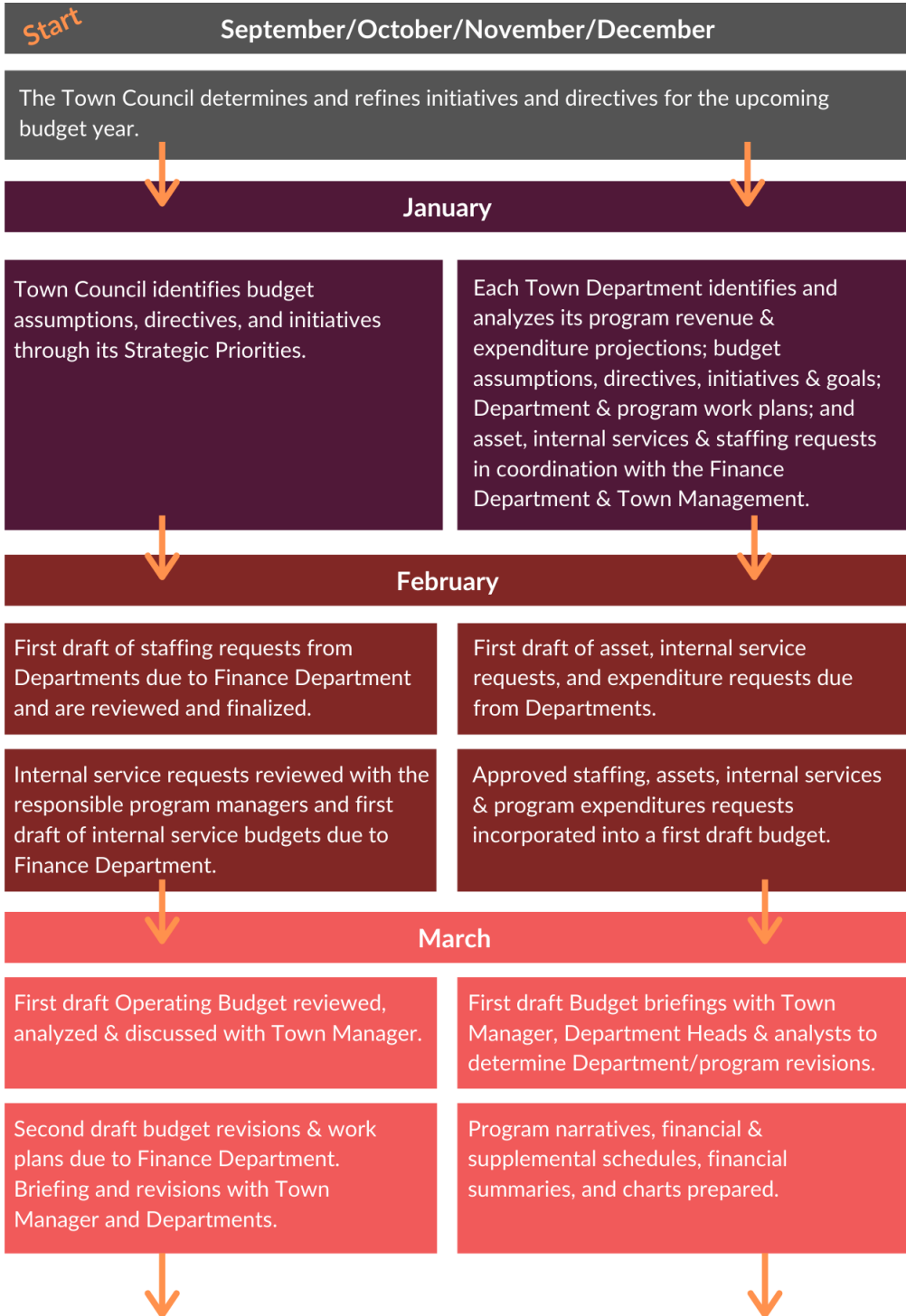


# BUDGET CALENDAR



## Operating Budget Development Process

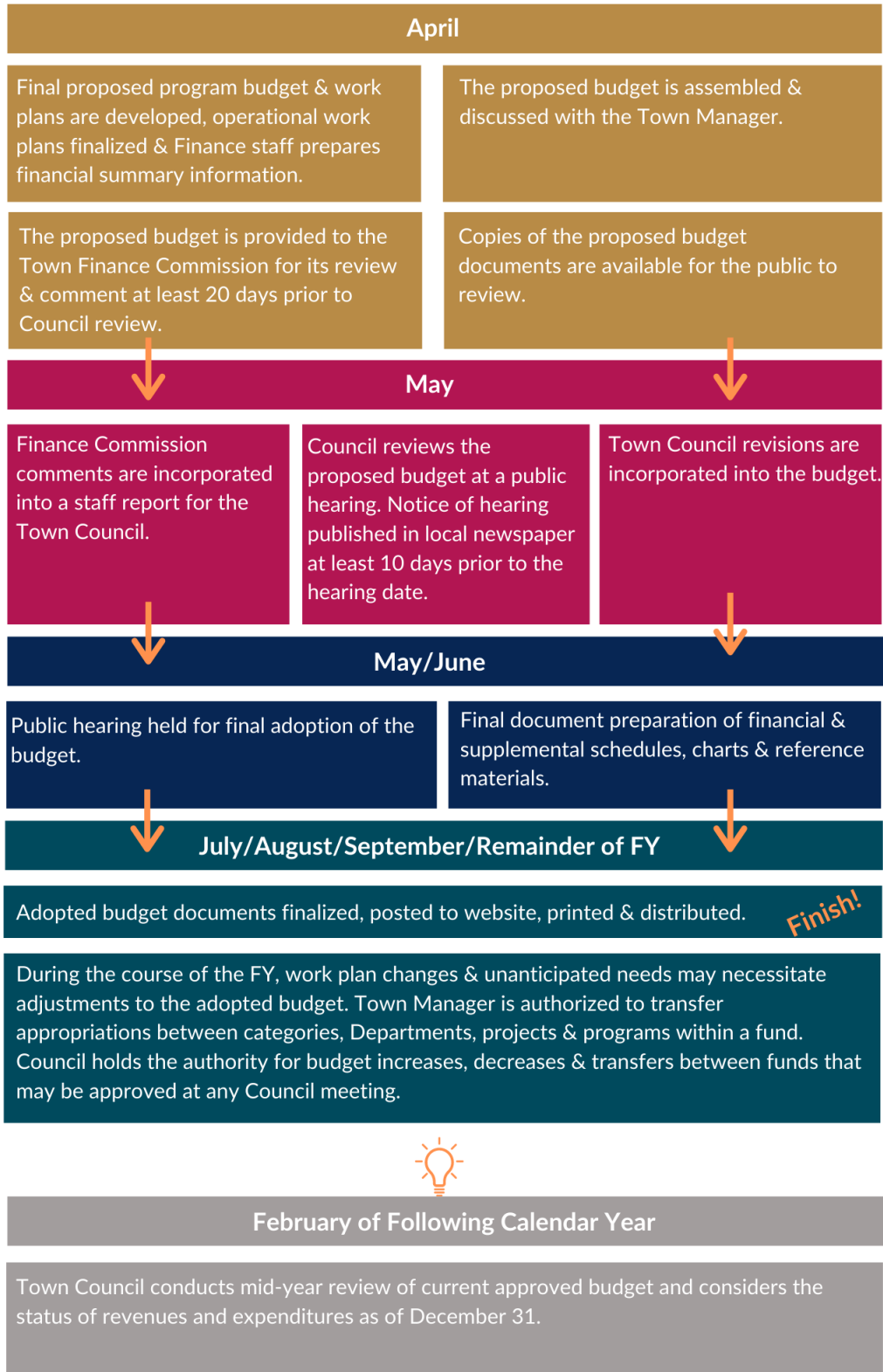
Team-Based Approach: Program budgets & work plans are developed with each Department's Director, Analyst, and Program Manager's oversight and expertise (guided by Town Management & the Finance Department)



