



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE AGENDA
DECEMBER 07, 2020
110 EAST MAIN STREET
LOS GATOS, CA
5:00 PM**

*Marcia Jensen, Mayor
Barbara Spector, Vice Mayor
Ron Dickel, Committee Member
Terry Duryea, Committee Member
Rick Tinsley, Committee Member*

**IMPORTANT NOTICE REGARDING THE DECEMBER 7, 2020
COUNCIL FINANCE COMMITTEE MEETING**

This meeting is being conducted utilizing teleconferencing and electronic means consistent with State of California Executive Order N-29- 20 dated March 17, 2020, regarding the COVID- 19 pandemic. The live stream of the meeting may be viewed on television and/or online at www.losgatosca.gov/AgendasAndVideos. In accordance with Executive Order N-29- 20, the public may only view the meeting on television and/or online and not in the Council Chamber.

PARTICIPATION

If you are not interested in providing oral comments real-time during the meeting, you can view the live stream of the meeting on television (Comcast Channel 15) and/or online at <https://www.youtube.com/channel/UCFh35XRBWer1DPx-F7vvhcg>.

If you are interested in providing oral comments real-time during the meeting, you must join the Zoom webinar in one of the following ways:

- Join from a PC, Mac, iPad, iPhone or Android device: click this link <https://losgatosca.gov.zoom.us/j/83700938045>. Password: 009352. You can also type in 83700938045 on the “Join a Meeting” page on the Zoom website at <https://zoom.us/join>.
- Join by telephone: Dial: USA 636 651 0008 US Toll or USA 877 336 1839 US Toll-free.
Conference code: 986172

During the meeting:

- When the Chair announces the item for which you wish to speak, click the “raise hand” feature in Zoom. If you are participating by phone on the Zoom app, press *9 on your telephone keypad to raise your hand. If you are participating by calling in, press #2 on your telephone keypad to raise your hand.
- When called to speak, please limit your comments to three (3) minutes, or such other time as the Chair may decide, consistent with the time limit for speakers at a Committee meeting.

If you are unable to participate in real-time, you may email to PublicComment@losgatosca.gov with the subject line “Public Comment Item #__” (insert the item number relevant to your comment) or “Verbal Communications – Non Agenda Item.” Comments will be reviewed and distributed before the meeting if received by 3:00 p.m. on the day of the meeting. All comments received will become part of the record. The Chair has the option to modify this action on items based on comments received.

REMOTE LOCATION PARTICIPANTS

The following Committee Members are listed to permit them to appear electronically or telephonically at the Council Finance Committee meeting: COUNCIL MEMBER ROB RENNIE, COUNCIL MEMBER MARICO SAYOC, COMMISSIONER RON DICKEL, COMMISSIONER TERRY DURYEA, COMMISSIONER RICK TINSLEY. All votes during the teleconferencing session will be conducted by roll call vote. All votes during the teleconferencing session will be conducted by roll call vote.

MEETING CALLED TO ORDER

ROLL CALL

CONSENT ITEMS *(Items appearing on the Consent Items are considered routine and may be approved by one motion. Any member of the Council or public may request to have an item removed from the Consent Items for comment and action. A member of the public may request to pull an item from Consent by following the Participation Instructions contained on Page 2 of this agenda. If an item is pulled, the Mayor has the sole discretion to determine when the item will be heard. Unless there are separate discussions and/or actions requested by Council, staff, or a member of the public, it is requested that items under the Consent Items be acted on simultaneously.)*

- [1.](#) Approve Minutes of the August 10, 2020 Council Finance Committee.
- [2.](#) Approve Minutes of the October 12, 2020 Council Finance Committee.
- [3.](#) Receive the First Quarter Investment Report (July through September 2020) for Fiscal Year 2020/21.
- [4.](#) Receive Information on the Implementation of the Town Finance Commission.

VERBAL COMMUNICATIONS *(Members of the public are welcome to address the Committee on any matter that is not listed on the agenda consistent with the Participation Instructions contained on Page 2 of this agenda. To ensure all agenda items are heard and unless additional time is authorized by the Chair, this portion of the agenda is limited to 30 minutes and no more than three (3) minutes per speaker. In the event additional speakers were not able to be heard during the initial Verbal Communications portion of the agenda, an additional Verbal Communications will be opened prior to adjournment.)*

OTHER BUSINESS *(Up to three minutes may be allotted to each speaker on any of the following items consistent with the Participation Instructions contained on Page 2 of this agenda.)*

- [5.](#) Discuss and Provide Comments to the Town Council Regarding the Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.

ADJOURNMENT



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE
AGENDA REPORT**

MEETING DATE: 12/7/2020

ITEM NO: 1

**DRAFT
Minutes of the Council Finance Committee Meeting
August 10, 2020**

The Council Finance Committee of the Town of Los Gatos conducted a meeting via teleconference via COVID-19 Shelter in Place Guidelines on Monday, August 10, 2020, at 5:00 p.m.

MEETING CALLED TO ORDER AT 5:00 P.M.

ROLL CALL

Present: Council Members Rob Rennie and Marico Sayoc, and Committee Members Ron Dickel, Terry Duryea, and Rick Tinsley.

Absent: None

Staff Present: Town Manager Laurel Prevetti, Town Attorney Rob Schultz, Assistant Town Manager Arn Andrews, Finance Director Stephen Conway, and Finance and Budget Manager Gitta Ungvari.

CONSENT ITEMS (TO BE ACTED UPON BY A SINGLE MOTION)

1. Approve Council Finance Committee Meeting Draft Minutes of June 8, 2020.
2. Receive Final Account Summary Reports for the Town of Los Gatos PARS IRS Section 115 Pension Trust for the Periods Ending November 30, 2019 through June 30, 2020.
3. Receive Market Value Summary Quarterly Reports for the Period Ending December 31, 2019, the Period Ending March 31, 2020, and the June 30, 2020, Performance Report for the California Employers' Retiree Benefit Trust (CERBT).
4. Receive the Town of Los Gatos Retiree Healthcare Plan June 30, 2019 Actuarial and its Assumptions as Prepared by Bartel Associates, LLC., and Approved by the Pension/OPEB Oversight Committee.

Items #1 and #4 were pulled by members of the Committee.

MOTION: Motion by Council Member Rob Rennie to approve Items 2 and 3 on the Consent Calendar. **Seconded by Council Member Marico Sayoc.**

VOTE: Motion passed unanimously.

Pulled Consent Item #1

1. Approve Council Finance Committee Meeting Draft Minutes of June 8, 2020.

Committee Member Duryea suggested language for the summary of item 3.

MOTION: **Motion** by **Council Member Rob Rennie** to approve the June Minutes by replacing the language for item 3 per Committee Member Duryea as follows: *"After discussion by all, nonvoting members wondered why this item was put on the agenda since it did not appear feasible to reach a compromise with the ballot initiative authors. In addition, there was not sufficient time remaining in meeting to have a meaningful discussion of the topic since the meeting had a hard stop. Therefore, the discussion ended."* **Seconded** by **Council Member Marico Sayoc**.

VOTE: Motion passed unanimously.

Pulled Consent Item #4

4. Receive the Town of Los Gatos Retiree Healthcare Plan June 30, 2019 Actuarial and its Assumptions as Prepared by Bartel Associates, LLC., and Approved by the Pension/OPEB Oversight Committee.

Committee members noted that the report was not available for the Committee and the public in a timely manner and that the discount rate used in the assumptions is optimistic. In addition, Committee members noted that there was a numerical error on page E-19 and E-20 of the exhibit. Staff confirmed that it is in the purview of the Finance Committee to recommend a different asset allocation strategy for the OPEB Trust which in turn would require the lowering of the discount rate for actuarial reporting purposes. Committee members confirmed that they do not want to recommend changes to the current asset allocation strategy. In addition, Committee members commented that OPEB is not a legally required benefit.

MOTION: **Motion** by **Council Member Rob Rennie** to receive the Town of Los Gatos Retiree Healthcare Plan June 30, 2019 Actuarial and Assumptions as Prepared by Bartel Associates, LLC. **Seconded** by **Council Member Marico Sayoc**.

VOTE: Motion passed unanimously.

VERBAL COMMUNICATIONS

Matthew Hudes

- Commented on the talent of the Finance Committee and recommended that the Committee should be used more broadly in an advisory capacity for Town Council, and items should be discussed by the Finance Committee before they are discussed by the Pension/OPEB Oversight Committee.

OTHER BUSINESS

5. Input to the Annual Financial Audit (FY 19/20) Currently Being Performed by the Town's Independent Auditors, Badawi & Associates.

Mr. Badawi, the Town's independent auditor, presented slides describing the audit process. Committee members discussed the information with staff and Mr. Badawi. The Committee provided comments on preparation of the Draft CAFR, emphasizing the importance of the pension discount rate and the sensitivity analysis around changes in the discount rate. Committee members emphasized the importance of including additional information within the Pension Footnote and not using CalPERS language.

Opened Public Comment.

Phil Koen

- Commented that it is the management's responsibility ~~to support~~ to determine whether the CalPERS assumption are a reasonable result of the fair representation of the Financial Statements and disclose it in the Footnote.

Closed Public Comment.

ADJOURNMENT:

The meeting adjourned at 6:38 p.m.

This is to certify that the foregoing is a true and correct copy of the minutes of the August 10, 2020 meeting as approved by the Council Finance Committee.

Gitta Ungvari, Finance and Budget Manager



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE
AGENDA REPORT**

MEETING DATE: 12/7/2020

ITEM NO: 2

**DRAFT
Minutes of the Council Finance Committee Meeting
October 12, 2020**

The Council Finance Committee of the Town of Los Gatos conducted a meeting via teleconference via COVID-10 Shelter in Place Guidelines on Monday, October 12, 2020, at 5:00 p.m.

MEETING CALLED TO ORDER AT 5:01 P.M.

ROLL CALL

Present: Council Members Rob Rennie and Marico Sayoc, and Committee Members Ron Dickel, Terry Duryea, and Rick Tinsley. (All participating remotely.)

Absent: None

Staff Present: Town Manager Laurel Prevetti, Town Attorney Rob Schultz, Assistant Town Manager Arn Andrews, Finance Director Stephen Conway, and Finance and Budget Manager Gitta Ungvari.

CONSENT ITEM (TO BE ACTED UPON BY A SINGLE MOTION)

1. Approve Council Finance Committee Meeting Draft Minutes of August 10, 2020.

Items #1 was pulled members of the Committee and by a member of the public.

Committee members discussed the item.

Opened Public Comment.

Phil Koen

- Commented that item 5 of the August minutes should reflect his public comment that it is the management's responsibility to determine whether the CalPERS assumptions are a reasonable result of the fair representation of the Financial Statements and disclose it in the Footnote.

Closed Public Comment.

Committee Member Tinsley suggested modifying the minutes to include Mr. Koen's comment.

Consent Item #1 – continued

MOTION: Motion by Council Member Marico Sayoc to bring back the August Minutes for approval to the next Finance Committee meeting incorporating the suggestion of Committee Member Rick Tinsley. **Seconded** by Council Member Rob Rennie.

VOTE: Motion passed unanimously.

VERBAL COMMUNICATIONS

None.

OTHER BUSINESS

5. Review the Town's Operating Portfolio Investment Policy and Forward a Recommendation of Approval to the Town Council.

Arn Andrew presented the staff report. Committee members discussed the item and staff addressed Committee member questions.

Opened Public Comment.

None

Closed Public Comment.

The Committee discussed the item.

MOTION: Motion by Council Member Rob Rennie recommending that the Council approve the update to the Investment Policy with modifications that the Quarterly Investment Report should include the Town's portfolio Environmental, Social and Governance (ESG) ratings and should be presented to the Council Finance Committee. **Seconded** by Council Member Marico Sayoc.

VOTE: Motion passed unanimously.

PAGE 3 OF 3

SUBJECT: Draft Minutes of the Council Finance Committee Meeting of October 12, 2020

DATE: December 7, 2020

ADJOURNMENT:

The meeting adjourned at 5:38 p.m.

This is to certify that the foregoing is a true
and correct copy of the minutes of the
October 12, 2020 meeting as approved by the
Council Finance Committee.

Gitta Ungvari, Finance and Budget Manager



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE
REPORT**

MEETING DATE: 12/07/2020

ITEM NO: 3

DATE: November 24, 2020
TO: Council Finance Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the First Quarter Investment Report (July through September 2020) for Fiscal Year 2020/21.

RECOMMENDATION:

Receive the First Quarter Investment Report (July through September 2020) for Fiscal Year 2020/21.

BACKGROUND:

On October 12, 2020, the Council Finance Committee reviewed the Investment Policy and recommended that the Quarterly Investment Report should include the Town portfolio Environmental, Social and Governance (ESG) scores and should be provided to the Council Finance Committee.

On November 3, 2020, the Town Council received the Committee's recommendations and adopted both.

DISCUSSION:

As of September 30, 2020, the Town's weighted portfolio yield was 1.86% which trended above the Local Agency Investment Fund (LAIF) yield of 0.69%. This favorable yield differential was primarily due to the LAIF portfolio's weighted average maturity (WAM) of 169 days and the Town's longer WAM of 556 days. The Town's weighted average rate of return of 1.86% for the first quarter remained stable relative to the first quarter return of 2.02% in 2019.

In the months prior to the COVID-19 outbreak, staff in consultation with the Town's investment advisor had been extending maturities to capture higher yields currently associated with longer dated securities. In recent months, the economic fallout associated with the pandemic has led

PREPARED BY: Stephen Conway
Director of Finance

Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

DISCUSSION (continued):

to Treasury yields falling dramatically. For example, on September 30, 2020, ten-year US Treasury notes were yielding 0.69% versus 1.69% on September 30, 2019.

During the first quarter, staff in coordination with the Town's investment advisor started investing most maturing investments into the State Local Agency Investment Fund (LAIF) pool to capture the higher short-term yields. The State LAIF pool typically lags the market when current market yields are either increasing or decreasing. However, with LAIF's WAM of 169 days, staff is expecting a steady decline in LAIF portfolio yields until the LAIF portfolio reflects the low short-term investment yields available in the market.

The Federal Reserve (Fed) projects no change to its policy until late 2023. The Fed said it is committed to keeping the target range for the federal funds rate at 0% to 0.25% until "labor market conditions have reached levels consistent with the Committee's assessment of maximum employment".

