



TOWN OF LOS GATOS

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

May 19, 2015

Honorable Mayor and Town Council:

I am pleased to present to you a balanced FY 2015/16 Proposed Operating Budget for the Town of Los Gatos. The budget for FY 2015/16 reflects a total Town budget of \$54.7 million, a decrease of \$7.3 million or 11.8% when compared to the FY 2014/15 Budget. The Town's proposed total General Fund expenditures are \$37.9 million, a decrease of \$5.6 million or 14.8% when compared to the FY 2014/15 Budget. This decrease is the result of a significantly smaller apportionment of General Fund capital transfers to other funds for capital projects. The General Fund revenues are budgeted at \$35 million (excluding debt payments and fund transfers in), a 4.5% increase over FY 2014/15 Budgeted revenues.

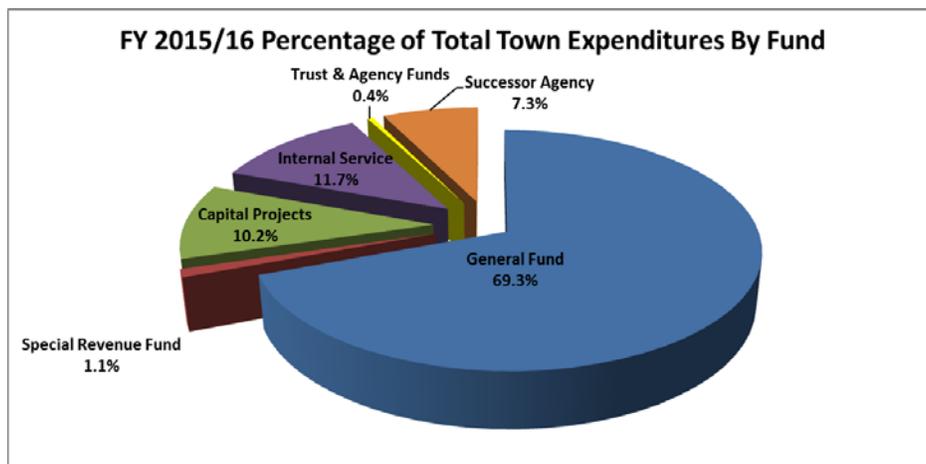
FY 2015/16 FISCAL OUTLOOK

Overview

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

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

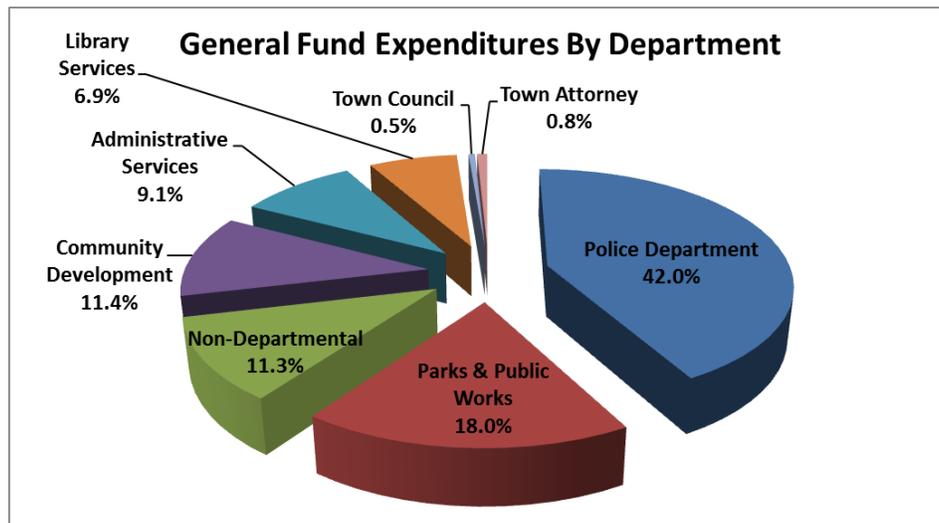
As shown in the chart below, the Proposed Budget is largely funded by the General Fund (69.3%).



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 funding for Police, Parks and Public Works, Community Development and Library.



General Fund revenue is estimated at \$35.1 million in the FY 2015/16 Proposed Budget, excluding debt service and fund transfers in). This is an increase of \$1.5 million (4.3%) when compared to the FY 2014/15 Adopted Budget. While increased Property Tax accounts for the majority of the increase in revenue, Vehicle License Fee (VLF) backfill property tax, Transient Occupancy Tax and Licenses and Permits have also increased. Sales tax revenue is projected to increase only slightly over the prior year.

The Town's General Fund operating budget expenditures for FY 2015/16 have increased by \$938,234 or 2.7% compared to the prior year's adopted budget (excluding fund transfers and debt service). These expenditures are comprised of six major categories of costs, including salaries and benefits, grants and awards, internal service charges, operating expenses for supplies and services, and debt service. The delivery of Town services is highly dependent on labor, which makes up 61% of budgeted General Fund expenditures for FY 2015/16.

Internal Service Funds

Internal Service Funds are used for areas where goods or services are provided to other City departments. Internal Service Funds include funds and programs for Management Information Systems, Liability Insurance, Workers Compensation, Building Maintenance, Equipment Replacement and Vehicle Maintenance.

The total Townwide proposed expenditures for Internal Service charges are \$3,605,323, which is \$203,000 or 6% higher than budgeted FY 2015/16 amounts. This increase is primarily attributed to the purchase of several pieces of replacement equipment and increased workers' compensation costs.

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, and are identified in the five-year Capital Improvement Program (CIP).

The proposed FY 2015/16 Townwide expenditures from the Capital Projects Funds is \$5.3 million (excluding transfers out) which is inclusive of \$4.2 million in General Fund Appropriated Reserves for the Town's CIP program.

Special Revenue Funds

Special Revenue Funds are a fund type used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Special Revenue Funds account for 1.1% of the Town-wide expenditure budget. The Town's largest Special Revenue Fund is the Urban Run-Off Source Fund at approximately \$500,000. The Total proposed Budget for Special Revenue Funds for FY 2015/16 is \$600,000, an increase of approximately \$100,000 from FY 2014/15 Adopted Budget.