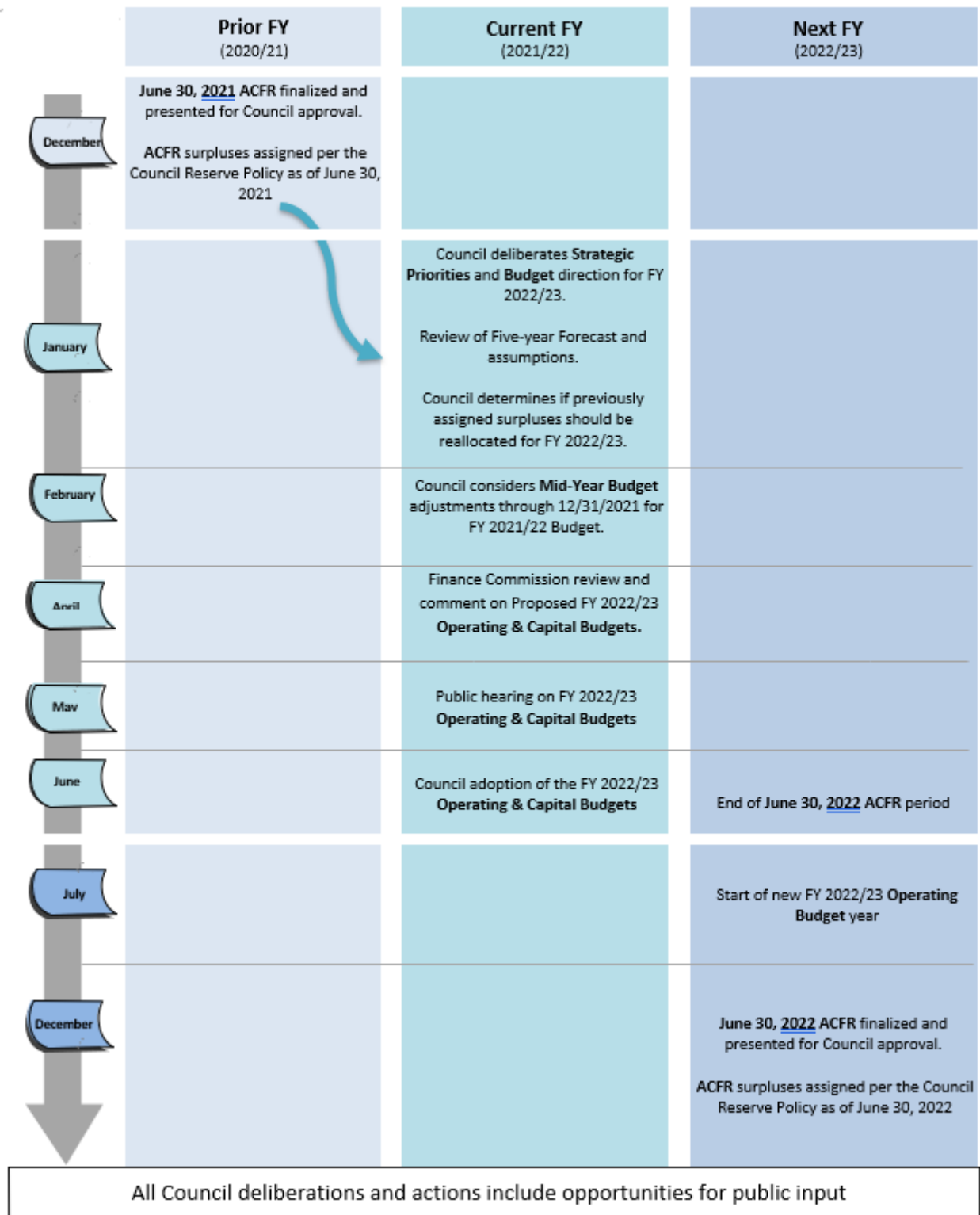
# BUDGET CALENDAR

## Operating Budget Development Process

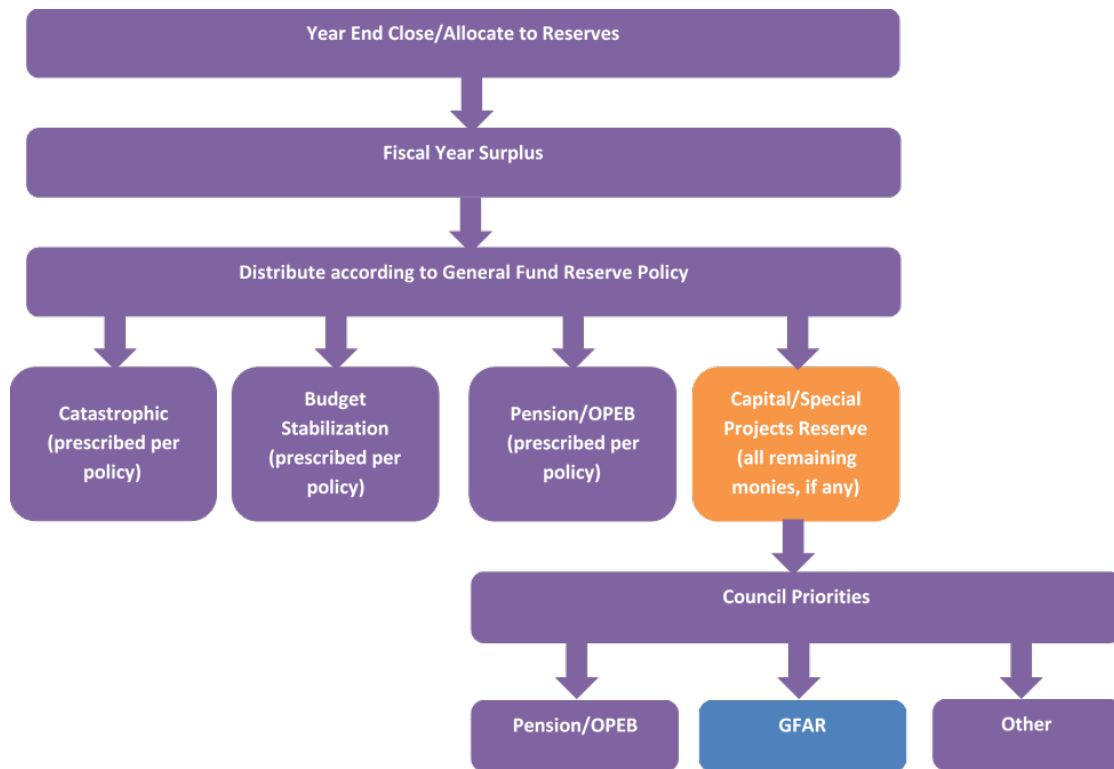
Team-Based Approach: Program budgets & work plans are developed with each Department's Director, Analyst, and Program Manager's oversight and expertise (guided by Town Management & the Finance Department)