Attachments:

1. First Quarter Investment Report for FY 2020/21 (July through September 2020)
2. Public Comment Received for the November 13, 2020 Town Council Meeting

Town of Los Gatos
Summary Investment Information
September 30, 2020

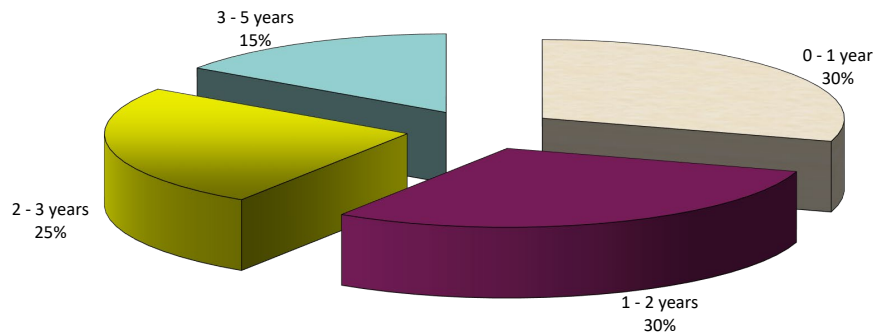
Weighted Average YTM Portfolio Yield: **1.86%** **Weighted Average Maturity (days)** **556**

	<u>This Month</u>	<u>Last Month</u>	<u>One year ago</u>
Portfolio Balance	\$59,981,525	\$60,272,540	\$61,720,311

Benchmarks/ References:

Town's Average Yield	1.86%	1.86%	2.02%
LAIF Yield for month	0.69%	0.92%	2.28%
3 mo. Treasury	0.11%	0.11%	1.82%
6 mo. Treasury	0.10%	0.12%	1.82%
2 yr. Treasury	0.13%	0.13%	1.62%
5 yr. Treasury (most recent)	0.28%	0.27%	1.55%
10 Yr. Treasury	0.69%	0.71%	1.67%

Portfolio Maturity Profile



Compliance: The Town's investments are in compliance with the Town's investment policy dated November 3, 2020 and also in compliance with the requirements of Section 53601 of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

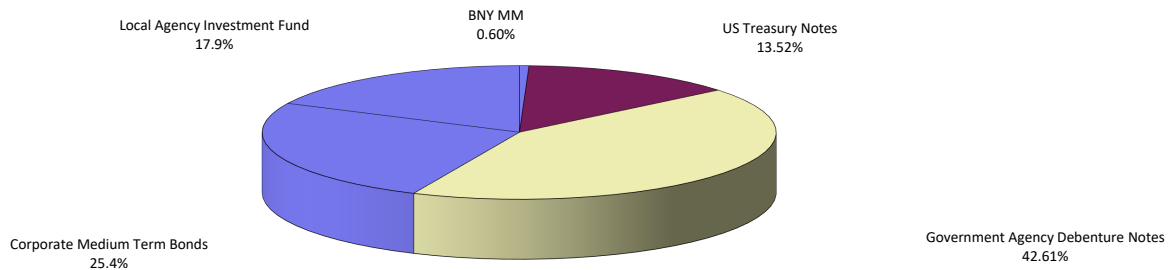
Town of Los Gatos
Portfolio Allocation & Treasurer's Fund Balances
September 30, 2020

	<u>Month</u>	<u>YTD</u>
Fund Balances - Beginning of Month/Period	\$60,272,540.27	\$72,729,892.43
Receipts	4,017,155.42	11,825,725.95
Disbursements	<u>(4,308,171.03)</u>	<u>(24,574,093.72)</u>
Fund Balances - End of Month/Period	<u>\$59,981,524.66</u>	<u>\$59,981,524.66</u>

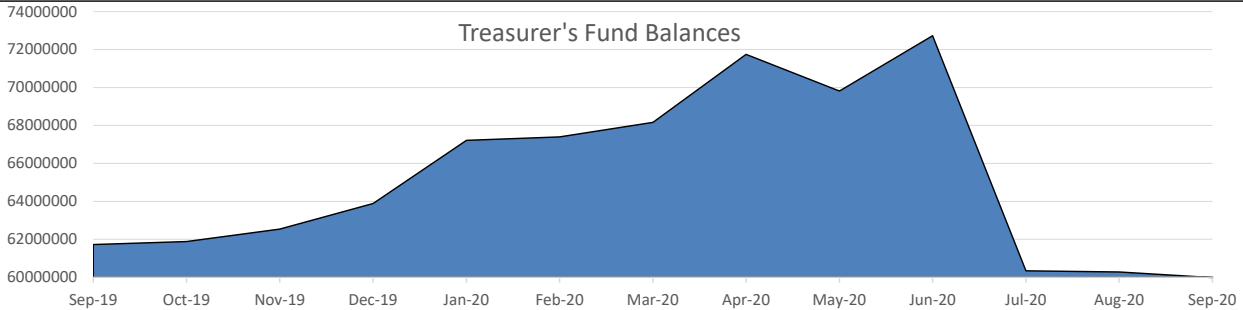
Portfolio Allocation:

		% of Portfolio	<u>Max. % Or \$ Allowed Per State Law or Policy</u>
BNY MM	\$340,145.64	0.60%	20% of Town Portfolio
US Treasury Notes	\$7,723,416.42	13.52%	No Max. on US Treasuries
Government Agency Debenture Notes	\$24,340,417.75	42.61%	No Max. on Non-Mortgage Backed
Corporate Medium Term Bonds	\$14,514,839.51	25.41%	30% of Town Portfolio
Local Agency Investment Fund	<u>10,210,051.74</u>	17.87%	<u>\$75 M per State Law</u>
Subtotal - Investments	57,128,871.06	100.00%	
Reconciled Demand Deposit Balances	<u>2,852,653.60</u>		
Total Treasurer's Fund	<u>\$59,981,524.66</u>		

Portfolio Investment Allocation



Treasurer's Fund Balances



Town of Los Gatos
Non-Treasury Restricted Fund Balances
September 30, 2020

	Beginning Balance	SEP 20 Deposits Realized Gain/Adj.	SEP 20 Interest/ Earnings	SEP 20 Withdrawals	Ending Balance	
Non-Treasury Funds:						
Cert. of Participation 2002 Series A Reserve Fund	\$ 686,268.48		\$ 5.89	\$ -	\$ 686,274.37	Note 1
Cert. Of Participation 2010 Ser A Lease Pymt Fund	3.62	0.00	2.51		\$ 6.13	Note 1
Cert. of Participation 2002 Lease Payment Fund	0.15	0.00	0.30		\$ 0.45	Note 1
Cert. of Participation 2010 Series Reserve Fund	<u>1,298,066.97</u>		<u>31.84</u>		<u>1,298,098.81</u>	Note 2
Total Restricted Funds:	<u>\$ 1,984,339.22</u>	<u>\$0.00</u>	<u>\$40.54</u>	<u>\$0.00</u>	<u>\$1,984,379.76</u>	
CEPPT IRS Section 115 Trust	<u>688,026.00</u>	<u>0.00</u>	<u>(5,181.38)</u>		<u>682,844.62</u>	
Grand Total COP's and CEPPT Trust	<u>\$ 2,672,365.22</u>	<u>\$ -</u>	<u>\$ (5,140.84)</u>	<u>\$ -</u>	<u>\$ 2,667,224.38</u>	

These accounts are not part of the Treasurer's fund balances reported elsewhere in this report, as they are for separate and distinct entities.

Note 1: The three original funds for the Certificates of Participation 2002 Series A consist of construction funds which will be expended over the next few years, reserve funds which will guarantee the payment of lease payments, and a third fund for the disbursement of lease payments and initial delivery costs.

Note 2: The 2010 COP Funds are all for the Library construction, reserves to guarantee lease payments, and a lease payment fund for the life of the COP issue. The COI fund was closed in September 2010.

Note 3: The CEPPT Section IRS Section 115 Trust was established as an irrevocable trust dedicated to accumulate resources to fund the Town's unfunded liabilities related to pension and other pc

Town of Los Gatos
Statement of Interest Earned
September 30, 2020

Interest by Month

July 2020	\$78,263.77
August 2020	78,263.76
September 2020	75,077.38
October 2020	
November 2020	
December 2020	
January 2021	
February 2021	
March 2021	
April 2021	
May 2021	
June 2021	
	<hr/>
	\$231,604.91
	<hr/> <hr/>

Town of Los Gatos Investment Schedule September
2020

Institution	CUSIP #	Security	Deposit Date	Par Value	Original Cost	Market Value	Purchased Interest	Maturity Date or Call Date	Yield to Maturity or Call	Interest Received to Date	Interest Earned Prior Yrs.	Interest Earned Current FY	Days to Maturity
Treasury	912828WR7	US Treasury Note	4/2/2019	1,000,000.00	995,625.00	1,015,000.00		6/30/2021	2.33%	\$ 26,474.45	\$ 28,917.32	\$ 5,847.02	273
Toyota Motor Credit	892367DP7	Corporate Bond	05/20/19	1,100,000.00	1,102,596.00	1,132,335.35		1/11/2022	2.50%	\$ 32,651.67	\$ 30,798.33	\$ 6,961.78	468
Toyota Motor Credit	892367CZ6	Corporate Bond	3/13/2020	500,000.00	504,440.00	504,186.80		4/8/2021	1.06%	\$ 659.72	\$ 1,599.24	\$ 1,349.81	190
FFCB	3133EKMx1	Gov. Agency Debenture	8/2/2019	1,000,000.00	1,014,400.00	1,066,655.41		2/23/2024	1.90%	\$ 29,175.83	\$ 17,466.66	\$ 4,825.62	1241
FFCB	3133ELVV3	Gov. Agency Debenture	4/8/2020	1,600,000.00	1,600,000.00	1,600,245.52		4/8/2022	0.93%	\$ -	\$ 3,456.44	\$ 3,831.23	555
FNMA	3136G0AW1	Gov. Agency Debenture	12/13/2017	2,000,000.00	2,017,900.00	2,001,842.68		10/16/2020	2.02%	\$ 110,058.33	\$ 103,715.85	\$ 10,260.06	16
IBM	459200HG9	Corporate Bond	8/8/2019	1,000,000.00	995,010.00	1,030,096.03		8/1/2022	2.05%	\$ 18,385.42	\$ 18,296.32	\$ 5,147.59	670
Oracle	68389XBL8	Corporate Bond	7/8/2019	1,000,000.00	1,008,880.00	1,051,766.25		7/15/2023	2.18%	\$ 28,466.67	\$ 21,374.17	\$ 5,492.80	1018
US Treasury	912828R28	US Treasury Note	7/2/2019	500,000.00	497,246.09	519,101.56		4/30/2023	1.77%	\$ 6,734.04	\$ 8,819.78	\$ 2,229.18	942
American Express	0258M0EB1	Corporate Bond	2/11/2020	1,000,000.00	1,007,210.00	1,009,968.75		4/4/2021	1.66%	\$ 5,250.00	\$ 6,215.30	\$ 4,084.34	186
Freddie Mac	3137EAEV3	Gov. Agency Debenture	7/19/2019	2,000,000.00	2,072,358.00	2,135,202.18		6/19/2023	1.79%	\$ 50,416.67	\$ 34,741.74	\$ 9,211.07	992
FFCB	3133EKFV0	Gov. Agency Debenture	7/22/2019	1,000,000.00	999,630.00	1,038,370.79		1/17/2023	1.89%	\$ 18,489.58	\$ 17,771.06	\$ 4,752.73	839
Treasury	912828L57	US Treasury Note	7/22/2019	1,200,000.00	1,197,988.40	1,238,812.50		9/30/2022	2.09%	\$ 25,016.39	\$ 20,385.25	\$ 5,451.87	730
Freddie Mac	3137EADB2	Gov. Agency Debenture	1/17/2020	2,100,000.00	2,132,039.70	2,160,618.12		1/13/2022	2.12%	\$ 24,383.34	\$ 15,274.50	\$ 8,516.69	470
US Treasury	912828Y20	Gov. Agency Debenture	1/31/2020	1,000,000.00	1,016,601.56	1,019,687.50		7/15/2021	1.47%	\$ 11,971.16	\$ 6,138.62	\$ 3,740.09	288
American Honda	02665WCZ2	Corporate Bond	11/27/2019	1,000,000.00	1,012,410.01	1,058,224.52		6/27/2024	2.12%	\$ 24,733.34	\$ 12,601.45	\$ 5,367.28	1366
JP Morgan Chase	46625HJE1	Gov. Agency Debenture	2/11/2020	900,000.00	934,587.00	951,281.83		9/23/2022	1.74%	\$ 18,037.50	\$ 6,148.83	\$ 4,040.66	723
Honeywell Int'l.	438516BW5	Corporate Bond	11/20/2019	1,000,000.00	1,014,660.00	1,066,416.20		7/15/2024	1.64%	\$ 16,483.33	\$ 12,127.88	\$ 5,003.43	1384
Disney	254687CK0	Corporate Bond	3/4/2020	1,000,000.00	1,029,080.00	1,015,665.65		2/15/2021	1.39%	\$ 20,125.00	\$ 4,687.49	\$ 3,654.65	138
FNMA	3135G0V75	Gov. Agency Debenture	10/17/2019	1,100,000.00	1,105,833.30	1,160,982.15		7/2/2024	1.63%	\$ 13,956.25	\$ 12,682.51	\$ 4,540.04	1371
US Bancorp	91159HHV5	Corporate Bond	12/24/2019	1,000,000.00	1,049,040.00	1,088,038.71		1/5/2024	2.12%	\$ 20,718.75	\$ 11,183.73	\$ 5,443.93	1192
FFCB	3133EKC53	Gov. Agency Debenture	3/21/2019	1,400,000.00	1,403,262.00	1,414,974.79		3/11/2021	2.43%	\$ 52,558.33	\$ 43,563.60	\$ 8,582.12	162
FFCB	3133EKA77	Gov. Agency Debenture	10/21/2019	1,000,000.00	1,019,780.00	1,069,965.29		9/10/2022	1.66%	\$ 18,431.11	\$ 11,615.55	\$ 4,223.84	1441
PNC Financial	693476BN2	Corporate Bond	8/15/2019	1,000,000.00	1,029,280.00	1,039,601.37		2/6/2022	2.12%	\$ 35,108.33	\$ 18,589.78	\$ 5,344.56	494
FHLB	313379Q69	Gov. Agency Debenture	7/22/2019	1,000,000.00	1,006,960.00	1,033,240.43		6/10/2022	1.87%	\$ 18,770.83	\$ 17,755.82	\$ 4,748.65	618
FNMA	3135G0V59	Gov. Agency Debenture	11/27/2019	1,540,000.00	1,562,924.44	1,589,858.22		4/12/2022	1.61%	\$ 12,993.75	\$ 14,793.93	\$ 6,301.12	559
JP Morgan Chase	46625HJT8	Corporate Bond	9/23/2019	1,400,000.00	1,485,414.00	1,544,493.48		2/1/2024	2.39%	\$ 46,413.89	\$ 26,688.85	\$ 8,737.99	1219
American Honda	02665WDH1	Corporate Bond	2/14/2020	600,000.00	603,756.00	621,099.40		5/10/2023	1.75%	\$ 4,745.00	\$ 3,955.80	\$ 2,656.45	952
FHLB	3130AABG2	US Treasury Note	4/15/2019	1,000,000.00	988,250.00	1,019,983.17		11/29/2021	2.34%	\$ 21,041.67	\$ 28,121.02	\$ 5,853.24	425
FNMA	3135G0Q89	Gov. Agency Debenture	2/10/2020	1,000,000.00	998,702.00	1,012,368.18		10/7/2021	1.38%	\$ 2,177.08	\$ 5,614.15	\$ 3,663.14	372
FNMA	3135G0J20	Gov. Agency Debenture	2/10/2020	1,000,000.00	998,882.00	1,004,995.55		2/26/2021	1.48%	\$ 7,486.11	\$ 5,724.31	\$ 3,735.01	149
Treasury	912828M80	US Treasury Note	7/22/2019	1,000,000.00	1,006,175.23	1,040,351.56		11/30/2022	1.81%	\$ 17,158.47	\$ 17,118.04	\$ 4,578.08	791
Treasury	912828U57	US Treasury Note	7/31/2019	1,000,000.00	1,011,875.00	1,061,835.94		11/30/2023	1.84%	\$ 17,708.33	\$ 16,990.40	\$ 4,666.02	1156
BankAmerica Corp	06051GGS2	Corporate Bond	4/30/2020	1,300,000.00	1,302,314.00	1,300,000.00	2,437.92	10/1/2020	1.21%	\$ (2,437.92)	\$ 4,141.23	\$ 6,245.80	1
Treasury	912828X70	US Treasury Note	12/30/2019	1,000,000.00	1,010,589.29	1,064,687.50		4/30/2024	1.75%	\$ 7,703.30	\$ 9,805.98	\$ 4,929.78	1308
Treasury	912828XT2	US Treasury Note	10/31/2019	1,000,000.00	1,015,667.41	1,065,976.56		5/31/2024	1.64%	\$ 11,639.34	\$ 11,040.77	\$ 4,180.04	1339
Wells Fargo	94988J6A0	Corporate Bond	6/24/2020	1,350,000.00	1,370,749.50	1,369,092.78		9/9/2021	0.80%	\$ 5,357.48	\$ 163.99	\$ 2,514.48	344
FFCB	3133EJ3Q0	Gov. Agency Debenture	8/28/2019	1,500,000.00	1,587,503.75	1,626,578.42		12/21/2023	2.12%	\$ 35,098.96	\$ 19,226.80	\$ 5,761.78	1177
Freddie Mac	3133EKKT2	Gov. Agency Debenture	6/24/2019	1,550,000.00	1,573,188.00	1,624,507.76		2/8/2023	1.82%	\$ 47,856.25	\$ 29,033.70	\$ 7,180.38	861
Subtotal				\$ 44,640,000.00	\$ 45,282,807.68	\$ 46,368,108.90	\$ 2,437.92						
BNY MM					436,084.15	436,084.15			0.00%				1
LAIF				N/A	11,210,051.74	11,210,051.74			0.69%			23,601.78	1
					\$56,928,943.57	\$58,014,244.79				\$ 861,997.75	\$ 678,346.17	\$ 203,654.35	