Trust & Agency Funds

Trust and Agency funds are used to account for assets held by the Town as a trustee agent for individuals, private organizations and other governments. The Town's Trust and Agency Funds are comprised of four trusts established to provide for the servicing of donations and bequests to the Town's Library program. The FY 2015/16 budgeted expenditures in this trust fund total \$236,000.

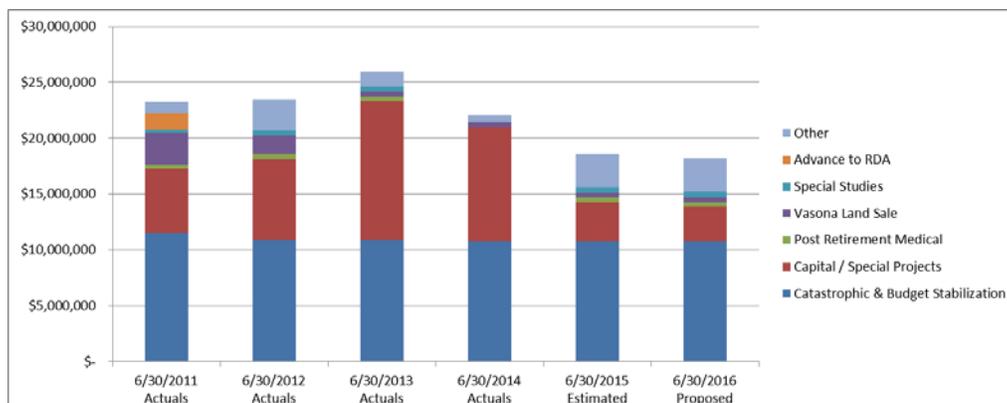
Successor Agency to the Los Gatos RDA Funds

The Successor Agency to the Los Gatos Redevelopment Agency (RDA) private-purpose trust fund accounts for the assets, liabilities and operations transferred from the dissolution of the Town's RDA, including 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 2015/16 budgeted expenditures in this trust fund total \$4 million.

General Fund Reserves

The total General Fund Reserves are forecasted at a balance of approximately \$18.6 million as of June 30, 2015. As indicated in the chart below, the General Fund reserves are decreasing as is to be expected due to the Town's California Public Employees Retirement System (CalPERS) side-fund payoff in June 2014 of \$4.5 million dollars and the transfer to the CIP program of \$7.6 million in FY 2014/15.

Adopted Council policy specifies Catastrophic and Budget Stabilization reserves totaling 25% of General Fund ongoing operating expenditures (12.5% each), or \$8.9 million total for FY 2015/16. Those combined reserves currently total \$10.8 million, or 30% of FY 2015/16 Proposed Operating Budget. In addition, the Town currently has approximately \$3.1 million for future one-time or capital projects.



Fund Balance Reserves	6/30/2011 Actuals	6/30/2012 Actuals	6/30/2013 Actuals	6/30/2014 Actuals	6/30/2015 Estimated	6/30/2016 Proposed
Catastrophic & Budget Stabilization	\$ 11,541,932	\$ 10,900,000	\$ 10,900,000	\$ 10,800,000	\$ 10,800,000	\$ 10,800,000
Capital / Special Projects	5,718,997	7,265,004	12,427,161	10,218,579	3,497,836	3,097,836
Post Retirement Medical	400,000	400,000	400,000	-	400,000	400,000
Vasona Land Sale	2,834,779	1,645,329	410,599	411,245	411,245	411,245
Special Studies	255,000	490,000	490,000	-	490,000	490,000
Advance to RDA	1,500,000	-	-	-	-	-
Other	1,056,073	2,787,479	1,349,294	634,312	3,014,116	3,010,116
Total General Fund Reserves	\$ 23,306,781	\$ 23,487,812	\$ 25,977,054	\$ 22,064,136	\$ 18,613,197	\$ 18,209,197

Catastrophic & Budget Stabilization Reserve

As per the Town's reserve policy, the Catastrophic and Budget Stabilization Reserves are to be maintained at combined minimum funding level of 25% of General Fund ongoing operating expenditures. The funding requirement is equally divided between the Catastrophic Reserve (12.5%) and the Budget Stabilization Reserve (12.5%). Fund balance in these reserves is used to fund future fluctuations in the economy, mitigating the cyclical changes in locally generated revenues from temporary downturns in the local economy.

Capital / Special Projects

With Council direction, upon the close of the fiscal year, the Capital projects reserve receives the Town's annual revenues above operating expenditures after funding all legally restricted reserves at their required levels. Fund balance is assigned for the acquisition and construction of capital facilities.

Post-Retirement Medical

Assigned fund balance in this reserve will be used to aid in funding actuarially determined requirements for retiree medical costs.

Vasona Land Sale

The Vasona Land Sale Reserve accounts for the residual balance of the Vasona Land Sale with assigned fund balance being used for acquisition and development of new Town properties.

Special Studies

Assigned fund balance in this reserve has been identified the Town's contribution towards a school traffic Study, contingent on school district participation, as well as one-time affordable housing.

Advance to RDA

The Advance to the RDA reserve was created during the era of the Redevelopment Agency. This reserve was closed prior to the closing of the RDA in FY 2010/11.

Other

The Town has several other smaller reserves that have been classified as other. These reserves include an open space reserve which may be used to make selective open space acquisitions, a productivity reserve which will be used to fund projects that will streamline and improve existing services and other unappropriated reserves.

Strategic Goals and Priorities

In February 2014, the Town Council adopted Strategic Goals for 2014-2016, provided guidance to Town staff on workload prioritization. The Town Council reaffirmed its core values, including: Community Character, Good Governance, Fiscal Stability, Quality Public Infrastructure, Civic Enrichment, and Public Safety. For each core value, there are several corresponding strategic goals.

Key Budget Assumptions

Revenues

The FY 2015/16 Budget assumes healthy economic growth, with the General Fund revenues (excluding debt payments and fund transfers in) expecting to increase by 4.5% to \$35 million. Revenue projections for each category were based upon estimates provided to the Town by Santa Clara County, the Town's sales tax consultant and careful examination of revenue trends and patterns. The economy remains positive which has resulted in staff proposing an increase in operating revenues of \$1.5 million. This is mostly due to forecasted increases in revenues such as property tax, Vehicle License Fee (VLF) backfill property tax, Transient Occupancy Tax and Licenses and Permits. Sales Tax revenue is projected to increase only slightly over the prior year.