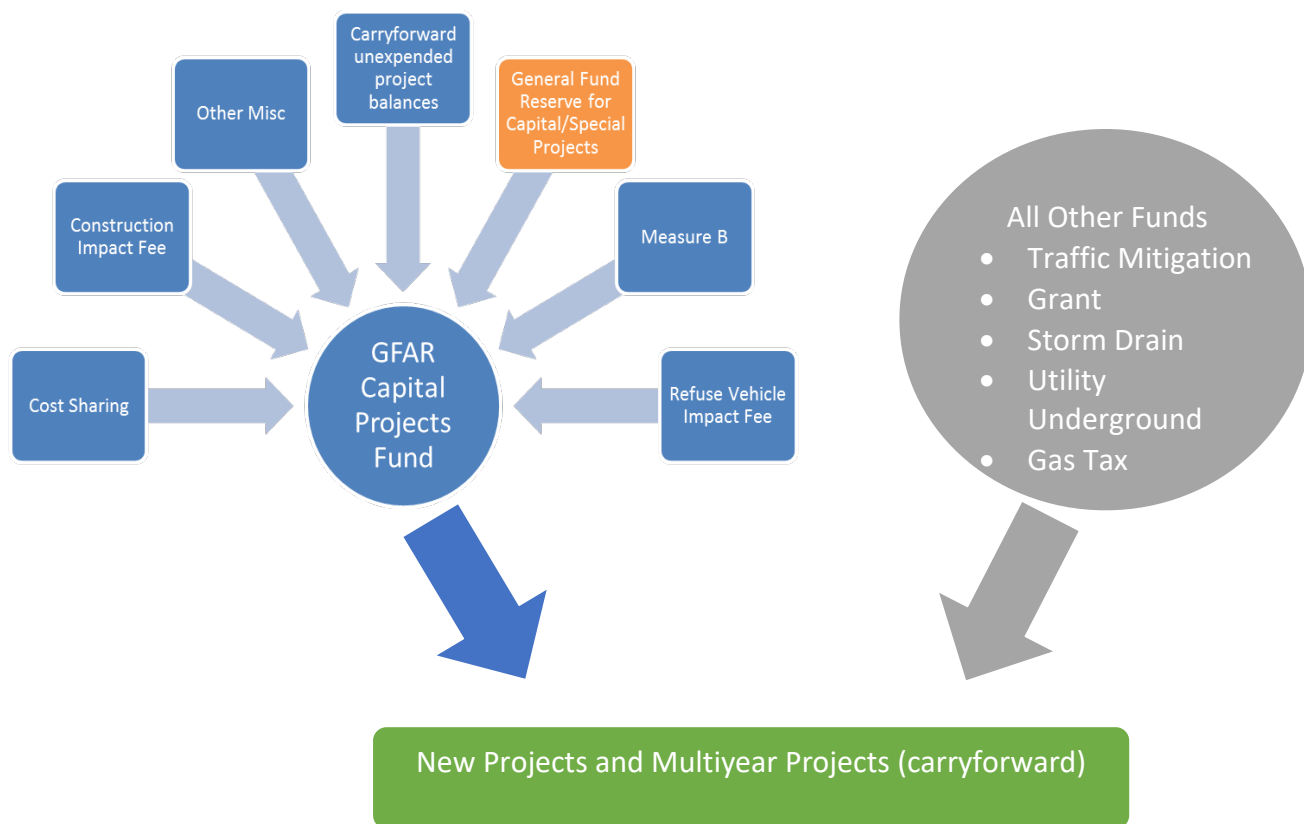
# ANNUAL BUDGET/ACFR CYCLE



# FISCAL YEAR SURPLUS FLOW OF FUNDS



# CAPITAL IMPROVEMENT PROGRAM



# GANN APPROPRIATION LIMIT

**O**n November 6, 1979 California voters approved Proposition 4, commonly known as the Gann Spending Limitation Initiative, establishing Article XIII B 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 2022/23:

## GANN APPROPRIATION LIMIT

### 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
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%
2021	43,050,108	1.0037	1.0234	1.0373	45,831,327 *	6.46%
2022	45,831,327	0.9944	0.9919	1.0573	48,186,101	5.14%
2023	48,186,101	0.9931	0.9961	1.0755	51,622,037	7.13%

In addition to the annual inflation and population adjustments, the Appropriations Limit must be adjusted in the event that the financial responsibility for providing services is transferred in whole or in part from one entity of government to another. Whenever financial responsibility for all or some part of a service is transferred between government agencies, the agencies must increase or decrease their limits "by such reasonable amount as the said entities shall mutually agree...." The amounts adjusted should be the same for the two agencies.

The Town of Los Gatos' appropriation limit for fiscal year 2022/23 is calculated as follows:

### FY 2022/23 Calculation

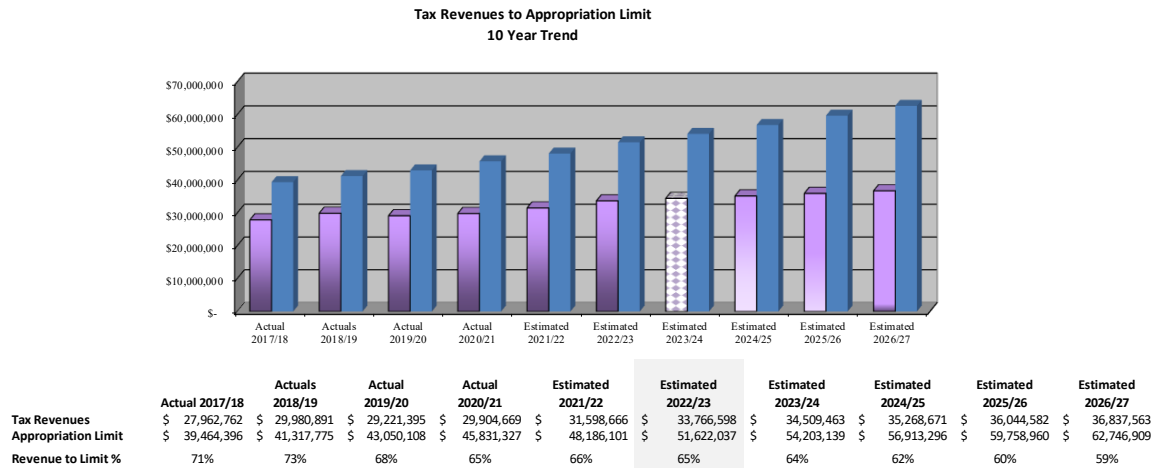
Town Population Factor		Per Capita Income Factor		Appropriation Factor		2021/22 Appropriation Limit		2022/23 Appropriation Limit
0.9961	X	1.0755	=	1.071306	X	\$ 48,186,101	=	\$ 51,622,037