Matured Assets													
FNMA	3133EHYM9	Gov. Agency Debenture	9/21/2017	1,300,000.00	1,295,866.00			9/14/2020	1.61%	\$ 58,120.83	\$ 57,964.67	\$ 4,348.78	

Total Investments "Matured" \$ 4,348.78

Total Interest FY 20_21 Matured and Current \$ 231,604.91

Maturity Profile	Amount
0-1 year	\$23,292,199.95
1-2 years	\$11,415,762.14
2-3 years	\$9,893,808.72
3-5 years	\$ 12,327,172.76
	<u>\$56,928,943.57</u>

Market to Cost Position Report

Institution	Amortized Cost
BNY Assets	\$45,282,807.68
BNY MM	436,084.15
LAIF	11,210,051.74
Total:	<u>\$56,928,943.57</u>

Town of Los Gatos
Summary Investment Information
August 31, 2020

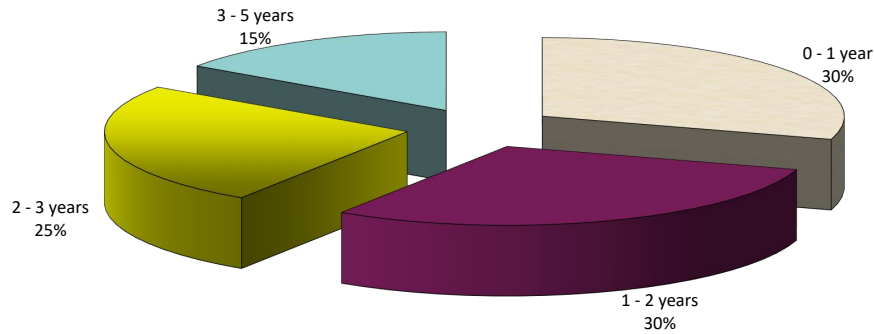
Weighted Average YTM Portfolio Yield: **1.86%** **Weighted Average Maturity (days)** **577**

	<u>This Month</u>	<u>Last Month</u>	<u>One year ago</u>
Portfolio Balance	\$60,272,540	\$60,339,136	\$62,530,263

Benchmarks/ References:

Town's Average Yield	1.86%	1.86%	1.99%
LAIF Yield for month	0.92%	0.92%	2.34%
3 mo. Treasury	0.11%	0.10%	2.07%
6 mo. Treasury	0.12%	0.10%	2.07%
2 yr. Treasury	0.13%	0.11%	1.87%
5 yr. Treasury (most recent)	0.27%	0.21%	1.83%
10 Yr. Treasury	0.71%	0.53%	2.02%

Portfolio Maturity Profile



Compliance: The Town's investments are in compliance with the Town's investment policy dated November 3, 2020 and also in compliance with the requirements of Section 53601 of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

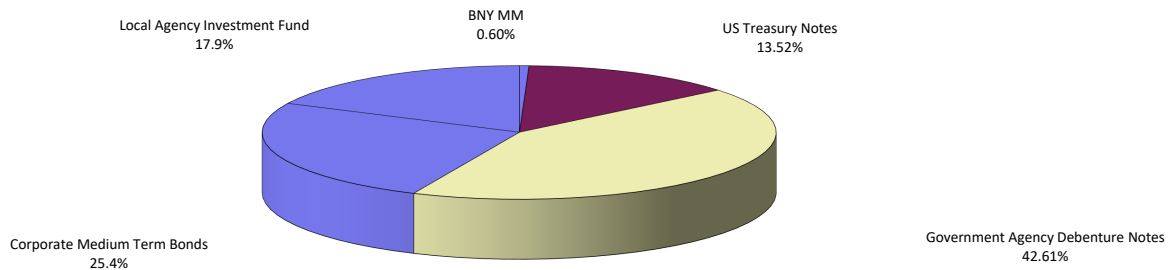
Town of Los Gatos
Portfolio Allocation & Treasurer's Fund Balances
August 31, 2020

	<u>Month</u>	<u>YTD</u>
Fund Balances - Beginning of Month/Period	\$60,339,136.48	\$72,729,892.43
Receipts	4,194,315.64	7,808,570.53
Disbursements	(4,260,911.85)	(20,265,922.69)
Fund Balances - End of Month/Period	<u>\$60,272,540.27</u>	<u>\$60,272,540.27</u>

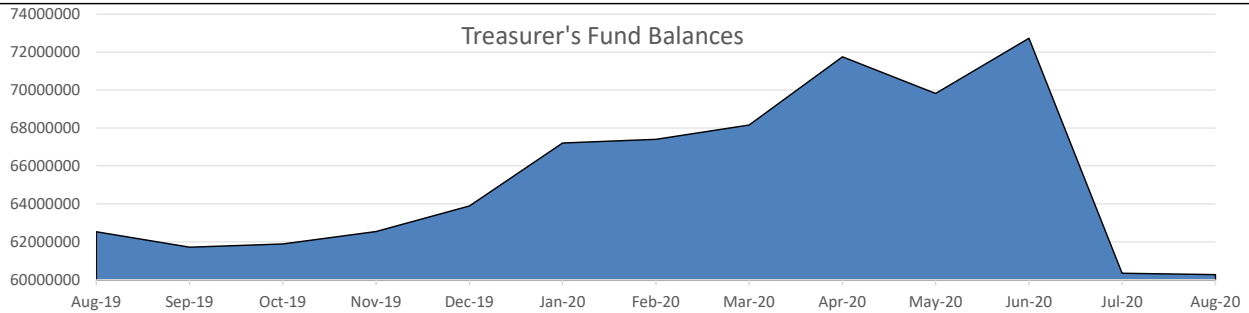
Portfolio Allocation:

		<u>% of Portfolio</u>	<u>Max. % Or \$ Allowed Per State Law or Policy</u>
BNY MM	\$340,145.64	0.60%	20% of Town Portfolio
US Treasury Notes	\$7,723,416.42	13.52%	No Max. on US Treasuries
Government Agency Debenture Notes	\$24,340,417.75	42.61%	No Max. on Non-Mortgage Backed
Corporate Medium Term Bonds	\$14,514,839.51	25.41%	30% of Town Portfolio
Local Agency Investment Fund	<u>10,210,051.74</u>	<u>17.87%</u>	<u>\$75 M per State Law</u>
Subtotal - Investments	57,128,871.06	100.00%	
Reconciled Demand Deposit Balances	<u>3,143,669.21</u>		
Total Treasurer's Fund	<u>\$60,272,540.27</u>		

Portfolio Investment Allocation



Treasurer's Fund Balances



Town of Los Gatos
Non-Treasury Restricted Fund Balances
August 31, 2020

	Beginning Balance	AUG 20 Deposits Realized Gain/Adj.	AUG 20 Interest/ Earnings	AUG 20 Withdrawals	Ending Balance	
Non-Treasury Funds:						
Cert. of Participation 2002 Series A Reserve Fund	\$ 686,262.59		\$ 5.89	\$ -	\$ 686,268.48	Note 1
Cert. Of Participation 2010 Ser A Lease Pymt Fund	1,057,162.50	0.00	3.62	1,057,162.50	\$ 3.62	Note 1
Cert. of Participation 2002 Lease Payment Fund	535,306.25	0.00	0.15	535,306.25	\$ 0.15	Note 1
Cert. of Participation 2010 Series Reserve Fund	<u>1,297,995.22</u>		<u>71.75</u>		<u>1,298,066.97</u>	Note 2
Total Restricted Funds:	<u>\$ 1,987,621.42</u>	<u>\$0.00</u>	<u>\$9.66</u>	<u>\$1,592,468.75</u>	<u>\$1,984,339.22</u>	
CEPPT IRS Section 115 Trust	684,349.85	0.00	3,676.15		688,026.00	
Grand Total COP's and PARS Trust	<u>\$ 2,671,971.27</u>	<u>\$ -</u>	<u>\$ 3,685.81</u>	<u>\$ 1,592,468.75</u>	<u>\$ 2,672,365.22</u>	

These accounts are not part of the Treasurer's fund balances reported elsewhere in this report, as they are for separate and distinct entities.

Note 1: The three original funds for the Certificates of Participation 2002 Series A consist of construction funds which will be expended over the next few years, reserve funds which will guarantee the payment of lease payments, and a third fund for the disbursement of lease payments and initial delivery costs.

Note 2: The 2010 COP Funds are all for the Library construction, reserves to guarantee lease payments, and a lease payment fund for the life of the COP issue. The COI fund was closed in September 2010.

Note 3: The CEPPT Section IRS Section 115 Trust was established as an irrevocable trust dedicated to accumulate resources to fund the Town's unfunded liabilities related to pension and other pc

**Town of Los Gatos
Statement of Interest Earned
August 31, 2020**

Interest by Month

July 2020	\$78,263.77
August 2020	78,263.76
September 2020	
October 2020	
November 2020	
December 2020	
January 2021	
February 2021	
March 2021	
April 2021	
May 2021	
June 2021	
	<hr/>
	\$156,527.53
	<hr/> <hr/>