Property Tax receipts in Los Gatos are expected to increase over the budgeted FY 2014/15 receipts. Property Tax budget projections are based on projections by the Santa Clara County Assessor's Office. Transient Occupancy Tax (TOT) has also increased. Licenses and Permits are expected to increase just slightly as the large scale building projects are fewer in number.

Staffing

The FY 2015/16 proposed operating budget reflects minimal adjustments as staff continues to monitor and evaluate the permanent staffing needs of the Town. As a result of the CalPERS side fund payoff approved in June 2014 and the elimination of prior year one-time funding, overall personnel and benefit costs for the Town increased only slightly while absorbing negotiated salary increases and increased workers' compensation rates. The following section highlights recommended staffing and salary changes recommended to best meet the service needs of the community.

- *Administrative Services and Town Offices* – The Administrative Services and Town Offices budgets reflect no net change with respect to the number of full time equivalents (FTEs);
- *Police* – The Police Department budget reflects the reorganization of adding a Lieutenant rank within the department, the elimination of the one-time hire ahead Officer position funded in FY 2014/15 and the retention of a frozen, unfunded, Corporal position. The Police Department will continue to evaluate and assess the effectiveness of the reorganization and changing needs in light of limited available resources. Finally, the FY 2015/16 budget reflects a one-time increase in temporary hours used to provide state grant and other cost sharing matching obligations.
- *Community Development Department (CDD)* – The Community Development budget reflects a decrease of 0.50 FTE as the provisional one-year full-time Planning Technician was eliminated due to limited funding and temporary hours were reduced to offset adding a 0.50 FTE Associate Planner position.
- *Parks & Public Works (PPW)* – The Parks and Public Works budget reflects an increase of 1.50 FTE's, 1.0 FTE is a permanent full-time project manager position, partially funded from the Town's Capital Improvement budget, to provide contracts and special project oversight primarily of Capital projects. The addition of 0.50 FTE Office Assistant has been offset with a corresponding reduction in temporary staff hours. This addition to the permanent staffing allows for consistent support within the PPW Department for all programs. Temporary hours allocated to PPW have also decreased from the prior year as previously funded one-time temporary hours were eliminated.
- *Library* – The Library budget reflects the addition of 0.20 FTE in the Librarian classification to meet the rising service demands, resulting from increased customer usage. The transition from a 0.80 FTE Librarian to a 1.0 FTE Librarian will afford more staff time for team projects and customer services in the Library. In addition, the FY 2015/16 budget reflects the permanent reclassification of Library Page hours to Senior Library Page hours to better reflect actual staff duties. Both of these positions are being funded with donations from the Friends of the Library.
- *Salary Increases and Elimination of Furloughs* – For the second year in a row, non-sworn staff will receive a 2% pay increase as a result of contract negotiations with labor unions. Sworn staff will also receive a 2% pay increase in October 2015 with the exception of the Sergeant rank who will receive a 2% cash payment in lieu of an increase on base salary. FY 2015/16 is the last year of negotiated salary increases as all labor agreements will be expiring.

The Town has responded to workforce reductions by using creative reorganizations. This allowed staff to redeploy funding from management positions to front-line service delivery. The proposed FY 2015/16 budget does not include funding for either the Community Development Director or Library Director

positions. Town staff will need to review reorganizational opportunities for top management positions and carefully monitor revenues and expenditures to ensure a balance of ongoing funding for daily activities as well as one-time funding for capital improvement needs. In addition, during FY 2014/15 two positions, both the Police hire ahead position and a Planning Technician position in the Community Development Department were added as one-time additions to the budget to help offset the increased workloads within those departments. At the time these additions were made, staff had intended to permanently fund these positions in FY 2015/16; however, due to the limited resources available for the FY 2015/16 budget, these positions are not being recommended for on-going funding.

Non-Personnel Operating Expenditures

Non-Personnel expenditure budgets were developed based on actual expenditures in prior years, adjusted for FY 2015/16 funding needs. In light of limited available resources, the FY 2015/16 Proposed Budgeted non-personnel expenditures are conservative, with additions primarily limited to non-discretionary, contractually obligated or mandated increases.

Unfunded Mandates and Special Projects

The FY 2015/16 Proposed Budget includes funding to address two unfunded mandates, one for storm water pollution prevention and the second for traffic signage maintenance. Storm water requirements include defined improvements towards monitoring and preventing pollution of the storm drains, meaning inspection and cleaning of those lines and installation and maintenance of filters to prevent pollution. In addition, the Federal Government has mandated reflectivity levels for signs with prioritization of speed limit and stop signs. It is expected that within a two to three year period all traffic signs will be affected. Both of these mandates require the Town to increase service levels in these areas to meet existing regulations. Non-compliance could result in fines and liabilities. Funding for these mandates is proposed as a one-time, \$100,000 addition to the FY 2015/16 budget which will begin to address these requirements. It is expected that these mandates will increase over time requiring additional allocation of funds to maintain compliance.

In addition, a new law took effect January 1, 2015 that will allow eligible employees who currently do not qualify for sick leave benefits (seasonal, temporary/hourly employees) to start accruing sick leave starting July 1, 2015. The Town has estimated eligible employee time and budgeted \$27,000 to be in compliance with this new law. This is a new on-going expenditure for the Town that will be added in future budgets.

Finally, as part of the Town's website redesign, \$14,700 has been budgeted as a one-time expenditure from the Town's Management Information Systems Fund for Civic Plus website analytics and usability studies. These studies will focus on social media integration, enhance navigation and optimization of site tools, review key indicators and determine gaps in content. The study will also incorporate staff training and facilitation of citizen group's usability.

Five-Year Financial Plan

As a foundation of the budget process, the Town updates the Five-Year Financial Plan beginning in the fall of each year. The plan includes updates to Town revenues and expenditures with the first year of the forecast's revenue estimates being the most critical in the process, as that will ultimately define the expenditure limitations for the forthcoming budget year. The multi-year conservative revenue projections further refine the Town's planning for current and future period 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 departmental service levels must be developed. They also serve as the basis to test the potential financial impacts of proposed policy and operational modifications based upon the Town's most recently adopted Strategic Goals.