As illustrated above, the total amount of tax revenues appropriated to the Town in FY 2022/23 is not to exceed \$51,622,037. The FY 2022/23 budget anticipates \$33,766,598 in tax revenues. The Town of Los Gatos' appropriation limit for fiscal year 2022/23 is calculated as follows: which equates to \$17,855,439 less than, or approximately 65% of, the appropriation limit for FY 2022/23. Therefore, the Town's tax revenues fall substantially below the appropriation limit.

## GANN 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.



### APPROPRIATION LIMIT ADOPTION

The resolution to adopt the appropriation limit of \$51,622,037 was adopted by Council adoption on June 7, 2022.



# GANN APPROPRIATION RESOLUTION

## RESOLUTION 2022-034

### RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS ESTABLISHING THE FY 2022/23 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**, in addition to the annual inflation and population adjustments, state law requires the Appropriations Limit to be adjusted in the event that the financial responsibility for providing services is transferred in whole or in part from one entity of government to another; and

**THEREFORE, BE IT RESOLVED:** that the Annual Appropriations Limit for the Town of Los Gatos for FY 2022/23 is \$51,622,037 as reflected in Exhibit A.

## GANN APPROPRIATION RESOLUTION

**PASSED AND ADOPTED** at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 7<sup>th</sup> day of June 2022 by the following vote:

**COUNCIL MEMBERS:**

AYES: Mary Badame, Matthew Hudes, Maria Ristow, Marico Sayoc, Mayor Rob Rennie  
NAYS: None  
ABSENT: None  
ABSTAIN: None

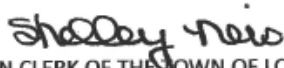
SIGNED:



MAYOR OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

DATE: 6/15/22

ATTEST:



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

DATE: 6/15/2022

## GANN APPROPRIATION RESOLUTION

APPROPRIATION LIMIT FACTORS						
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2023	48,186,101	0.9931	0.9961	1.0755	51,622,037	7.13%

### FY 2022/23 Calculation

Town Population Factor		Per Capita Income Factor		Appropriation Factor		2021/23 Appropriation Limit		2022/23 Appropriation Limit
0.9961	X	1.0755	=	1.071306	X	\$48,186,101	=	\$ 51,622,037

### Percentage of Appropriation

2022/23 Tax Revenues	2022/23 Appropriation Limit	Percentage of Limit
33,766,598	/ \$ 51,622,037	= 65%

\*FY 2020/21 ending and FY 2021/22 beginning Appropriation Limit includes an adjustment of \$130,503 to address the annexed parcels from Santa Clara County. The Town of Los Gatos increasing its base by \$130,503 while the County of Santa Clara decreasing its base with the same amount.

# TOWN OF LOS GATOS

## ANNUAL BUDGET RESOLUTION

### RESOLUTION 2022-038

**RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS  
APPROVING THE FISCAL YEAR (FY) 2022/23 OPERATING BUDGET AND FY 2022/23 –  
2026/27 CAPITAL BUDGET; NEW APPROPRIATIONS; OTHER ADJUSTMENTS;  
AMERICAN RESCUE PLAN ACT RECOGNITION; EMPLOYEE COMPENSATION ITEMS  
CONSIDERED ON JUNE 7, 2022; 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 and Finance Commission a Proposed Operating Budget for FY 2022/23 on April 18, 2022; and