Town of Los Gatos Investment Schedule August 2020

Institution	CUSIP #	Security	Deposit Date	Par Value	Original Cost	Market Value	Purchased Interest	Maturity Date or Call Date	Yield to Maturity or Call	Interest Received to Date	Interest Earned Prior Yrs.	Interest Earned Current FY	Days to Maturity
Treasury	912828WR7	US Treasury Note	4/2/2019	1,000,000.00	995,625.00	1,016,171.88		6/30/2021	2.33%	\$ 26,474.45	\$ 28,917.32	\$ 3,940.38	303
Toyota Motor Credit	892367DP7	Corporate Bond	05/20/19	1,100,000.00	1,102,596.00	1,134,153.53		1/11/2022	2.50%	\$ 32,651.67	\$ 30,798.33	\$ 4,691.64	498
Toyota Motor Credit	892367CZ6	Corporate Bond	3/13/2020	500,000.00	504,440.00	504,722.92		4/8/2021	1.06%	\$ 659.72	\$ 1,599.24	\$ 909.66	220
FFCB	3133EKMx1	Gov. Agency Debenture	8/2/2019	1,000,000.00	1,014,400.00	1,066,943.82		2/23/2024	1.90%	\$ 29,175.83	\$ 17,466.66	\$ 3,252.05	1271
FFCB	3133ELVv3	Gov. Agency Debenture	4/8/2020	1,600,000.00	1,600,000.00	1,601,254.18		4/8/2022	0.93%	\$ -	\$ 3,456.44	\$ 2,581.92	585
FNMA	3133EHYm9	Gov. Agency Debenture	9/21/2017	1,300,000.00	1,295,866.00	1,300,656.28		9/14/2020	1.61%	\$ 48,370.83	\$ 57,964.67	\$ 3,547.69	14
FNMA	3136G0Aw1	Gov. Agency Debenture	12/13/2017	2,000,000.00	2,017,900.00	2,005,588.60		10/16/2020	2.02%	\$ 110,058.33	\$ 103,715.85	\$ 6,914.39	46
IBM	459200HG9	Corporate Bond	8/8/2019	1,000,000.00	995,010.00	1,030,994.25		8/1/2022	2.05%	\$ 18,385.42	\$ 18,296.32	\$ 3,469.03	700
Oracle	68389XBL8	Corporate Bond	7/8/2019	1,000,000.00	1,008,880.00	1,056,686.20		7/15/2023	2.18%	\$ 16,466.67	\$ 21,374.17	\$ 3,701.67	1048
US Treasury	912828R28	US Treasury Note	7/2/2019	500,000.00	497,246.09	519,707.03		4/30/2023	1.77%	\$ 6,734.04	\$ 8,819.78	\$ 1,502.27	972
American Express	0258M0EB1	Corporate Bond	2/11/2020	1,000,000.00	1,007,210.00	1,011,725.63		4/4/2021	1.66%	\$ 5,250.00	\$ 6,215.30	\$ 2,752.49	216
Freddie Mac	3137EAEv5	Gov. Agency Debenture	7/19/2019	2,000,000.00	2,072,358.00	2,139,784.96		6/19/2023	1.79%	\$ 50,416.67	\$ 34,741.74	\$ 6,207.46	1022
FFCB	3133EKVf0	Gov. Agency Debenture	7/22/2019	1,000,000.00	999,630.00	1,039,390.68		1/17/2023	1.89%	\$ 18,489.58	\$ 17,771.06	\$ 3,202.92	869
Treasury	912828L57	US Treasury Note	7/22/2019	1,200,000.00	1,197,988.40	1,240,406.26		9/30/2022	2.09%	\$ 14,516.39	\$ 20,385.25	\$ 3,674.09	760
Freddie Mac	3137EADB2	Gov. Agency Debenture	1/17/2020	2,100,000.00	2,132,039.70	2,164,267.79		1/13/2022	2.12%	\$ 24,383.34	\$ 15,274.50	\$ 5,739.51	500
US Treasury	912828Y20	Gov. Agency Debenture	1/31/2020	1,000,000.00	1,016,601.56	1,021,367.19		7/15/2021	1.47%	\$ 11,971.16	\$ 6,138.62	\$ 2,520.49	318
American Honda	02665WCZ2	Corporate Bond	11/27/2019	1,000,000.00	1,012,410.01	1,058,466.92		6/27/2024	2.12%	\$ 24,733.34	\$ 12,601.45	\$ 3,617.08	1396
JP Morgan Chase	46625HUE1	Gov. Agency Debenture	2/11/2020	900,000.00	934,587.00	952,641.00		9/23/2022	1.74%	\$ 3,412.50	\$ 6,148.83	\$ 2,723.05	753
Honeywell Int'l.	438516BW5	Corporate Bond	11/20/2019	1,000,000.00	1,014,660.00	1,068,600.31		7/15/2024	1.64%	\$ 16,483.33	\$ 12,127.88	\$ 3,371.88	1414
Disney	254687CK0	Corporate Bond	3/4/2020	1,000,000.00	1,029,080.00	1,018,729.13		2/15/2021	1.39%	\$ 20,125.00	\$ 4,687.49	\$ 2,462.92	168
FNMA	3135G0V75	Gov. Agency Debenture	10/17/2019	1,100,000.00	1,105,833.30	1,160,757.66		7/2/2024	1.63%	\$ 13,956.25	\$ 12,682.51	\$ 3,059.59	1401
US Bancorp	91159HHV5	Corporate Bond	12/24/2019	1,000,000.00	1,049,040.00	1,093,669.57		1/5/2024	2.12%	\$ 20,718.75	\$ 11,183.73	\$ 3,668.74	1222
FFCB	3133EKC53	Gov. Agency Debenture	3/21/2019	1,400,000.00	1,403,262.00	1,417,609.05		3/11/2021	2.43%	\$ 34,708.33	\$ 43,563.60	\$ 5,783.60	192
FFCB	3133EKQA7	Gov. Agency Debenture	10/21/2019	1,000,000.00	1,019,780.00	1,069,202.57		9/10/2024	1.66%	\$ 8,031.11	\$ 11,615.55	\$ 2,846.50	1471
PNC Financial	693476BN2	Corporate Bond	8/15/2019	1,000,000.00	1,029,280.00	1,042,408.32		2/6/2022	1.12%	\$ 18,608.33	\$ 18,589.78	\$ 3,601.77	524
FHLB	313379Q68	Gov. Agency Debenture	7/22/2019	1,000,000.00	1,006,960.00	1,034,853.52		6/10/2022	1.87%	\$ 18,770.83	\$ 17,755.82	\$ 3,200.18	648
FNMA	3135G0V59	Gov. Agency Debenture	11/27/2019	1,540,000.00	1,562,924.44	1,592,849.58		4/12/2022	1.61%	\$ 12,993.75	\$ 14,793.93	\$ 4,246.40	589
JP Morgan Chase	46625HJT8	Corporate Bond	9/23/2019	1,400,000.00	1,485,414.00	1,549,260.96		2/1/2024	2.39%	\$ 46,413.89	\$ 26,688.85	\$ 5,888.64	1249
American Honda	02665WDH1	Corporate Bond	2/14/2020	600,000.00	603,756.00	622,457.58		5/10/2023	1.75%	\$ 4,745.00	\$ 3,955.80	\$ 1,790.22	982
FHLB	3130AABG2	US Treasury Note	4/15/2019	1,000,000.00	988,250.00	1,021,515.27		11/29/2021	2.34%	\$ 21,041.67	\$ 28,121.02	\$ 3,944.58	455
FNMA	3135G0Q89	Gov. Agency Debenture	2/10/2020	1,000,000.00	998,702.00	1,013,367.94		10/7/2021	1.38%	\$ 2,177.08	\$ 5,614.15	\$ 2,468.63	402
FNMA	3135G0J20	Gov. Agency Debenture	2/10/2020	1,000,000.00	998,882.00	1,006,037.97		2/26/2021	1.48%	\$ 7,486.11	\$ 5,724.31	\$ 2,517.07	179
Treasury	912828M80	US Treasury Note	7/22/2019	1,000,000.00	1,006,175.23	1,041,757.81		11/30/2022	1.81%	\$ 17,158.47	\$ 17,118.04	\$ 3,085.23	821
Treasury	912828U57	US Treasury Note	7/31/2019	1,000,000.00	1,011,875.00	1,063,476.56		11/30/2023	1.84%	\$ 17,708.33	\$ 16,990.40	\$ 3,144.49	1186
BankAmerica Corp	06051GGS2	Corporate Bond	4/30/2020	1,300,000.00	1,302,314.00	1,302,036.58	2,437.92	10/1/2020	1.21%	\$ (2,437.92)	\$ 4,141.23	\$ 4,209.12	31
Treasury	912828X70	US Treasury Note	12/30/2019	1,000,000.00	1,010,589.29	1,066,015.62		4/30/2024	1.75%	\$ 7,703.30	\$ 9,805.98	\$ 3,322.24	1338
Treasury	912828XT2	US Treasury Note	10/31/2019	1,000,000.00	1,015,667.41	1,067,304.69		5/31/2024	1.64%	\$ 11,639.34	\$ 11,040.77	\$ 2,816.99	1369
Wells Fargo	94988J6A0	Corporate Bond	6/24/2020	1,350,000.00	1,370,749.50	1,371,280.31	8,197.87	9/9/2021	0.80%	\$ (8,197.87)	\$ 163.99	\$ 1,694.54	374
FFCB	3133EJ3Q0	Gov. Agency Debenture	8/28/2019	1,500,000.00	1,587,503.75	1,627,879.02		12/21/2023	2.12%	\$ 35,098.96	\$ 19,226.80	\$ 3,882.94	1207
Freddie Mac	3133EKKT2	Gov. Agency Debenture	6/24/2019	1,550,000.00	1,573,188.00	1,627,066.71		2/8/2023	1.82%	\$ 47,856.25	\$ 29,033.70	\$ 4,838.95	891

Subtotal	\$ 45,940,000.00	\$ 46,578,673.68	\$ 47,743,065.85	\$ 10,635.79	\$ 814,938.23	\$ 736,310.84	\$ 140,793.01
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BNY MM		340,145.64	340,145.64	0.00%			1
LAIF	N/A	10,210,051.74	10,210,051.74	0.78%		15,734.52	1

	\$57,128,871.06	\$58,293,263.23	\$ 814,938.23	\$ 736,310.84	\$ 156,527.53
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Matured Assets					
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Total Investments "Matured"					
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Total Interest FY 19_20 Matured and Current					\$ 156,527.53
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Maturity Profile	Amount
0-1 year	\$22,121,377.94
1-2 years	\$12,786,511.64
2-3 years	\$9,893,808.72
3-5 years	\$ 12,327,172.76
	\$57,128,871.06

Market to Cost Position Report

Institution	Amortized Cost
BNY Assets	\$46,578,673.68
BNY MM	340,145.64
LAIF	10,210,051.74
Totals:	\$57,128,871.06

Town of Los Gatos
Summary Investment Information
July 31, 2020

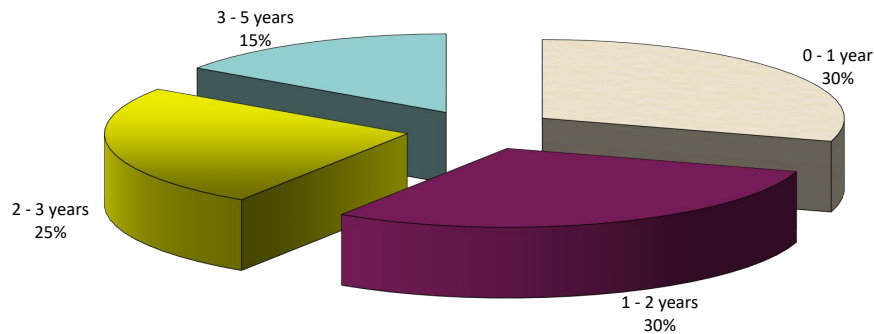
Weighted Average YTM Portfolio Yield: **1.86%** **Weighted Average Maturity (days)** **583**

	<u>This Month</u>	<u>Last Month</u>	<u>One year ago</u>
Portfolio Balance	\$60,339,136	\$72,729,892	\$65,922,912

Benchmarks/ References:

Town's Average Yield	1.86%	1.86%	1.98%
LAIF Yield for month	0.92%	1.22%	2.38%
3 mo. Treasury	0.10%	0.15%	2.07%
6 mo. Treasury	0.10%	0.19%	2.07%
2 yr. Treasury	0.11%	0.15%	1.87%
5 yr. Treasury (most recent)	0.21%	0.29%	1.83%
10 Yr. Treasury	0.53%	0.66%	2.02%

Portfolio Maturity Profile



Compliance: The Town's investments are in compliance with the Town's investment policy dated November 3, 2020 and also in compliance with the requirements of Section 53601 of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

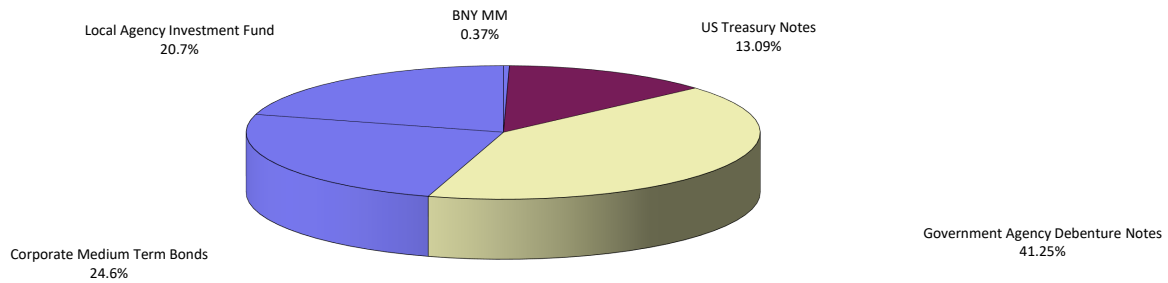
Town of Los Gatos
Portfolio Allocation & Treasurer's Fund Balances
July 31, 2020

	<u>Month</u>	<u>YTD</u>
Fund Balances - Beginning of Month/Period	\$72,729,892.43	\$72,729,892.43
Receipts	3,614,254.89	3,614,254.89
Disbursements	<u>(16,005,010.84)</u>	<u>(16,005,010.84)</u>
Fund Balances - End of Month/Period	<u>\$60,339,136.48</u>	<u>\$60,339,136.48</u>

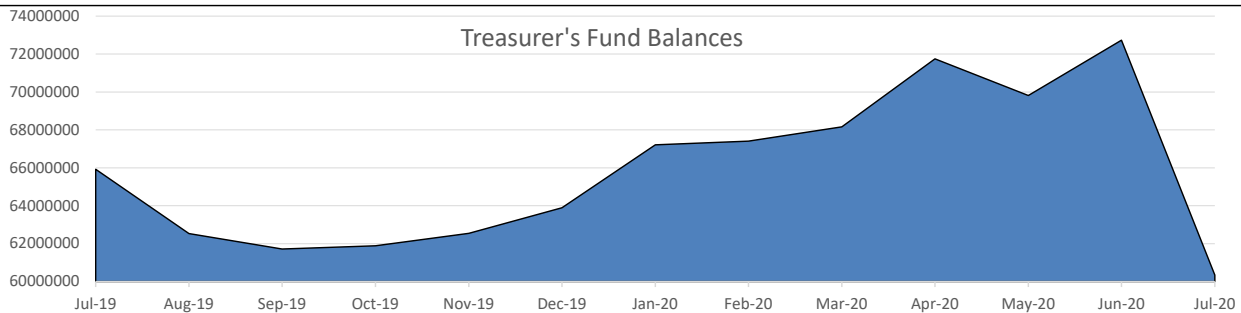
Portfolio Allocation:

		% of Portfolio	<u>Max. % Or \$ Allowed Per State Law or Policy</u>
BNY MM	\$217,297.23	0.37%	20% of Town Portfolio
US Treasury Notes	\$7,723,416.42	13.09%	No Max. on US Treasuries
Government Agency Debenture Notes	\$24,340,417.75	41.25%	No Max. on Non-Mortgage Backed
Corporate Medium Term Bonds	\$14,514,839.51	24.60%	30% of Town Portfolio
Local Agency Investment Fund	<u>12,210,051.74</u>	20.69%	<u>\$75 M per State Law</u>
Subtotal - Investments	59,006,022.65	100.00%	
Reconciled Demand Deposit Balances	<u>1,333,113.83</u>		
Total Treasurer's Fund	<u>\$60,339,136.48</u>		

Portfolio Investment Allocation



Treasurer's Fund Balances



Town of Los Gatos
Non-Treasury Restricted Fund Balances
July 31, 2020

	Beginning Balance	JULY 20 Deposits Realized Gain/Adj.	JULY 20 Interest/ Earnings	JULY 20 Withdrawals	Ending Balance	
Non-Treasury Funds:						
Cert. of Participation 2002 Series A Reserve Fund	\$ 686,256.89		\$ 5.70	\$ -	\$ 686,262.59	Note 1
Cert. Of Participation 2010 Ser A Lease Pymt Fund	732.26	1,589,014.25	0.01	532,584.02	\$ 1,057,162.50	Note 1
Cert. of Participation 2002 Lease Payment Fund	2,722.23	532,584.02			\$ 535,306.25	Note 1
Cert. of Participation 2010 Series Reserve Fund	<u>1,297,910.04</u>		<u>85.18</u>		<u>1,297,995.22</u>	Note 2
Total Restricted Funds:	<u>\$ 1,987,621.42</u>	<u>\$ 2,121,598.27</u>	<u>\$ 90.89</u>	<u>\$ 532,584.02</u>	<u>\$ 3,576,726.56</u>	
CEPPT IRS Section 115 Trust	669,978.13	0.00	14,371.72		684,349.85	
Grand Total COP's and CEPPT Trust	<u>\$ 2,657,599.55</u>	<u>\$ 2,121,598.27</u>	<u>\$ 14,462.61</u>	<u>\$ 532,584.02</u>	<u>\$ 4,261,076.41</u>	

These accounts are not part of the Treasurer's fund balances reported elsewhere in this report, as they are for separate and distinct entities.