Reflective of the positive economy, the Five-Year Forecast identified over \$400,000 in additional General Fund monies in FY 2015/16 which have been allocated to fund contractually obligated increases, including salary increases, contractual increases and unfunded mandates as previously discussed.

Provided below is a recap of the most recent Five-Year Financial Plan prepared in early May 2015. The updated Five-Year Financial Plan spans FY 2015/16 - 2019/2020:

**Town of Los Gatos General Fund
Updated Five-Year Financial Plan
(\$ millions)**

Account	Revenue Category	FY 1 FY 2 FY 3 FY 4 FY 5									
		2012/13 Actuals	2013/14 Adopted	2013/14 Actuals	2014/15 Budget	2014/15 Estimated	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast
4100	Property Tax	\$ 8.3	\$ 7.8	\$ 9.1	\$ 8.2	\$ 8.4	\$ 9.1	\$ 9.4	\$ 9.7	\$ 10.0	\$ 10.3
4110	VLFF Backfill Property Tax	2.4	2.4	2.7	2.7	2.8	2.8	2.9	2.9	2.9	2.9
4200	Sales & Use Tax	8.8	7.8	8.0	8.3	8.1	8.3	8.8	9.2	9.6	9.5
4250	Franchise Fees	2.0	2.0	2.1	2.1	2.1	2.1	2.2	2.3	2.3	2.4
4251	Transient Occupancy Tax	1.3	1.0	1.5	1.3	1.5	1.5	1.5	1.6	1.6	1.7
4400	Business License Tax	1.2	1.4	1.1	1.4	1.7	1.3	1.3	1.3	1.3	1.3
4400	Licenses & Permits	3.1	2.6	3.2	2.9	2.9	3.0	3.1	3.1	3.2	3.3
4500	Intergovernmental	0.9	0.7	0.8	0.7	0.7	0.8	0.7	0.7	0.7	0.8
4600	Charge for Services	3.1	2.5	2.7	2.5	2.4	2.4	2.7	2.7	2.8	2.9
4700	Fines & Forfeitures	0.6	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
4800	Interest	(0.2)	0.5	1.1	0.3	0.5	0.3	0.3	0.3	0.4	0.4
4850	Other Sources	3.6	3.4	4.7	4.5	4.9	4.7	3.5	3.3	3.3	3.4
4900	Fund Transfers In	0.6	0.8	0.3	0.6	0.4	0.5	0.4	0.4	0.4	0.4
TOTAL REVENUES		35.7	33.6	38.1	36.2	37.1	37.5	37.5	38.2	39.2	40.0
Use of Reserves/Deposits		1.9	2.7	3.4	7.7	7.3	0.4	0.4	0.4	0.4	0.4
TOTAL REVENUES & TRANSFERS		\$ 37.6	\$ 36.3	\$ 41.5	\$ 43.9	\$ 44.4	\$ 37.9	\$ 37.9	\$ 38.6	\$ 39.6	\$ 40.4
Account	Expenditure Category	2012/13 Actuals	2013/14 Proposed	2013/14 Actual	2014/15 Budget	2014/15 Estimated	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast
5110	Salary	\$ 12.6	\$ 13.0	\$ 12.4	\$ 13.7	\$ 13.1	\$ 14.3	\$ 14.3	\$ 14.4	\$ 14.4	\$ 14.4
5130	Temporary Employees	0.9	0.6	0.8	0.6	0.7	0.8	0.7	0.7	0.7	0.7
5140	Overtime	0.6	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
5170	Other Salary	0.3	0.4	0.4	0.4	0.2	0.4	0.4	0.4	0.4	0.4
5200	Benefits	6.3	6.7	6.6	8.4	6.0	7.3	7.9	8.4	8.9	9.4
6000	Supplies, Materials, & Services	5.6	5.3	5.6	5.3	5.6	5.5	5.6	5.6	5.8	5.9
6000	Pass Through Expenditures	-	-	0.8	0.8	1.1	1.1	-	-	-	-
7200	Grants & Awards	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
7400	Utilities	0.4	0.4	0.4	0.4	0.5	0.4	0.5	0.5	0.5	0.5
7700	Fixed Assets	-	-	0.1	-	-	-	-	-	-	-
8060	Internal Service Charges	3.3	3.4	3.4	3.4	3.3	3.6	3.8	3.9	4.0	4.1
8900	Debt Service	2.0	1.9	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.0
TOTAL EXPENDITURES		\$ 32.2	\$ 32.3	\$ 33.0	\$ 35.5	\$ 33.0	\$ 35.9	\$ 35.8	\$ 36.5	\$ 37.3	\$ 38.0
9900	RDA Trust Fund	-	0.1	0.1	-	-	-	-	-	-	-
9900	Operating Transfers Out	-	-	-	-	-	0.1	-	-	-	-
9900	Capital Transfers Out to GFAR	1.9	2.7	2.6	7.0	7.3	0.4	0.4	0.4	0.4	0.4
9900	GASB 45 Retiree Medical Actuarial	1.2	1.3	5.8	1.3	1.3	1.5	1.6	1.6	1.6	1.6
EXPENDITURES		35.3	36.4	41.5	43.8	41.6	37.9	37.8	38.5	39.3	40.0
9900	Allocation	-	-	-	-	-	-	-	-	-	-
9900	Projects Reserve	-	-	-	0.1	0.1	-	-	-	-	-
9900	Transfer to Stabilization Reserve	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES & ALLOCATIONS		\$ 35.3	\$ 36.4	\$ 41.5	\$ 43.9	\$ 41.7	\$ 37.9	\$ 37.8	\$ 38.5	\$ 39.3	\$ 40.0
REVENUES LESS EXPENDITURES		\$ 2.3	\$ (0.1)	\$ -	\$ -	\$ 2.7	\$ -	\$ 0.1	\$ 0.1	\$ 0.3	\$ 0.4
ONGOING SHORTFALL MITIGATION		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NET REVENUES LESS EXPENDITURES		\$ 2.3	\$ (0.1)	\$ -	\$ -	\$ 2.7	\$ -	\$ 0.1	\$ 0.1	\$ 0.3	\$ 0.4

*FY 2014/15 \$7.4 million in use of Reserves/Deposit is for capital projects funding, inclusive of 44.2 million for Phase 1 of the Almond Grove Street Rehabilitation Project.