**WHEREAS**, the Town Manager submitted to the Town Council and Finance Commission a Proposed Five-Year Capital Improvement Program for FY 2022/23 – 2026/27 on April 18, 2022; and

**WHEREAS**, the Town Council conducted a noticed public hearing on the Proposed Operating Budget and Capital Improvement Program on May 17, 2022; and

**WHEREAS**, per Measure A, the Town Council has considered and reviewed the Finance Commission written recommendations to the Town Council on the said proposed Budget and Capital Improvement Program during the public hearing on May 17, 2022; and

**WHEREAS**, per Measures G and A, the Town Council has considered and reviewed the Finance Commission written recommendations to the Town Council regarding the potential allocation of Measure G proceeds during its public hearing on May 17, 2022; and

**WHEREAS**, the Town Council previously allocated residual unallocated Measure G revenues for budget balancing and \$679,443 will be used to balance the FY 2022/23 budget; and

## ANNUAL BUDGET RESOLUTION

**WHEREAS**, the Town Council has determined the use of Measure G proceeds in the remainder of the forecast (FY 2022/23 - FY 2026/27) to be 50% for operating expenditures and 50% for capital purposes; and

**WHEREAS**, the estimated FY 2022/23 business license tax revenue increased by \$100,000 based on current trends; and

**WHEREAS**, the Town Council has determined that to further balance the budget, the Town should reimburse \$902,579 from available Other Post-Employment Benefits (OPEB) 115 Trust assets for retiree pay-as-you go expenses in FY 2022/23.

**WHEREAS**, the Town Council has determined the use of American Rescue Plan Act (ARPA) for FY 2021/22 and FY 2022/23 as illustrated in Exhibit B entitled "ARPA Worksheet" including the allocation of \$2.9 Million in ARPA proceeds for capital purposes; and

**WHEREAS**, the Town Council has determined that a portion of the proceeds of the ARPA up to the amount of \$1,645,281 will be used for Revenue Replacement and balancing the FY 2022/23 budget; and

**WHEREAS**, on June 7, 2022, 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 2022/23 fiscal year as depicted in Exhibit A entitled "Total Town Revenues and Expenditures by Fund" including the first year (FY 2022/23) of the Town's Capital Improvement Program budget as contained in the Town's FY 2022/23 – 2026/27 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, 2022.

## ANNUAL BUDGET RESOLUTION

**PASSED AND ADOPTED** at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 21<sup>st</sup> day of June, 2022 by the following vote:

**COUNCIL MEMBERS:**

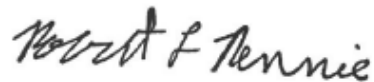
AYES: Mary Badame, Matthew Hudes, Maria Ristow, Marico Sayoc, Mayor Rob Rennie