Note 1: The three original funds for the Certificates of Participation 2002 Series A consist of construction funds which will be expended over the next few years, reserve funds which will guarantee the payment of lease payments, and a third fund for the disbursement of lease payments and initial delivery costs.

Note 2: The 2010 COP Funds are all for the Library construction, reserves to guarantee lease payments, and a lease payment fund for the life of the COP issue. The COI fund was closed in September 2010.

Note 3: The CEPPT Section IRS Section 115 Trust was established as an irrevocable trust dedicated to accumulate resources to fund the Town's unfunded liabilities related to pension and other pc

Town of Los Gatos
Statement of Interest Earned
July 31, 2020

Interest by Month

July 2020	\$78,263.77
August 2020	
September 2020	
October 2020	
November 2020	
December 2020	
January 2021	
February 2021	
March 2021	
April 2021	
May 2021	
June 2021	
	<hr/>
	\$78,263.77
	<hr/> <hr/>

Town of Los Gatos Investment Schedule July 2020

Institution	CUSIP #	Security	Deposit Date	Par Value	Original Cost	Market Value	Purchased Interest	Maturity Date or Call Date	Yield to Maturity or Call	Interest Received to Date	Interest Earned Prior Yrs.	Interest Earned Current FY	Days to Maturity
Treasury	912828WR7	US Treasury Note	4/2/2019	1,000,000.00	995,625.00	1,018,046.88		6/30/2021	2.33%	\$ 26,474.45	\$ 28,917.32	\$ 1,970.19	334
Toyota Motor Credit	892367DP7	Corporate Bond	05/20/19	1,100,000.00	1,102,596.00	1,135,475.00		1/11/2022	2.50%	\$ 32,651.67	\$ 30,798.33	\$ 2,345.82	529
Toyota Motor Credit	892367CZ6	Corporate Bond	3/13/2020	500,000.00	504,440.00	505,664.96		4/8/2021	1.06%	\$ 659.72	\$ 1,599.24	\$ 454.83	251
FFCB	3133EKMx1	Gov. Agency Debenture	8/2/2019	1,000,000.00	1,014,400.00	1,070,267.19		2/23/2024	1.90%	\$ 18,025.83	\$ 17,466.66	\$ 1,626.03	1302
FFCB	3133ELVv3	Gov. Agency Debenture	4/8/2020	1,600,000.00	1,600,000.00	1,602,207.89		4/8/2022	0.93%	\$ -	\$ 3,456.44	\$ 1,290.96	616
FNMA	3133EHYm9	Gov. Agency Debenture	9/21/2017	1,300,000.00	1,295,866.00	1,302,019.81		9/14/2020	1.61%	\$ 48,370.83	\$ 57,964.67	\$ 1,773.84	45
FNMA	3136G0Aw1	Gov. Agency Debenture	12/13/2017	2,000,000.00	2,017,900.00	2,009,023.06		10/16/2020	2.02%	\$ 110,058.33	\$ 103,715.85	\$ 3,457.20	77
IBM	459200HG9	Corporate Bond	8/8/2019	1,000,000.00	995,010.00	1,031,999.71		8/1/2022	2.05%	\$ 9,010.42	\$ 18,296.32	\$ 1,734.51	731
Oracle	68389XBL8	Corporate Bond	7/8/2019	1,000,000.00	1,008,880.00	1,057,070.39		7/15/2023	2.18%	\$ 16,466.67	\$ 21,374.17	\$ 1,850.84	1079
US Treasury	912828R28	US Treasury Note	7/2/2019	500,000.00	497,246.09	520,625.00		4/30/2023	1.77%	\$ 6,734.04	\$ 8,819.78	\$ 751.14	1003
American Express	0258M0EB1	Corporate Bond	2/11/2020	1,000,000.00	1,007,210.00	1,013,246.81		4/4/2021	1.66%	\$ 5,250.00	\$ 6,215.30	\$ 1,376.25	247
Freddie Mac	3137EAEv5	Gov. Agency Debenture	7/19/2019	2,000,000.00	2,072,358.00	2,145,928.40		6/19/2023	1.79%	\$ 50,416.67	\$ 34,741.74	\$ 3,103.73	1053
FFCB	3133EKVf0	Gov. Agency Debenture	7/22/2019	1,000,000.00	999,630.00	1,040,569.80		1/17/2023	1.89%	\$ 18,489.58	\$ 17,771.06	\$ 1,601.46	900
Treasury	912828L57	US Treasury Note	7/22/2019	1,200,000.00	1,197,988.40	1,242,187.50		9/30/2022	2.09%	\$ 14,516.39	\$ 20,385.25	\$ 1,837.04	791
Freddie Mac	3137EADB2	Gov. Agency Debenture	1/17/2020	2,100,000.00	2,132,039.70	2,167,420.56		1/13/2022	2.12%	\$ 24,383.34	\$ 15,274.50	\$ 2,869.75	531
US Treasury	912828Y20	Gov. Agency Debenture	1/31/2020	1,000,000.00	1,016,601.56	1,023,710.94		7/15/2021	1.47%	\$ 11,971.16	\$ 6,138.62	\$ 1,260.25	349
American Honda	02665WCZ2	Corporate Bond	11/27/2019	1,000,000.00	1,012,410.01	1,061,433.09		6/27/2024	2.12%	\$ 12,733.34	\$ 12,601.45	\$ 1,808.54	1427
JP Morgan Chase	46625HUE1	Gov. Agency Debenture	2/11/2020	900,000.00	934,587.00	954,476.60		9/23/2022	1.74%	\$ 3,412.50	\$ 6,148.83	\$ 1,361.53	784
Honeywell Int'l.	438516BW5	Corporate Bond	11/20/2019	1,000,000.00	1,014,660.00	1,071,906.73		7/15/2024	1.64%	\$ 4,983.33	\$ 12,127.88	\$ 1,685.94	1445
Disney	254687CK0	Corporate Bond	3/4/2020	1,000,000.00	1,029,080.00	1,021,649.47	2,375.00	2/15/2021	1.39%	\$ (2,375.00)	\$ 4,687.49	\$ 1,231.46	199
FNMA	3135G0V75	Gov. Agency Debenture	10/17/2019	1,100,000.00	1,105,833.30	1,163,444.66		7/2/2024	1.63%	\$ 13,956.25	\$ 12,682.51	\$ 1,529.80	1432
US Bancorp	91159HHV5	Corporate Bond	12/24/2019	1,000,000.00	1,049,040.00	1,096,164.11		1/5/2024	2.12%	\$ 3,843.75	\$ 11,183.73	\$ 1,834.37	1253
FFCB	3133EKC53	Gov. Agency Debenture	3/21/2019	1,400,000.00	1,403,262.00	1,420,405.06		3/11/2021	2.43%	\$ 34,708.33	\$ 43,563.60	\$ 2,891.80	223
FFCB	3133EKQA7	Gov. Agency Debenture	10/21/2019	1,000,000.00	1,019,780.00	1,072,159.18		9/10/2024	1.66%	\$ 8,031.11	\$ 11,615.55	\$ 1,423.25	1502
PNC Financial	693476BN2	Corporate Bond	8/15/2019	1,000,000.00	1,029,280.00	1,044,399.57		2/6/2022	1.12%	\$ 18,608.33	\$ 18,589.78	\$ 1,800.89	555
FHLB	313379Q69	Gov. Agency Debenture	7/22/2019	1,000,000.00	1,006,960.00	1,035,401.12		6/10/2022	1.87%	\$ 18,770.83	\$ 17,755.82	\$ 1,600.09	679
FNMA	3135G0V59	Gov. Agency Debenture	11/27/2019	1,540,000.00	1,562,924.44	1,595,335.31		4/12/2022	1.61%	\$ 12,993.75	\$ 14,793.93	\$ 2,123.20	620
JP Morgan Chase	46625HJT8	Corporate Bond	9/23/2019	1,400,000.00	1,485,414.00	1,556,712.00		2/1/2024	2.39%	\$ 19,288.89	\$ 26,688.85	\$ 2,944.32	1280
American Honda	02665WDH1	Corporate Bond	2/14/2020	600,000.00	603,756.00	622,583.70		5/10/2023	1.75%	\$ 4,745.00	\$ 3,955.80	\$ 895.11	1013
FHLB	3130AABG2	US Treasury Note	4/15/2019	1,000,000.00	988,250.00	1,023,028.12		11/29/2021	2.34%	\$ 21,041.67	\$ 28,121.02	\$ 1,972.29	486
FNMA	3135G0Q89	Gov. Agency Debenture	2/10/2020	1,000,000.00	998,702.00	1,014,630.05		10/7/2021	1.38%	\$ 2,177.08	\$ 5,614.15	\$ 1,234.32	433
FNMA	3135G0J20	Gov. Agency Debenture	2/10/2020	1,000,000.00	998,882.00	1,006,939.34		2/26/2021	1.48%	\$ 611.11	\$ 5,724.31	\$ 1,258.54	210
Treasury	912828M80	US Treasury Note	7/22/2019	1,000,000.00	1,006,175.23	1,043,710.94		11/30/2022	1.81%	\$ 17,158.47	\$ 17,118.04	\$ 1,542.61	852
Treasury	912828U57	US Treasury Note	7/31/2019	1,000,000.00	1,011,875.00	1,066,093.75		11/30/2023	1.84%	\$ 17,708.33	\$ 16,990.40	\$ 1,572.25	1217
BankAmerica Corp	06051GGS2	Corporate Bond	4/30/2020	1,300,000.00	1,302,314.00	1,304,005.87	2,437.92	10/1/2020	1.21%	\$ (2,437.92)	\$ 4,141.23	\$ 2,104.56	62
Treasury	912828X70	US Treasury Note	12/30/2019	1,000,000.00	1,010,589.29	1,068,906.25		4/30/2024	1.75%	\$ 7,703.30	\$ 9,805.98	\$ 1,661.12	1369
Treasury	912828XT2	US Treasury Note	10/31/2019	1,000,000.00	1,015,667.41	1,070,312.50		5/31/2024	1.64%	\$ 11,639.34	\$ 11,040.77	\$ 1,408.49	1400
Wells Fargo	94988J6A0	Corporate Bond	6/24/2020	1,350,000.00	1,370,749.50	1,372,329.49	8,197.87	9/9/2021	0.80%	\$ (8,197.87)	\$ 163.99	\$ 847.27	405
FFCB	3133EJ3Q0	Gov. Agency Debenture	8/28/2019	1,500,000.00	1,587,503.75	1,631,796.80		12/21/2023	2.12%	\$ 35,098.96	\$ 19,226.80	\$ 1,941.47	1238
Freddie Mac	3133EKKT2	Gov. Agency Debenture	6/24/2019	1,550,000.00	1,573,188.00	1,628,734.06		2/8/2023	1.82%	\$ 30,418.75	\$ 29,033.70	\$ 2,419.47	922

Subtotal	\$ 45,940,000.00	\$ 46,578,673.68	\$ 47,832,021.67	\$ 13,010.79	\$ 680,100.73	\$ 736,310.84	\$ 70,396.51
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BNY MM		217,297.23	217,297.23	0.00%			1
LAIF	N/A	12,210,051.74	12,210,051.74	0.92%		7,867.26	1

	\$59,006,022.65	\$60,259,370.64	\$ 680,100.73	\$ 736,310.84	\$ 78,263.77
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Matured Assets

Total Investments "Matured"	-	-	-
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Total Interest FY 19_20 Matured and Current	\$ 78,263.77
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Maturity Profile

	Amount
0-1 year	\$23,998,529.53
1-2 years	\$11,791,501.64
2-3 years	\$10,888,818.72
3-5 years	\$ 12,327,172.76
	\$59,006,022.65

Market to Cost Position Report

	Amortized Cost
Institution	
BNY Assets	\$46,578,673.68
BNY MM	217,297.23
LAIF	12,210,051.74
Totals:	\$59,006,022.65

Town of Los Gatos

Insight ESG Ratings as of September 30, 2020

Security Description	Maturity Date	Par/Shares	Moody Rating	S&P Rating	Insight ESG Rating	Environment	Social	Governance
HONEYWELL INTERNATIONAL 2.3% 15AUG2024 (CALLABLE 15JUL24)	8/15/2024	\$ 1,000,000	A2	A	3	3	5	3
AMERICAN EXPRESS CREDIT 2.25% 05MAY2021 (CALLABLE 04APR21)	5/5/2021	\$ 1,000,000	A2	A-	2	1	3	3
AMERICAN HONDA FINANCE 2.4% 27JUN2024	6/27/2024	\$ 1,000,000	A3	A-	3	2	4	3
ORACLE CORP 2.4% 15SEP2023 (CALLABLE 15JUL23)	9/15/2023	\$ 1,000,000	A3	A	3	1	3	4
TOYOTA MOTOR CREDIT CORP 2.6% 11JAN2022	1/11/2022	\$ 1,100,000	A1	A+	3	1	3	3
WALT DISNEY COMPANY/THE 4.5% 15FEB2021	2/15/2021	\$ 1,000,000	A2	A-	3	3	3	3
WELLS FARGO BANK NA 2.082% 09SEP2022 (CALLABLE 09SEP21)	9/9/2022	\$ 1,350,000	Aa2	A+	4	1	5	4
TOYOTA MOTOR CREDIT CORP 1.9% 08APR2021	4/8/2021	\$ 500,000	A1	A+	3	1	3	3
JPMORGAN CHASE & CO 3.25% 23SEP2022	9/23/2022	\$ 900,000	A2	A-	4	1	3	5
US BANCORP 3.375% 05FEB2024 (CALLABLE 05JAN24)	2/5/2024	\$ 1,000,000	A1	A+	3	2	4	3
PNC FINANCIAL SERVICES 3.3% 08MAR2022 (CALLABLE 06FEB22)	3/8/2022	\$ 1,000,000	A3	A-	2	2	2	3
IBM CORP 1.875% 01AUG2022	8/1/2022	\$ 1,000,000	A2	A	3	1	2	4
BANK OF AMERICA CORP 2.328% 01OCT2021 (CALLABLE 01OCT20)	10/1/2021	\$ 1,300,000	A2	A-	4	1	4	4
JPMORGAN CHASE & CO 3.875% 01FEB2024	2/1/2024	\$ 1,400,000	A2	A-	4	1	3	5
AMERICAN HONDA FINANCE 1.95% 10MAY2023	5/10/2023	\$ 600,000	A3	A-	3	2	4	3
Total/Average		\$ 15,150,000			3.1	1.5	3.4	3.5

*ESG ratings are from 1 to 5, with 1 as the highest rating and 5 as the lowest. All ratings are weighted by industry rankings, based on the importance of the category within the individual industry.