Notably, in the Five-Year Forecast FY 2014/15 year-end estimates indicate excess revenues over expenditures in the amount of \$2.7 million. This \$2.7 million is inclusive of the Town's savings related to the payoff of the Town's CalPERS side fund liability. The side fund payoff was approved in June 2014 along with adoption of the proposed FY 2014/15 Operating Budget. Because the FY 2014/15 was adopted prior to the side fund pay-off, the \$700,000 in savings was moved to non-departmental so it would not be spent. In addition, approximately \$1.3 million of this year end savings resulted from an unusual number of separations and vacancies throughout the fiscal year.

As per the Town's General Fund Reserve Policy, given that the combined funding level in the Catastrophic and Budget Stabilization Reserves exceeds the required funding level of 25%, year-end savings will transfer to the Capital Projects Reserve for future capital projects.

State Budget Impacts

Details on the State of California Proposed FY 2015/16 budget will be available as part of the Governor's May Budget. Based on a preliminary review of the State's proposed budget, the League of California Cities has identified the following budget proposal that will impact cities:

- *Water Conservation and Drought:* The Governor's executive order and draft regulation from the California State Water Resource Control Board (CSWRCB) mandates a 25% reduction in potable urban water usage through February 28, 2016. Restrictions are in effect for commercial, industrial, and institutional properties, such as golf courses as well as a prohibition on the irrigation of ornamental turf on public street medians with potable water. In addition, the draft legislation calls for a prohibition of irrigation with potable water outside newly constructed homes and buildings, development of rate structures and other pricing mechanisms to maximize water conservation consistent with statewide water restrictions, and monthly reporting on usage, conservation and enforcement by water suppliers.

- *Elimination of Tax Increment Cap for Redevelopment:* On July 28, 2011, the Governor signed two budget "trailer" bills concerning redevelopment, ABx1 26 and ABx1 27 (hereafter AB 26 and AB 27 for simplicity). AB 26 (the "Dissolution Act") eliminated redevelopment agencies and AB 27 (the "Voluntary Program Act") allowed redevelopment agencies to remain in existence and be exempt from AB 26 if certain "voluntary" payments were made to the state. The League of California Cities and the California Redevelopment Association (CRA) filed a petition with the California Supreme Court, challenging the constitutionality of AB 26 and AB 27. The California Supreme Court, in its decision in *California Redevelopment Association v. Matosantos*, issued December 29, 2011, declared the Dissolution Act alone to be constitutional. Under the Dissolution Act, all California redevelopment agencies were dissolved effective February 1, 2012. Following the provisions of the Dissolution Act, the Town Council adopted a resolution accepting for the Town the role of Successor Agency to the Redevelopment Agency of the Town of Los Gatos. An oversight board, consisting of members representing Santa Clara County, the Town, and various education and special districts was formed to approve and direct certain actions of the Town as Successor Agency.

While the Successor Agency will continue to receive tax increment revenue to pay enforceable obligations, like debt service, funding for administrative expenses, including direct charges for salary and benefits, overhead, and various operational expenses, has been significantly limited. Successor agencies may receive a maximum of up to \$250,000 or up to 3 percent of tax increment revenues received by the Successor Agency per fiscal year for administrative expenses. As part of the Governor's recent budget update, it is expected that legislation will be approved to eliminate the CAP, allowing for the Successor Agencies to continue collecting tax increment until all debt service is paid.

Conclusion

While the global, national, and local economy appears to remain on the positive side, the Town anticipates that future years may present only limited available resources to augment staffing and services. Therefore, the FY 2015/16 budget provides for minimal staffing additions.

In light of future projections, opportunities to enhance service delivery, while lowering operating costs through resource and workload redeployments and organizational restructuring continue to be explored.

Developments at the local and state level, including unanticipated changes in major revenue sources or unforeseen State revenue “takes” will be brought to Town Council’s attention in a timely manner so that an appropriate action can be taken.

I wish to thank all of the departments, in particular, Department Directors and the members of their management and support staff, who worked diligently on the preparation of this budget document as well as the following staff members:

Stephen Conway, Finance and Administrative Services Director
Jennifer Callaway, Finance & Budget Manager
Laurel Prevetti, Assistant Town Manager/Community Development Director
Rumi Portillo, Human Resources Director
Krysten Lee, Accountant
Nicole Tram, Payroll Specialist
Gitta Ungvari, Administrative Technician
Melissa Ynegas, Account Technician
Linda Isherwood, Analyst

Respectfully submitted,

Les White
Interim Town Manager



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Town of Los Gatos
California**

For the Fiscal Year Beginning

July 1, 2014

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.

CORE VALUES

Police Library Parks & Trails Streets & Parking Youth & Senior Services		Ongoing Core Services (representing roughly 80% of Town resources)		Economic Vitality Planning & Building Arts & Special Events Environmental Services Emergency Preparedness	
2014 – 2016 Strategic Goals					
General Plan Implementation: Reverse the grading policy (General Plan Action CD-15.2) and adopt grading ordinance	Update the Town website to provide timely, easy-to-access and important information for the public.	Consider employee benefit cost containment and service impact fees	Undertake Phase I of project to improve condition of streets in the Almond Grove district	Partner with the Veterans Committee to develop a Veterans Memorial in Los Gatos	Implement migration to regional communications and interoperability
Consider regulating polystyrene, and leaf blowers	Adopt the use of tools to increase communication with the public including social media and citizen engagement technology.	Review and revise Town policy related to the service of alcohol & entertainment	Explore and present funding mechanisms to provide ongoing funding for street maintenance	Develop plan to enhance the aesthetics and use of the Civic Center as a community resource	In conjunction with County Fire, implement evacuation plans for areas subject to flooding and fires
Complete Specific Plan and EIR for the North 40	Develop public CUP database and monitoring program	Facilitate privately-led effort to address options for Downtown parking supply	Update Heritage Tree definition and 25% trim regulations in Tree Ordinance	Develop a strategic plan for the new library	Conduct mid-contract review and update of contract with Monte Sereno for police services to reflect needs and resources
Update the Housing Element per State law	Develop technology priorities plan and implement digital Council packet process	Develop a policy to ensure the continued diversity of independent and national businesses in the downtown	Develop implementation plan for "Complete Streets Policy" that supports a balanced, multimodal transportation	Review senior services needs assessment information gathered by the Community and Senior Services Commission	Increase installation and use of traffic speed monitoring signs to improve traffic safety
Review policies and practices related to Community Benefit and Planned Developments		Consider the sale or lease of town properties to create one-time or ongoing funding	Increase the availability of electric vehicle charging stations to meet the growing demand.		Expand community partnerships for crime prevention and response
Amend zoning ordinance for Home Occupation Permits			Engage with schools to explore options to address traffic & parking issues		
Review role of Consulting Architect			Increase regulation of on-street vehicular sales & advertising		