NAYS: None

ABSENT: None

ABSTAIN: None

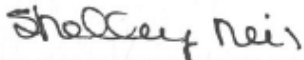
**SIGNED:**



MAYOR OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

DATE: 6/27/2022

**ATTEST:**



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

DATE: 6/27/2022

## ANNUAL BUDGET RESOLUTION

### TOTAL TOWN REVENUES AND EXPENDITURES BY FUND

	2022/23 Proposed Budget	Estimated Budget Revision	2022/23 Recommended Budget
<b>REVENUES</b>			
General Fund	\$48,378,548	\$ 1,626,919 (1)	\$ 50,005,467
Special Revenue Funds	1,775,576	-	1,775,576
Internal Service Funds	4,125,957	-	4,125,957
Capital Project Funds (does not include carryforwards)	12,753,575	2,900,000 (2)	15,653,575
Successor Agency Funds	3,799,926	-	3,799,926
<b>TOTAL REVENUES</b>	<b>\$70,833,582</b>	<b>\$ 4,526,919</b>	<b>\$ 75,360,501</b>
<b>OTHER FUNDING SOURCES</b>			
Designated One-Time Use of General Fund Reserves	2,350,000	\$ 679,443	3,029,443 (3)
<b>TOTAL TOWN REVENUES &amp; OTHER FUNDING SOURCES</b>	<b>\$73,183,582</b>	<b>\$ 5,206,362</b>	<b>\$ 78,389,944</b>
<b>TOTAL TOWN EXPENDITURES, TRANSFERS OUT &amp; CARRYFORWARD APPROPRIATION</b>			
General Fund	\$50,338,548	\$ 2,306,362 (4)	\$ 52,644,910
Special Revenue Funds	1,705,178	12,246 (4)	1,717,424
Internal Service Funds	6,427,499	-	6,427,499
Capital Project Funds (does not include carryforwards)	13,081,287	2,900,000 (2)	15,981,287
Successor Agency Funds	3,799,752	125 (4)	3,799,877
<b>TOTAL TOWN EXPENDITURE &amp; OTHER FUNDING USES</b>	<b>\$75,352,264</b>	<b>\$ 5,218,733</b>	<b>\$ 80,570,997</b>
GENERAL FUND SOURCE(USE) OF FUND BALANCES	\$ 390,000		\$ 390,000
OTHER FUNDS SOURCE(USE) OF FUND BALANCES	(2,558,682)		(2,571,053) (5)
<b>TOTAL SOURCE(USE) OF FUND BALANCES</b>	<b>\$ (2,168,682)</b>	<b>\$ (12,371)</b>	<b>\$ (2,181,053)</b>

*(1) Additional General Fund Revenues*

*\$902,579 OPEB Trust Reimbursement for Retiree Medical  
\$624,340 Additional ARPA Proceeds for Revenue Replacement  
\$100,000 Additional Business License Tax*

*(2) Additional Transfer to Capital Projects (GFAR)*

*\$2,900,000 General Fund Reimbursement Revenues (ARPA)*

*(3) Designated One-Time Use of the General Fund Reserves during FY 2022/23*

*\$2,350,000 - Transfer to Capital Projects (GFAR)*

*\$679,443 - Measure G Residual for Operation*

*(4) General fund Expenditures*

*\$2,318,733 - Increases to Negotiated Salary Increases*

*(5) 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.*

*Numbers may differ between exhibits due to rounding.*

### EXHIBIT A

# ANNUAL BUDGET RESOLUTION

AMERICAN RESCUE PLAN ACT (ARPA) SUMMARY WORKSHEET					
	FY 2020/21	FY 2021/22	FY 2022/23	GRAND	
	BUDGET ADJ.				
	ACTUALS	ACTUAL/ESTIMATED	ESTIMATED	TOTAL	
ARPA FUNDS REVENUE RECOGNIZED	\$ 200,911	\$ 3,413,961	\$ 3,614,872	\$ 7,229,744	
GOV SERVICES (WAIVERS,CUP&ADA,DIRECT GRANTS)	200,911	3,413,961	3,614,872	200,911	
REVENUE LOSS -GOV SERVICES (PUBLIC SAFETY)	\$ 200,911	\$ 3,413,961	\$ 3,614,872	\$ 7,028,833	
GENERAL FUND ARPA REPLACEMENT REVENUES AVAILABLE	200,911	3,413,961	3,614,872	7,229,744	
LESS APPROVED USES TO BE BUDGETED:					
PARKLETS (DOWNTOWN IMPVTS PROJECT)		680,000	250,000	930,000	
RENT WAIVERS	121,255	341,452	283,756	746,463	
CUP/ADA FEE WAIVERS	19,656	27,672	27,672	75,000	
DESTINATION MARKETING		55,000		55,000	
K-RAILS (DOWNTOWN IMPVTS PROJECT)		68,000		68,000	
PROMENADES		80,000	120,000	200,000	
DIRECT GRANTS	60,000	50,000		110,000	
ENHANCED SENIOR SERVICES		500,000		500,000	
CAPITAL IMPROVEMENT PROGRAM SUPPORT TRANSFERS			2,900,000	2,900,000	
REQUIRED FOR GF BALANCING OF OPERATING REV_EXP	-		1,645,281	1,645,281	
TOTAL ALLOCATIONS OF GENERAL FUND ARPA REPLACEMENT REVENUES	\$ 200,911	\$ 1,802,124	\$ 5,226,709	\$ 7,229,744	
GENERAL FUND ARPA REPLACEMENT REVENUE UNCOMMITTED	\$ -	\$ 1,611,837	\$ (1,611,837)	\$ -	

EXHIBIT B