Subject: Agenda #2 Item

-----Original Message-----

From: Phil Koen <pkoen@monteropartners.com>

Sent: Friday, November 13, 2020 9:05 AM

To: Rob Rennie <RRennie@losgatosca.gov>; Marico Sayoc <MSayoc@losgatosca.gov>; BSpector <BSpector@losgatosca.gov>; Marcia Jensen <MJensen@losgatosca.gov>

Cc: Laurel Prevetti <LPrevetti@losgatosca.gov>; Stephen Conway <sconway@losgatosca.gov>; Matthew Hudes <[REDACTED]>; Maria Ristow <[REDACTED]>; mary <[REDACTED]>

Subject: Agenda #2 Item

Dear Council Members,

In comparing the Q1 FY 21 investment report to the same report prior year, total cash receipts have increased \$4.5m or 61% and total disbursements have also increased \$6.9m or 40% year over year.

These are material changes and the report does not discuss the reason for these changes. I am aware that part of the increase in cash disbursements was caused by the second ADP being made to CALPERS in July. But that does not explain all of the increase.

One other point that the Council may find interesting, in comparing Q1 FY 21 to Q1 FY 19 investment reports, receipts are up \$5.1m or 235% and disbursements have increased \$19.9m or 425%. Again there is no explanation given for these changes.

Would it be possible for Staff to disclose what drove the increase in cash receipts and cash disbursements so the Council and residents can have more transparency and a better understanding of the report?

Thank you.

Phil Koen

ATTACHMENT 2



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE
REPORT**

MEETING DATE: 12/07/2020

ITEM NO: 3

DESK ITEM

DATE: December 7, 2020
TO: Council Finance Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the First Quarter Investment Report (July through September 2020) for Fiscal Year 2020/21.

REMARKS:

Staff responses to the Committee Member questions are below.

Question: Regarding the Investment Report, you have been extending the portfolio's maturities to a weighted average of 556 days, yielding a return of 1.86%. How do you view the risk of increasing maturities? If it was riskless, you would have always had increased maturities before presumably.

Answer: Staff invests operating funds per the California Government Code mandate of Safety, Liquidity, and lastly Yield. That said, staff is cognizant of changes in the yield curve and the trade-offs between risk and return. Longer duration portfolios tend to work well in periods of stable to falling interest rates, while shorter duration portfolios tend to perform well in scenarios of rising interest rates.

Interest rates have been dropping since the fall of 2018 and the Federal Reserve is projecting that interest rates will remain low for an extended period of time, possibly through end of calendar year 2023. Accordingly, and when appropriate, staff in consultation with the Town's investment advisor see some opportunities currently in extending maturities and riding down the yield curve.

Question: Also, assuming that the current treasury and other bonds yields hold steady, how much will the yield of 1.86% decline by the end of FY 2021?

PREPARED BY: Stephen Conway
Director of Finance

Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

REMARKS (continued):

Answer: Staff expects the overall yield to fall to approximately 1.30% through calendar year 2021. The drop in yield was factored into interest rate estimates for the current fiscal year (FY 20/21) and also factored into the Town's Five-Year Forecast.

Question: Finally, \$24,500,000 has been withdrawn YTD compared to \$11,800,000 deposited. How does this compare to prior years and do you anticipate more net withdrawals for the year?

Answer: FY 20/21 First Quarter disbursements included \$1.5M of debt service checks issued and mailed to Bank of New York (trustee) due in August for the 2002 and 2010 COPs that a week later required an immediate stop payment order issued by the Town. This action was necessary because BNY staff alerted Town staff that they were not able to physically enter their building for a couple of weeks in August 2020 because of a COVID-19 outbreak in their downtown Los Angeles office and thereby could not negotiate the mailed checks.

To avoid late payments to bondholders, BNY requested that the Town replace the check payment by paying by wire which was approved by the Town. Upon receipt of the original cancelled checks from BNY Trust and verification of outstanding checks, accounts payable staff officially voided the checks. There will be corresponding -\$1.5M reverse disbursement that will be entered into the Town's general ledger and will reduce disbursements on the second quarter's report.

Adjusting the balance leaves a net disbursement of approximately \$23.0M for the first quarter. The Town also made a one-time \$3.6M payment to CalPERS in July 2020 that should be eliminated for comparison purposes to the prior fiscal year. There was also a September "disbursement" from the Town's main checking account of \$1M and a corresponding \$1M receipt booked for a placement of the same amount as an investment in the Town's Local Agency Investment Account (LAIF), so these amounts should be deducted from both quarterly totals.

In July 2020 the Town received \$1.2M from the County's Central Fire District which was also a "one-time" revenue for a property purchase from the Town and should be adjusted for comparison purposes.

Every year, the Town has first quarter expenses that exceed revenue. These expenses include our summer capital projects and upfront payments due to CalPERS and other entities. The Town receives minimal property tax revenue from the County until late November or early December of each fiscal year. Therefore, it is not unusual in the Town's operating cycle to see cash and investment balances decline in the first quarter and begin to grow back again in the second quarter as property taxes are received. As depicted below, the net reduction of cash and investments excluding the one-time ADP payment, the \$1.5 BNY debt service payment, and

REMARKS (continued):

the exclusion of the \$1.2M one-time Winchester land sale received in July 2020, indicated a lower use of cash and investments balances than the prior year's first quarter. Some of this remaining difference between quarters can be the timing of payment dates of bi-weekly payrolls and construction payments which are dependent on the timing of receipt of invoices from contractors.

Changes to Cash & Inv per Quarterly Investment Report (In Millions)	First Quarter FY 20/21 Receipts	First Quarter FY 20/21 Disbursements	1st Qtr 20/21 Change to Cash & Inv	First Quarter FY 19/20 Receipts	First Quarter FY 19/20 Disbursements	1st Qtr 19/20 Change to Cash & Inv
Per September 30 Inv Report	\$ 11.8	\$ 24.6	\$ (12.8)	\$ 7.3	\$ 17.6	\$ (10.3)
Adjust for BNY COP Debt Service		\$ (1.5)	\$ 1.5			
Adjust for July 2020 ADP to CalPERS		\$ (3.6)	\$ 3.6			
Adjust for LAIF deposit	\$ (1.0)	\$ (1.0)	\$ 1.0			
Sale of Winchester Land	\$ (1.2)		\$ (1.2)			
Adjusted Receipts/ Disbursements	\$ 9.6	\$ 18.5	\$ (7.9)	\$ 7.3	\$ 17.6	\$ (10.3)

Attachments (previously received with the Staff Report):

1. First Quarter Investment Report for FY 2020/21 (July through September 2020)
2. Public Comment Received for the November 13, 2020 Town Council Meeting

Attachment (received with this Desk Item):

3. Committee Member Comments

From: [Ronald Dickel](#)
To: [Stephen Conway](#); [Gitta Ungvari](#)
Cc: [Arn Andrews](#); [Laurel Prevetti](#)
Subject: Finance Meeting Monday
Date: Sunday, December 6, 2020 3:29:54 PM

Steve and Gitta

First, thanks Gitta for printing out the CAFR and agenda items. Much appreciated.

I look forward to the discussion Monday, but want to list out the following various comments and questions for discussion. I would appreciate this being distributed appropriately with the Brown Act to members of the finance committee.

Investment Report

Regarding the Investment Report, you have been extending the portfolio's maturities to a weighted average of 556 days, yielding a return of 1.86%. How do you view the risk of increasing maturities? If it was riskless, you would have always had increased maturities before presumably.

Also, assuming that the current treasury and other bonds yields hold steady, how much will the yield of 1.86% decline by the end of FY 2021?

Finally, \$24,500,000 has been withdrawn YTD compared to \$11,800,000 deposited. How does this compare to prior years and do you anticipate more net withdrawals for the year?

CAFR

It would be very useful for the Town Council to have a standalone paragraph on page 3 discussing the COVID impact on revenue in Q4. You discuss how much sales tax went down, but knowing the actual decline in Q4 revenue for all fees and taxes in Q4 would allow a better forecast of decreased revenue in 2021.

On page 4, it would be very good to note as on page 24 a \$4,000,000 decline in net position in 2020 compared to 2019.

On page 4 in the pension paragraph detailing amounts, add that the liabilities are based on a 7.15% investment return and a change of 1% would result in an increased liability of \$X as shown on page 84 and also that the 2020 Calpers return was 4.7%. Want to give more perspective that the liability is understated.

On page 4, in the third paragraph, delete "from zero in 2019." Duplicative.

On page 18 in the second bullet point paragraph, may want to add the page 29 line of 2020 excess revenues over expenditures of negative \$4,350,379 compared to a positive \$221,363 in 2019. Shows a \$4 mln decline year on year.

On page 25, new operational and capital grants of \$1.3 mln were noted. Are these recurring or one-time?

On page 26, the paragraph on salary increases should note the effective date and the \$ impact in 2020.

On page 35, in the pension paragraph add that the 2020 Calpers return was 4.7%.

On page 48, why was interest under forecast by \$1.6 mln?

On page 48, what was the anticipated sale gain of \$1.2 mln that did not occur?

On page 81, in the discount rate paragraph line 6 delete "adequate and the use of" and insert "used rather than the municipal bond rate" and delete "calculation is not necessary."

On page 95 under Covid, need to have more specific dollar estimates of declines in revenue in 2021, including actual declines in Q4 2020.

Thanks for all the hard work on the CAFR in these trying covid times. See you tomorrow.

Ron



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE
REPORT**

MEETING DATE: 12/07/2020

ITEM NO: 4

DATE: November 24, 2020
TO: Council Finance Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Information on the Implementation of the Town Finance Commission

RECOMMENDATION:

Receive information on the implementation of the Town Finance Commission.

BACKGROUND:

On November 3, 2020, the residents of Los Gatos voted to approve ballot Measure A "A Citizen's initiative Measure to Establish a Town Finance Commission." Among other items, the initiative amends the Los Gatos Town Code to disband both the Finance Committee and Sales Tax Oversight Committee.

The new Finance Commission is to be established consisting of seven (7) members – five (5) voting citizen members and two (2) non-voting Council Members. Individual Town Council members are responsible for appointing a citizen member. The initiative also stipulated professional experience criteria for citizen appointees. The Finance Commission appointee process will ensue after the certification of election results on December 8, 2020. In addition, upon certification of the election results the current Finance Committee will be disbanded.

DISCUSSION:

Similar to other Council Boards, Committees, and Commissions, Finance Commission citizen appointees will be selected through a competitive application and interview process. In preparation for the election certification, the Town Attorney and Town Clerk have established an application submittal process and tentative citizen appointee interview dates. The Finance Commission application can be found at <https://www.losgatosca.gov/385/Application-Process> and in Attachment 1. As stated in the application, interested applicants need to submit applications before 4:00 p.m. Friday, January 8, 2021.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, and Finance Director

PAGE 2 OF 2

SUBJECT: Finance Commission Implementation

DATE: November 24, 2020

DISCUSSION (continued):

Applications received after the deadline will be held for the next recruitment cycle. Interviews for accepted applicants will be held Tuesday, January 19, 2021, tentatively scheduled at 5 p.m. Applicants must interview to be considered for appointment. Upon completion of the interview process, Council members will make their individual selections on January 19 based on a predetermined ordering.

The Council member appointees to the Finance Commission as well as other Town Committees and outside agencies will be considered at the December 15, 2020 Town Council meeting.

Attachment:

1. Finance Commission Application

TOWN OF LOS GATOS

BOARD, COMMISSION, COMMITTEE APPLICATION

Contact: Clerk Department
110 East Main Street, Los Gatos, CA 95030
(408) 354-6888 or Clerk@LosGatosCA.gov

General eligibility requirements: A resident of the incorporated limits of the Town of Los Gatos. Other requirements may apply to specific Boards, Commissions, or Committees.

If you would like to apply for more than one Board, Commission, or Committee, place a number next to the Board, Commission, or Committee, in order of your preference, for which you would like to apply. **A separate application is required to be submitted for each Board, Commission, or Committee you are applying for.** Only applications for current openings will be considered at this time. Applications for future openings will be kept on file for one year. Qualified applicants will be notified for an interview with Town Council.

- ☐ Arts and Culture Commission
- ☐ Building Board of Appeals
- ☐ Community Health and Senior Services Commission
- ☐ Complete Streets and Transportation Commission
- ☐ Finance Commission
- ☐ General Plan Committee
- ☐ Historic Preservation Committee
- ☐ Library Board
- ☐ Parks Commission
- ☐ Personnel Board
- ☐ Planning Commission

IMPORTANT NOTICES

Please note that all information provided on the application becomes a public record after it is officially filed. All appointed applicants are required to file the Fair Political Practices Commission (FPPC) Statements of Economic Interest (Form 700), which are also a public record. Applicants appointed to the Planning Commission and Finance Commission are also required to complete Ethics Training AB 1234 every two years.

CONTINUE TO NEXT PAGE

FINANCE COMMISSION MEMBER APPLICATION

Contact: Clerk Department

110 East Main Street, Los Gatos, CA 95030
(408) 354-6888 or Clerk@LosGatosCA.gov

First Name	<input type="text"/>	Last Name	<input type="text"/>
Street Address	<input type="text"/>	City	<input type="text"/>
		Zip	<input type="text"/>
Cell Phone	<input type="text"/>	Work Phone	<input type="text"/>
		Home Phone	<input type="text"/>
Email	<input type="text"/>	Employer	<input type="text"/>
Job Title	<input type="text"/>	How long have you lived in Los Gatos?	<input type="text"/>

Are you a Registered Voter in the Town of Los Gatos?

☐ Yes ☐ No

Are you:

- A Certified Public Accountant, or
- A Chartered Financial Analyst, or
- Do you have a business, finance, economics or accounting degree?

☐ Yes ☐ No

☐ Yes ☐ No

☐ Yes ☐ No

Do you have at least five years experience in at least one of the following:

- Corporate, business, or government financial experience?
- Principal or officer at a financial auditing firm?
- Investment banking?
- Finance or budget management?

☐ Yes ☐ No

☐ Yes ☐ No

☐ Yes ☐ No

☐ Yes ☐ No

*If appointed your name, phone number, and email address will be made available to the public.

Please list all previously held elected or appointed governmental positions. Include the Position/Office held and the associated dates.
(e.g. Mayor, City of San Jose, 1990-1994)

Please list any civic and/or charitable organizations you have belonged to. Include the Position/ Office held and the associated dates.
(e.g. Coach, Little League, 1982-1989)

Please list any schools that you have attended or are currently attending. Include your major subject area and/or grade level. *(e.g San Jose State University, BA in History)*

Why are you interested in serving on the Finance Commission?

In your opinion, what are the key financial issues facing the Town and why?