FUND DESCRIPTIONS

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

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

MAJOR AND NON-MAJOR GOVERNMENTAL FUNDS

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

General Fund

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

Special Revenue Funds

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

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

∞ FUND DESCRIPTIONS ∞

Capital Project Funds

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

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

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

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

NON-MAJOR PROPRIETARY FUNDS

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

Internal Service Funds

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

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

∞ FUND DESCRIPTIONS ∞

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

FIDUCIARY FUNDS

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

Trust Funds

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

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

∞ FUND DESCRIPTIONS ∞

Agency Funds

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

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

FINANCIAL POLICIES

REVENUE

BUDGETING and EXPENDITURE

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

∞ FINANCIAL POLICIES ∞

FUND BALANCE RESERVES

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

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

- A reserve will be maintained for the depreciation and replacement of equipment.
- A reserve will be maintained for the maintenance of buildings.

CAPITAL IMPROVEMENT

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

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

∞ FINANCIAL POLICIES ∞

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

LONG-TERM DEBT POLICY

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.

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 (GO, COP, Revenue Bond, and Contractual Debt) are not to exceed 25% of the Town's operating revenue.
4. A ratio of current assets to current liabilities of at least 2/1 will be maintained to ensure the Town's ability to pay short-term obligations.

The Town will consider the issuance of long-term obligations under the following conditions:

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

INVESTMENT POLICY

I. SCOPE

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

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

Specifically excluded from this 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.

II. INVESTMENT OBJECTIVES

1. The primary investment objectives, in prioritized order, shall be safety, liquidity, and yield:
 - a. **Safety** - Safety of principal is the foremost objective of the investment program. Investments of the Town shall be made in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the Town will diversify its investments by security type and institution. With the exception of US Treasury securities and the California Local Agency Investment Fund (LAIF), no more than 50% of the Town's total investment portfolio will be invested in a single security type, or with a single financial institution.
 - b. **Liquidity** – The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. However, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. In addition, a portion of the portfolio should be placed in money market mutual funds or the Local Agency Investment Fund that offer same day liquidity.
 - c. **Yield** - The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

∞ INVESTMENT POLICY ∞

2. The Town shall pursue a passive "buy and hold" investment strategy rather than a more aggressive active management strategy. In general, securities shall not be sold prior to maturity with the following exceptions:
 - a. A security with declining credit may be sold early to minimize loss of principal.
 - b. Liquidity needs of the portfolio require that the security be sold.

III. STANDARDS OF CARE

1. **Prudence** - The standard of care to be used by investment officials shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of principal as well as the probable income to be derived.

2. **Ethics and Conflicts of Interest** - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial relationships or personal investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the Town.
3. **Delegation of Authority** - Under Los Gatos Town Code Section 2.30 025(c) the Town Council is responsible for the delegation of authority for management of the Town's investment program. This authority is hereby delegated to the Town Treasurer, who shall develop and act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Town Treasurer. The Town Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of any subordinate officials.

IV. SAFEKEEPING AND CUSTODY

1. Authorized Financial Dealers and Institutions

Broker/Dealers - In order to do business with the Town, a securities dealer/ brokerage firm must be designated as a primary government dealer by the Federal Reserve Bank or meet one of the other requirements of California Government Code Sec. 53601.5. The institution must have assets of at least \$1 billion. All financial institutions and broker/dealers who desire to become qualified for investment transactions must also supply the following:

- Audited financial statements (to be submitted annually)
- Proof of National Association of Securities Dealers registration
- Proof of state registration
- Certification of having read the Town's investment policy, including a statement that the dealer shall make a good faith effort to conform to this policy.

Financial Institutions - The Town shall maintain demand deposits and time deposits only with commercial banks and savings banks that meet exceptionally high standards for safety and soundness. Specifically, all banks that accept deposits from the Town shall meet standards with regard to capital strength, assets, earnings, and liquidity which allow them to earn the highest rating rank (blue/three stars) from the bank rating company Veribanc, Inc. In addition, the institution must have an office in California and that office must perform all transactions with the Town.

2. **Internal Controls** - The Town Treasurer, in conjunction with the Town's Finance Director shall establish and maintain an internal control structure designed to ensure that the invested assets of the Town are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. Accordingly, the Town Treasurer shall facilitate an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Separation of transaction authority from accounting and record keeping functions
- Custodial safekeeping
- Avoidance of physical delivery of securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers

3. **Delivery vs. Payment** - All securities trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are delivered into safekeeping with the Town's third party custodian prior to the release of funds. The Town's third-party custodian will be independent from the broker/dealer handling the security transaction to ensure proper, timely delivery and payment.

∞ INVESTMENT POLICY ∞

- 4. Collateralization** - Collateralization is required on all Certificates of Deposits and deposits in excess of FDIC insurance limits. Per Government Code Section 53652, the required collateralization level is 110% of market value of principal and accrued interest for government securities pledged as collateral, or 150% for first deeds of trust pledged as collateral. Such collateral will be held by an independent third party custodian.

V. SUITABLE AND AUTHORIZED INVESTMENTS

- 1. Investment Types** - California Government Code Sections 53601, 53631.5 and 53635 place limitations on allowable investments by local governments. This investment policy further restricts allowable investments. The following investments will be permitted by this policy:

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum % of Portfolio</u>	<u>Quality Requirements</u>
US Treasury Obligations	5 years	None	N/A
US Agency Obligations	5 years	None	Active Market (1)
Bankers Acceptances	180 days	15%	
Commercial Paper	180 days	15%	See Below (2)
Medium Term Notes	3 years/5 years	15%	AA / AAA
Collateralized CD's	5 years	15%	See Below (3)
CA LAIF	N/A	65%	N/A
Money Market Funds	N/A	15%	See Below (4)

- (1) Limited to US Agency Obligations with liquid markets and readily determinable fair market value, including obligations issued by the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Association (Freddie Mac), the Federal Farm Credit Bank (FFCB), the Federal Land Bank, and the Tennessee Valley Authority (TVA)
- (2) Commercial paper must be Aprime@ quality of the highest ranking as provided by Moody's or S & P and is limited to corporations with assets of at least \$500 million. Purchases may not represent more than 10% of the outstanding commercial paper of the issuer.
- (3) Must be collateralized per the requirements of this investment policy section IV (4) and the institution must meet the Veribanc blue/three stars rating.
- (4) Money market funds must be registered with the SEC under the Investment Company Act of 1940, must have assets under management in excess of \$500 million, have retained an investment advisor registered with the SEC (or exempt from registration) with not less than 5 years' experience managing money market mutual funds, and have attained the highest ranking provided by not less than two nationally recognized statistical rating organizations.

∞ INVESTMENT POLICY ∞

2. Prohibited Investments - Prohibited investments are any investments not specifically identified above, including but not limited to:

- Derivatives of the above instruments repurchase agreements
- Reverse repurchase agreements negotiable certificates of deposit
- Inverse floaters
- Range notes
- Interest only strips
- Any security which could result in zero interest accrual if held to maturity

VI. REPORTING

1. Methods - The Town Treasurer shall prepare a quarterly investment report, including a management summary that provides an analysis of the status of the current investment portfolio. This management summary will be prepared in a manner that will allow the Town to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be submitted to the Town Clerk within 30 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:

- Detailed listing of individual securities held at the end of the reporting period including, issuer, purchase date, maturity date, and yield to maturity
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the amortized cost and market value of each security
- Average weighted yield to maturity of the portfolio
- Weighted Average Maturity of the portfolio and percentage breakdown of the total portfolio by maturity (e.g., % less than 1 year, 1 - 2 years, 3 - 5 years)
- Summary of interest income for the month and fiscal year to date
- A statement of compliance with the Investment Policy
- A statement regarding the adequacy of cash flows for the next six months

2. Marking to Market - When "marking the portfolio to market" (i.e., calculating the market value of the portfolio), the Treasurer shall obtain independent valuation of the portfolio from the Town's safekeeping or custody service. Investments in LAIF shall be valued as shown on the month-end statements received from the California State Treasurer. Due to a lack of reliable market value data, investments in Certificates of Deposit shall be shown at cost provided that the fair market value of the Certificates of Deposit are not significantly affected by the impairment of the credit standing of the issuer.

∞ INVESTMENT POLICY ∞

VII. Policy Considerations

- 1. Exemption** – Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.
- 2. Adoption** – The Town's investment policy shall be adopted by resolution of the Town Council at a public meeting.
- 3. Amendments** - This policy shall be reviewed on an annual basis. Any changes must be approved by the Town Treasurer and the Town Council.

BUDGET PROCESS OVERVIEW

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

Budget Purpose

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

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

Basis of Budgeting and Accounting

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

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

Basis of Accounting and Budget refers to the timing factor concept in recognizing transactions. This basis is a key component of the overall financial system because the budget determines the accounting system. For example, if the budget anticipates revenues on a cash basis, the

accounting system must record only cash revenues as receipts. If the budget uses an accrual basis, accounting must do likewise. The Town's budgeting and accounting systems both use a combination of modified accrual and full accrual basis in the accounting and budget systems.

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

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

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

Summary of Budget Development

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

functions to be accomplished in the next budget year.

The Development Process

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

In January, the budget preparation process begins officially for staff with a budget kickoff meeting. Budget assumptions, directives and initiatives developed by Town Council and Management are provided to set the Town's overall objectives and strategic goals determined by the Council. Department staff identify and analyze 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, staff's final 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 for Town Council review in addition to departmental budgets and work plans.

Budget Adoption

During the month of May, the Town Council reviews the proposed Operating and Capital Summary Budget, and the Capital Improvement Plan for the five year period in a public hearing.

Notice of the hearing is published in a local newspaper at least ten days prior to the Council's public hearing date. The public is invited to participate and copies of the proposed budgets are available for review in the Town Clerk's office and at the budget hearing.

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

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

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

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

Budget Amendments

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

BUDGET CALENDAR

**October /
November /
December**

CIP work plan proposals and development

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

Determine and refine initiatives and directives for upcoming budget year

Update User Fee Schedule

January

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

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

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

1st Draft revenue projections due to Budget Office

Analyze budget projections and review with Town Manager

February

1st Draft staffing requests due to Budget Office

Review and finalize staffing positions and requests

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

1st Draft CIP Budget due to Budget Office

Review Internal Service requests with responsible Program Managers

1st Draft Internal Service budgets due to Budget Office

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

March

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

1st Draft CIP budget briefing – determine program revisions

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

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

2nd Draft briefing and revisions with Town Manager, departments

April

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

Grant distribution finalized

Budget revisions finalized and proposed budgets assembled

Public Hearings for proposed User Fee Schedule

Proposed budget briefing with Town Manager

May

Distribute Proposed Operating and CIP budgets to Town Council

Public Hearings for proposed Operating and Capital, CIP, and RDA Budgets

Town Council revisions incorporated into budget documents

**May/
June**

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

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

**July/
August/
September**

Adopted Operating and CIP Budget documents finalized, printed and distributed

GANN APPROPRIATION LIMIT

On November 6, 1979 California voters approved Proposition 4, commonly known as the Gann Spending Limitation Initiative, establishing Article 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 2015/16:

For YE June 30	Beginning Appropriation Limit	County Population Factor	Town Population Factor	Per Capita Income	Ending Appropriation Limit	% Limit Increase
2007	23,691,192	1.0118	1.0044	1.0396	24,919,990	5.19%
2008	24,919,990	1.0152	1.0100	1.0442	26,416,980	6.01%
2009	26,416,980	1.0172	1.0318	1.0429	28,426,367	7.61%
2010	28,426,367	1.0156	1.0108	1.0062	29,048,811	2.19%
2011	29,048,811	1.0126	1.0101	0.9746	28,667,689	-1.31%
2012	28,667,689	1.0089	1.0096	1.0251	29,669,366	3.49%
2013	29,669,366	1.0124	1.0081	1.0377	31,169,671	5.06%
2014	31,169,671	1.0157	1.0147	1.0512	33,279,977	6.77%
2015	33,279,977	1.0150	1.0102	0.9977	33,701,485	1.27%
2016	33,701,485	1.0113	1.0020	1.0382	35,384,256	4.99%