CONTINUE TO NEXT PAGE

Describe how you meet the required qualifications of five years of experience in at least one of the following:

- a. Financial experience in a corporate, business, or government setting;
- b. Principal or officer at a financial auditing firm;
- c. Investment banking;
- d. Finance or budget management;

The **application deadline is 4:00 p.m. Friday, January 8, 2021.** Applications received after the deadline will be held for the next recruitment.

Interviews will be held Tuesday, January 19, 2021, tentatively scheduled to begin at 5:00 p.m. You will be notified via email of the interview time and be requested to **RSVP no later than 4:00 p.m. Friday, January 15, 2021.** *All applicants are required to be interviewed to be considered for appointment as a Commissioner.*

I understand the scheduled interview date and time is Tuesday, January 19, 2021, 5:00 p.m.

Signature: _____ Date: _____

IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN THE INTERVIEW PROCESS, PLEASE CONTACT THE CLERK DEPARTMENT AT (408) 354-6834.

NOTIFICATION 48 HOURS BEFORE THE MEETING WILL ENABLE THE TOWN TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY [28 CFR §35.102-35.104]

Submit Via Email



**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE
REPORT**

MEETING DATE: 12/7/2020

ITEM NO: 5

DATE: November 30, 2020
TO: Council Finance Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Discuss and Provide Comments to the Town Council Regarding the Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.

RECOMMENDATION:

Discuss and provide comments to the Town Council regarding the Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.

BACKGROUND:

The Town contracts with an independent certified public accountant to examine the books, records, inventories, and reports of all officers and employees who receive, handle, or disburse public funds each fiscal year. The FY 2019/20 audit was performed by Badawi & Associates, an experienced firm specializing in audit services for California public agencies. The firm also prepared the Draft CAFR for the Town of Los Gatos (see Attachment 1).

The information contained in the CAFR provides detailed financial information which the Los Gatos community and others can use to better understand the fiscal standing of the Town. In addition, the financial information contained in the document is one element that the credit rating agencies review annually to affix a credit rating for the Town's outstanding debt obligations. In 2020, Moody's rating service affirmed the Town's general credit rating of Aaa, the highest rating possible.

DISCUSSION:

At the meeting, Town's Independent Auditor will present to the Town Council Finance Committee the draft audited Comprehensive Annual Financial Report (CAFR) dated June 30,

PREPARED BY: Stephen Conway
Finance Director

Reviewed by: Town Manager and Assistant Town Manager

DISCUSSION (continued):

2020. Staff and the Town's independent auditor will be available for the Committee's discussion.

Highlights of the draft audited financial results include:

Independent Auditor's Report (pages 13 through 15)

The auditor has given the Town's financial statements a "clean" audit opinion for the year ended June 30, 2020 (see the first paragraph on Page 14) giving reasonable assurance that the financial statements are "free of material misstatement."

Management's Discussion and Analysis (MD&A) (pages 18 through 36)

Page 18 of the CAFR begins the MD&A section of the report wherein summaries are presented for the Town on an entity-wide basis and fund type basis. Information is provided in this section with a year-to-year view, explaining how fund balances have changed between fiscal years ending June 30, 2019 and June 30, 2020. Information is also presented on the adopted General Fund budget to actuals and any significant budget adjustments made during FY 2019/20 (page 31 through 33).

Statement of Net Position (page 40)

The Statement of Net Position serves as a useful indicator of a government's financial position. The Town had net assets of \$114.85 million at fiscal year end as compared to \$114.82 million the prior year, an overall small increase of \$30K over the prior fiscal year.

The largest portion of the net assets, \$111.7 million, represents the Town's investment in its capital assets and infrastructure. Restricted assets of \$7.1 million are resources that are subject to external restrictions on how they may be used. As of June 30, 2020, unrestricted net position reports a deficit of approximately \$3.97 million. The unrestricted net position reported the prior year was a deficit of approximately \$4.64 million. The deficit in unrestricted net position is primarily due to the Town's outstanding long term pension and Other Post Employment Benefit (OPEB) liabilities.

Basic Financial Statements (pages 39 through 96, including footnotes)

This section contains basic financial statements, including the "entity-wide" Statement of Net Position and Statement of Activities, financial statements for the fund types including Governmental Funds (such as the General Fund), Proprietary Funds, and the Private Purpose Trust Funds (Redevelopment Successor Agency).

The footnotes section provides details on significant items such as the Town's cash and investments (Note 2 beginning on page 69), its long term obligations (Certificates of

DISCUSSION (continued):

Participation) related to bonded debt (Note 6 page 74), the net pension liability for both the Town's miscellaneous and safety pension plans (Note 9 page 78), and a discussion of the Town's other post-employment benefit plan (Note 10 page 88).

Required Supplementary Information (pages 98 through 102)

The Schedules of Pension Plan Contributions are provided in this section.

Supplementary Information (pages 104 through 119)

This section provides budget to actual information for "non-major" funds which represent less than 10% of the Town's total assets/liabilities/revenues or expenditures.

Statistical Section (pages 123 through 153)

This section presents demographic statistics and ten-year historical financial data for the Town, including information on assessed valuations, fund balances, debt, property tax rates, personnel (full-time equivalent) history, principle employers, and other financial and demographic disclosures.

CONCLUSION:

Mr. Ahmed Badawi, C.P.A., managing partner of Badawi & Associates, will be participating in the Committee meeting. If you have questions prior to the meeting, please contact Director Conway and staff will share responses to the questions to the full Committee. Upon review and discussion of the draft CAFR by the Council Finance Committee, the final CAFR is scheduled for Town Council consideration on Tuesday, December 15, 2020. The Committee is welcome to provide comments to the Council.

FISCAL IMPACT:

There is no fiscal impact to provide recommendation to the Town Council for this report.

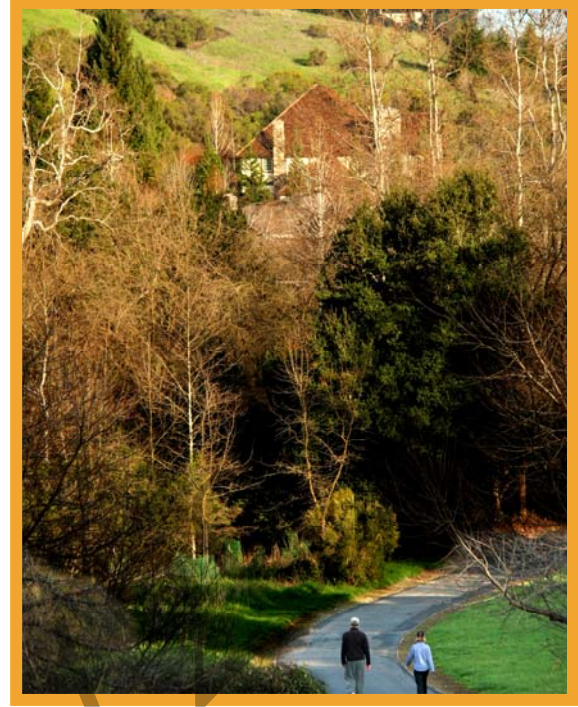
Attachment:

1. Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.



TOWN OF LOS GATOS

CALIFORNIA



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2020

Draft
11/30/2020

Cover Photos: Ken Benjamin and Liv Ames

**TOWN OF LOS GATOS
CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2020**

Draft
11/30/2020

PREPARED BY THE
OFFICE OF THE TOWN MANAGER

Draft
11/30/2020

TOWN HISTORY

The name Los Gatos comes from “El Rancho de Los Gatos.” A ranch established in 1839 by a Mexican land grant and so named because of the large number of mountain lions in the area. In 1854, James Alexander Forbes purchased some of this land and built a flour mill. In 1860, the first hotel was opened to provide a stage stop on the toll road which had been built between San Jose and Santa Cruz.

Wheat production gave way to orchards, and rapid growth ensued when the railroad reached Los Gatos in 1878. The residential subdivisions of Broadway, Bayview, Fairview, and Almond Grove were built in the 1880’s. By 1887, the population had grown to 1,500 and Los Gatos voted to incorporate.

Fruit industries faded slowly during the Depression and World War II, but the postwar period brought an influx of people and associated residential and commercial development. Highway 17 was constructed through the center of Town. Growth levelled off in the early 1970’s, leaving Los Gatos with its small-town atmosphere and pedestrian-oriented downtown.

Because of its distance from other centers of population, Los Gatos developed as a complete community including residential, business and industrial elements. Preserving Los Gatos as a complete and well balanced community has been and remains a prominent goal of the community. From the first 100-acre Town site in 1890 with a population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers between 14 and 15 square miles and has a population of 31,493. This growth over the last 80 years resulted in a community with vibrant business districts, well maintained neighborhoods, and lovely parks and open spaces.

As it exists now, the Town’s boundaries encompass a wide variety of terrain, ranging from level land to steep and densely wooded hillsides. The sharp visual contrasts among these features and charming architecture create a picturesque setting of the Town. In the midst of the growth of Silicon Valley, Los Gatos attracts people with a preference for the Town’s distinctive, high quality natural and urban environment.

Draft
11/30/2020

TOWN OF LOS GATOS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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INTRODUCTORY SECTION

Draft
11/30/2020

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TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

(408) 354-6832

FAX: (408) 399-5786

December XX, 2020

Honorable Mayor and Town Council,

I am pleased to submit the Town's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2020. This report was prepared by the Finance Department in conjunction with the Town Manager's Office, which assumes responsibility for the accuracy of the data and the completeness and fairness of the presentation and all disclosures. The information in this report is intended to present the reader with a comprehensive view of the Town's financial position and the results of its operations for the fiscal year ending June 30, 2020, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the Town's financial activities.

This report was prepared as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34). This GASB Statement requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

This Comprehensive Annual Financial Report is organized into three sections:

- I. The Introductory Section includes the table of contents, letter of transmittal, listing of elected officials, Town administrative personnel, and an organization chart delineating organizational structure.
- II. The Financial Section includes the independent auditors' opinion, the MD&A, the basic financial statements, notes to the financial statements, combining statements of non-major funds, and required supplemental information.
- III. The Statistical Section includes both financial and non-financial data about the Town.

The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and includes the audit report of Badawi & Associates, the Town's independent certified public accountants.

This Comprehensive Annual Financial Report will be submitted to the Government Finance Officers Association for consideration of its Achievement of Excellence Award in financial reporting certification. This award is granted only to entities whose reports meet the highest standards of municipal financial reporting.

THE REPORTING ENTITY AND ITS SERVICES

Los Gatos is a general law Town, incorporated under the laws of California in 1887. The Town is located in the foothills and level terrain of the Santa Clara Valley, in an area referred to internationally as "Silicon Valley." From the first 100-acre Town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers approximately 15 square miles with a population of 31,439. This growth over the last 80 years resulted in a community with vibrant business districts, well maintained neighborhoods, and lovely parks and open spaces. Preserving the unique charm of Los Gatos as a complete and well-balanced community while meeting its economic and housing needs has been, and remains a key goal for the Town.

The Town maintains a Council-Manager form of government which combines the strong political leadership of elected officials with the strong managerial experience of an appointed Town Manager. Five Council members are elected at large for staggered four-year terms to govern the Town. The Mayor and Vice-Mayor are appointed by the Council from its own ranks and serve for one-year terms. The Town Manager and Town Attorney are appointed and supervised directly by the Council. The Town Manager oversees all municipal services such as Public Safety, Parks and Public Works, Community Development, Library, and Town Administration including Human Resources, Information Technology, and Finance.

ECONOMIC CONDITIONS AND OUTLOOK

Like other communities across the nation and Silicon Valley, the Town was confronted with the societal and economic realities associated with the global COVID-19 pandemic. The Town entered the new Fiscal Year (FY) in a relatively strong economic environment; however, from the initial COVID-19 cases reported in January 2020, to the ultimate sequestering of the local economy in March, FY 2019/20 concluded against recessionary winds. Economically sensitive revenues, such as Sales Tax and Transient Occupancy Tax (TOT), experienced immediate contractions as the public was only allowed limited access to businesses, and leisure and business travel temporarily ceased. The Town's Property Tax revenues remained relatively strong into the close of the FY as inventories

of available homes remained low and suburban communities benefited from a flight from more urban markets.

General Fund revenues (not including transfer-ins) decreased 2.1% from the prior year. Property tax revenues remain a significant source of support for General Fund operations, comprising approximately 43% of General Fund revenues in FY 2019/20. For FY 2019/20 property tax receipts of \$18.3 million were \$1.0 million higher than the prior year's collection, reflecting the continued desirability of the Town, its environment, culture, and educational opportunities. While the impacts of remote work and work from home on property values are yet to be fully understood, it should be noted that valuation projections by the Santa Clara County Assessor's Office in the 2020-2021 Annual Report caution that 2021 could be a significant transition year for real estate values.

The Town relies heavily on sales tax revenues to support General Fund operations, comprising approximately 18% of General Fund revenues in FY 2019/20. For FY 2019/20 sales tax receipts of \$7.5 million were \$0.6 million lower than the prior year's collection. Sales tax revenues decreased because of the unprecedented disruption to business activity due to COVID-19 mitigation restrictions. One bright spot in sales tax receipts were steady increases in the Town's 1/8 cent District Sales Tax as the local tax captured a larger share of the increase in online sales during shelter-in-place.

The Town is preparing for continued increases in pension employer rates. The Town's pension plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns relative to the assumed rate of return, changes in actuarial assumptions, and demographic shifts which have outweighed any positive plan experiences. Recognizing these challenges, the Council has adopted or programmed additional discretionary pension funding strategies in excess of \$20.0 million including the first additional discretionary payment (ADP) directly to CalPERS of \$4,753,965 in October 2019. In addition, the Council initiated the prefunding of other post-employment benefit (OPEB) obligations beginning from zero funding status in 2009 leading to the current 67.9% funding status from zero in 2019.

While the Town Council has been proactively working to manage the anticipated cost escalation in its pension and OPEB expense, pension and OPEB related obligations continue to be one of the Town's greatest long-term cost drivers. Data from the June 30, 2019 actuarial valuations show total Net Pension (\$57.2) and OPEB (\$9.1) liabilities of \$66.3 million.

Readers are cautioned that in considering the amount of the pension and OPEB liabilities, and other actuarial data as reported by CalPERS and the Town's actuary, this is "forward looking" information. Such "forward looking" information reflects the judgment of the Board of Administration of CalPERS, its actuaries, and the Town's actuary as to the amount of assets which the pension and OPEB plans will be required to

accumulate to fund future benefits. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or that may change with the future experience of the pension and OPEB plans. The actuarial methods and assumptions could be changed by CalPERS and the Town's actuary at any time based on their professional judgement. Such changes could cause the Town's obligations to the pension and OPEB plans to be higher or lower in any particular year. This sensitivity to changes in actuarial assumptions is especially evident in changes to the Discount Rate as illustrated in Note 9 and changes to Healthcare Trend and Discount rates as illustrated in Note 10.