GANN APPROPRIATION LIMIT

The Town of Los Gatos' appropriation limit for fiscal year 2015/16 is calculated as follows:

FY 2015/16 Calculation

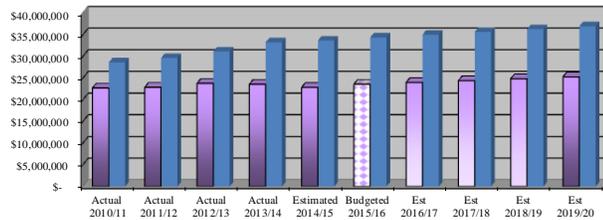
% Increase in County Population	Change in Per Capita Income	Appropriation Factor	2014/15 Appropriation Limit	2015/16 Appropriation Limit
1.0113	X 1.0382	= 1.04993166	X \$ 33,701,485	= \$ 35,384,256

As illustrated above, the total amount of tax revenues appropriated to the Town in FY 2015/16 is not to exceed \$35,384,256. The FY 2015/16 budget anticipates \$23,599,742 in tax revenues which equates to \$10,821,690 less than, or approximately 69% of, the appropriation limit for FY 2015/16. Therefore, the Town's tax revenues fall substantially below the appropriation limit.

APPROPRIATION TREND

Located in the Silicon Valley, Los Gatos has seen a significant increase in the county's population in recent years. A picturesque and charming town, Los Gatos is a desirable community known for its hometown feel and excellent schools, which is reflected in the steady increases in property values. Together, these factors contribute to a stable appropriation limit while maintaining a comfortable margin between tax revenues received and the revenue limitation established under the Gann Proposition. With a conservative forecast for an annual 1.8% revenue growth and 1.8% appropriation growth (based on prior year averages), there remains a strong expectation for an ongoing level of comfort in future year's appropriation margins.

**Tax Revenues to Appropriation Limit
10 Year Trend**



	Actual 2010/11	Actual 2011/12	Actual 2012/13	Actual 2013/14	Estimated 2014/15	Budgeted 2015/16	Est 2016/17	Est 2017/18	Est 2018/19	Est 2019/20
Tax Revenues	\$ 22,749,291	\$ 22,908,718	\$ 23,812,566	\$ 23,603,489	\$ 22,879,485	\$ 23,599,742	\$ 24,015,097	\$ 24,437,763	\$ 24,867,868	\$ 25,305,542
Appropriation Limit	\$ 28,667,689	\$ 29,669,366	\$ 31,169,671	\$ 33,279,977	\$ 33,701,485	\$ 34,421,432	\$ 35,044,460	\$ 35,678,765	\$ 36,324,551	\$ 36,982,025
Revenue to Limit %	79%	77%	76%	71%	68%	69%	69%	68%	68%	68%

APPROPRIATION LIMIT ADOPTION

The resolution to adopt the appropriation limit of \$35,384,256 will be presented to Council on June 16, 2015 for adoption.

GANN APPROPRIATION RESOLUTION

RESOLUTION 2015-035

**RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS
ESTABLISHING THE FY 2015/16 APPROPRIATIONS LIMIT
FOR THE TOWN OF LOS GATOS**

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

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

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

THEREFORE, BE IT RESOLVED, that the Annual Appropriations Limit for the Town of Los Gatos for FY 2015/16 is \$35,384,256 as reflected in Exhibit A.

PASSED AND ADOPTED at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 16th day of June 2015 by the following vote:

COUNCIL MEMBERS:

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

NAYS:

ABSENT:

ABSTAIN:

SIGNED:


MAYOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

ATTEST:


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

TOWN OF LOS GATOS

ANNUAL BUDGET RESOLUTION

RESOLUTION 2015-044

RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS APPROVING THE FY 2015/16 GENERAL FUND OPERATING BUDGET AND OTHER APPROVED APPROPRIATIONS AND MINOR CORRECTIONS

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 a proposed budget for the FY 2015/16 to the Town Council; and

WHEREAS, the Town Council has considered and reviewed said proposed budget during public hearings.

RESOLVED, that the Town Council hereby adopts as the budget for the Town of Los Gatos for the 2015/16 fiscal year the schedule entitled "Total Town Revenues By Fund and Total Town Expenditures By Fund" excluding Capital Projects Fund (Exhibit A).

BE IT FURTHER RESOLVED, that the final adopted budget includes approved appropriations for unspent prior year allocations, and that there be carried forward from prior years Reserve for Encumbrances within each fund an amount sufficient to cover approved outstanding encumbrances as of June 30, 2015; and

PASSED AND ADOPTED at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 16th day of June, 2015 by the following vote:

COUNCIL MEMBERS:

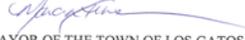
AYES: Rob Rennie, Marico Sayoc, Barbara Spector, Mayor Marcia Jensen

NAYS: Steve Leonardis

ABSENT:

ABSTAIN:

SIGNED


MAYOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

ATTEST:

CLERK OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

RESOLUTION 2015-045

RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS APPROVING THE FY 2015/16 – FY 2019/20 CAPITAL BUDGET AND OTHER APPROVED APPROPRIATIONS AND MINOR CORRECTIONS

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 a proposed five-year capital improvement plan for FY 2015/16 – FY 2019/20; and

WHEREAS, the Town Council has considered and reviewed said capital improvement plan during public hearings.

RESOLVED, that the Town Council hereby adopts the first year (FY 2015/16) of the Town's Capital Improvement Program budget as contained in the Town's FY's 2015/16 – 2019/20 Capital Improvement Plan.

BE IT FURTHER RESOLVED, that the final adopted budget includes approved appropriations for unspent prior year allocations, and that there be carried forward from prior years Reserve for Encumbrances within each fund an amount sufficient to cover approved outstanding encumbrances as of June 30, 2015; and

PASSED AND ADOPTED at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 16th day of June, 2015 by the following vote:

COUNCIL MEMBERS:

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

NAYS:

ABSENT:

ABSTAIN

SIGNED


MAYOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

ATTEST:


CLERK OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