For detailed information about the Town employees' retirement plan please refer to Note 9 of the Notes to Basic Financial Statements Section. For detailed information about the Town OPEB obligations please refer to Note 10 of the Notes to Basic Financial Statements Section. In addition, the Town provides extensive information on pension and OPEB information on the Town's website.

Despite the reductions to various sources of local government revenue such as the elimination of redevelopment tax increment in 2012 and increasing costs associated with unfunded federal and state mandates, the Town has managed to maintain high service levels through increased efficiency and prudent fiscal management as evidenced by General Fund's resilience through the unprecedented events of FY 2019/20. The Town continues its outreach to the community, the League of California Cities, and local legislators to prevent and limit any future revenue losses and mandated cost increases.

MAJOR CAPITAL PROJECT INITIATIVES

Major capital asset and infrastructure initiatives were once again a priority for the fiscal year. Approximately \$7.8 million in Town infrastructure and other capital asset improvements were expended in FY 2019/20, including \$5.8 million in street improvement projects Town-wide to major arterials and neighborhood collector streets to improve the pavement condition of the Town's streets. Other investments included \$0.7 million in equipment purchases, \$0.4 million in traffic signal improvements, \$0.4 million in building improvements, and \$0.3 million in bicycle and pedestrian projects to enhance user safety.

Additional infrastructure improvements are scheduled in accordance with the Town's approved Capital Improvement Plan, and will continue into future years. All of these improvements are funded either through grants, or via revenues accumulated from prior year budget savings and/or excess revenues per Town Council policy.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The effectiveness of internal control is a primary consideration in the development and evaluation of the Town's accounting system. Internal accounting controls are designed to provide reasonable but not absolute assurance regarding:

- 1) safeguarding of assets against loss from unauthorized loss or disposition,
- 2) accuracy and reliability of accounting data, and
- 3) adherence to managerial policy.

The concept of reasonable assurance recognizes that the cost of internal control should not outweigh the benefits, and that management must make estimates and judgments in evaluating these costs and benefits.

All governmental fund types use the modified accrual basis of accounting. This means that revenues are recorded when measurable and available rather than when received. Measurable means the amount can be determined and available means the cash is received within sixty days after the end of the fiscal year. Expenditures are recorded when the liability is incurred, rather than when paid. An exception to this rule is principal and interest on general long-term debt, which is not recognized by debt service funds until it is due.

Proprietary (internal service) funds are accounted for using the accrual basis of accounting, similar to that used by corporations. Proprietary fund revenues are recognized when they are earned rather than when the cash is received, even if the cash is not available and proprietary fund expenses are recognized when they are incurred. With the implementation of GASB 34, the Town prepares its Basic Financial Statements on the accrual basis.

Internal accounting procedures have been developed to provide reasonable assurance regarding the safeguarding of assets and the reliability of financial records for preparing financial statements and maintaining asset accountability.

An annual operating budget, five-year budget forecast, and five-year capital improvement plan is adopted by the Town Council consistent with generally accepted accounting principles. All budget adjustments and transfers between funds must be approved by the Town Council during the fiscal year. The Town Manager is authorized to transfer unencumbered appropriations within a budget category, within a fund. Appropriations are valid for each fiscal year and lapse at year-end.

AWARDS

The Town's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. This is the 25th consecutive year that the Town has received the award. This prestigious award recognizes the report's conformance with strict accounting and reporting standards established by the Government Accounting Standards Board and government finance organizations. This award is annual in nature and valid for one year only. This year's report will be submitted for award consideration by this organization, as we believe it continues to meet these standards.

INDEPENDENT AUDIT

State law requires an annual audit of the Town's accounts by independent certified public accountants. The accounting firm of Badawi & Associates performs this function for the Town of Los Gatos, and their report is included in the financial section of the CAFR.

ACKNOWLEDGEMENTS

The preparation of this Comprehensive Annual Financial Report, as presented herein, is the result of the combined efforts and dedicated services of the excellent staff of the Department of Finance. Special thanks to Gitta Ungvari, Finance and Budget Manager, Mark Gaeta, Accountant; Melissa Ynegas, Finance Analyst; Diane Howard, Finance Analyst; and Maurice De Castro, Accountant and Finance Analyst for their efforts in preparing this report.

Respectfully submitted,

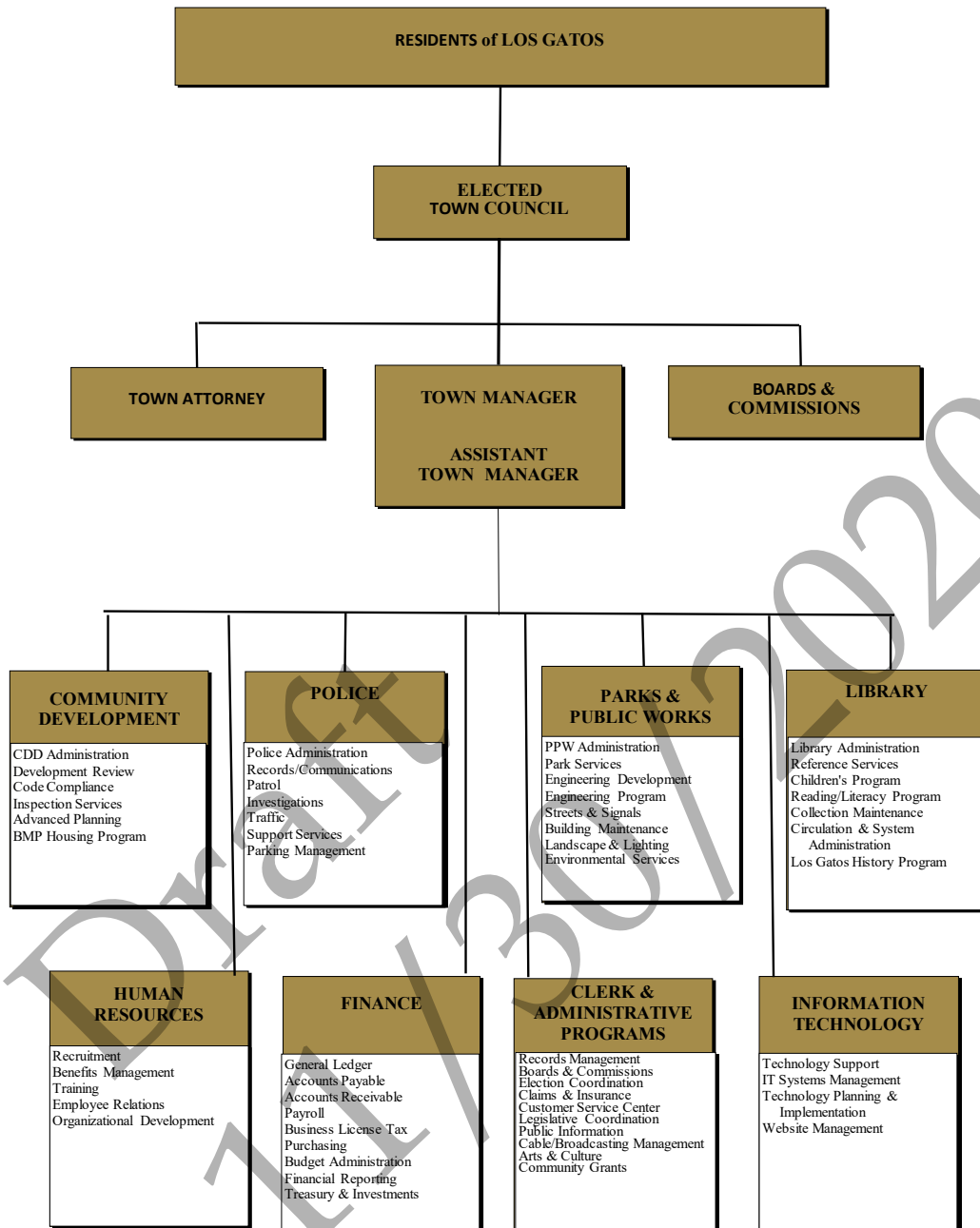


Laurel Prevetti
Town Manager



Stephen D. Conway
Director of Finance

TOWN OF LOS GATOS ORGANIZATIONAL CHART FY 2019/20



**TOWN OF LOS GATOS
PRINCIPAL OFFICERS
JUNE 30, 2020**

TOWN COUNCIL

Mayor
Vice Mayor
Council Member
Council Member

Marcia Jensen
Barbara Spector
Rob Rennie
Marico Sayoc

COUNCIL APPOINTEES

Town Manager
Town Attorney

Laurel Prevetti
Robert Schultz

APPOINTED OFFICIALS

Assistant Town Manager
Chief of Police
Community Development Director
Parks and Public Works Director
Library Director
Finance Director
Human Resources Director

Arn Andrews
Peter Decena
Joel Paulson
Matt Morley
Ryan Baker
Stephen Conway
Lisa Velasco



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Town of Los Gatos
California**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morill

Executive Director/CEO

Draft
11/30/2020

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FINANCIAL SECTION

Draft
11/30/2020

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the Town Council of the
Town of Los Gatos
Los Gatos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos, California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension-related schedules and OPEB-related schedules on pages 18-36, 48, and 98-102 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

COVID-19 Pandemic

As discussed in Note 15 to the basic financial statements, the City was impacted by the COVID-19 pandemic during the year. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Los Gatos, California's basic financial statements. The introductory section, major funds (other than General fund and Special revenue funds) budgetary schedules, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The major funds (other than General fund and Special revenue funds) budgetary schedules, combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly

To the Honorable Mayor and Members of the Town Council
of the Town of Los Gatos
Los Gatos, California
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stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated DATE, 2020 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Badawi and Associates
Certified Public Accountants
Berkeley, California
DATE, 2020

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11/30/2020

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Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Town of Los Gatos's Comprehensive Annual Financial Report (CAFR) presents management's discussion and analysis of the Town's financial performance during the fiscal year that ended on June 30, 2020. This analysis should be read in conjunction with the Transmittal Letter at the front of this report and the accompanying Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- Town assets exceeded liabilities at the close of FY 2019/20 by \$114,851,031 (total net position).
- The Town's total net position increased by \$32,000 during the fiscal year largely as a result of a small excess of total governmental activities revenues above governmental expenses and uses of financial resources.
- Reported unrestricted net position is negative (\$3,967,178) compared to (\$4,642,167) the prior year. The improvement in unrestricted net position resulted largely from the use of approximately \$8.0 million in unrestricted cash balances in the Town's General Fund Appropriated Reserve (GFAR) fund during the year to invest in the Town's infrastructure and equipment. Unrestricted net position represents all resources not included as net investment in capital or restricted assets.
- The Town's economically sensitive major revenues of sales tax and transient occupancy taxes (TOT) were negatively impacted by the COVID-19 pandemic and its related disruptions to normal local economic activity. Sales taxes declined \$0.6 million from the prior year while TOT declined \$0.8 million from the prior period. The impacts to revenues began in March 2020, as shelter-in-place orders were instituted and continued through the end of the fiscal year.
- The decline in sales taxes and TOT was partially offset by continued growth in property tax revenues (\$1.0 million).
- Total expenses increased \$3.8 million from the prior year. The increase was driven by a combination of
 - different factors detailed under the Government Activities Expenditures Discussion.
- At the end of FY 2019/20, General Fund balance was \$29,335,497 compared to \$38,343,155 in the prior year. The ending fund balance of \$29,335,497 represents approximately 66.3% of General Fund expenditures for the current fiscal year excluding transfers-out to the Town's capital projects funds and internal service funds. The reduction in General Fund ending fund balances was primarily from:

- \$4.8 million of General Fund restricted cash balances for an additional discretionary payment (ADP) made to CalPERS in October 2019. The ADP to CalPERS was to pay down a portion of the Town's actuarially determined unfunded pension liability beyond the mandated annual payments.
 - Additionally, the General fund transferred approximately \$7.0 to the Town's capital projects fund to provide funding for Town infrastructure improvements.
 - \$1.0 million transfer to the Town's workers compensation internal service fund from General Fund reserves to provide additional funding available to meet ongoing claims activity.
 - This reduction of General fund balance was partially offset by an approximate \$3.1 million excess operating revenues above operating expenditures (excluding the ADP payment and transfers out to other funds) for the year.
- Total fund balances for all governmental funds at year end were \$50,170,882, a decrease of approximately \$3.4 million or (6.4%) from the prior year. Governmental fund balances decreased primarily due to:
 - \$7.8 million of capital outlay expenditures made from the Town's capital projects funds.
 - \$4.8 million ADP payment made to CalPERS in October 2019 from the General fund.
 - These uses were partially offset by the Town's capital projects funds recording approximately \$2.2 million in increases from the prior year's level of receipts of intergovernmental (grants) revenues during the fiscal year.
 - At fiscal year end, the Town's General Fund restricted cash assets included \$669,978 placed in its recently established Town's IRS Section 115 Pension Trust.
 - The Town's total capital assets increased by \$4,157,637 to \$111,700,225 net of depreciation.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the CAFR contains the following information: Independent Auditor's Report, Management's Discussion and Analysis (this section), the Basic Financial Statements, and the Required Supplementary Information. The CAFR also includes a Supplementary Information section, which presents combining and budgetary schedules for individual non-major funds. The Basic Financial Statements are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements. The Management's Discussion and Analysis is intended to be an introduction to the Basic Financial Statements.

Government-Wide Financial Statements

The Government-Wide Financial Statements present the financial picture of the Town from an economic resources measurement focus using the accrual basis of accounting. An economic

resources measurement focus is when a body of financial statements report all inflows, outflows, and balances affecting or reflecting an entity's net position.

The Statement of Net Position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the Government-Wide Financial Statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activity*). The governmental activities of the Town include public safety, parks and public works, community development, library, community services, debt service, and general government. The Town has no business-type activities for accounting purposes.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – The Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The Governmental Fund Statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's operations. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds – The Town maintains one type of proprietary fund: Internal Service Funds. Proprietary funds are reported using the accrual basis of accounting. Internal Service Funds are an accounting tool used to accumulate and allocate costs internally among the Town’s various functions. The Town uses Internal Service Funds to account for its fleet of vehicles, computer equipment, risk management activities, and other items. Internal Service Funds help smooth the variability of certain expenses and insulate the Town from large unanticipated costs. The Internal Service Funds are included within governmental activities in the Government-Wide Financial Statements.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are not reflected in the Government-Wide Financial Statements because the resources of those funds are not available to support the Town’s own programs.

Included in fiduciary funds is the Redevelopment Successor Agency private-purpose Trust Fund created upon the dissolution of the former Redevelopment Agency (RDA) in 2012. The Trust Fund was created to hold the assets of the former Redevelopment Agency until they are transferred for governmental purposes to other entities or distributed to the underlying taxing jurisdictions in Santa Clara County after the payment of enforceable obligations. Additional information on the dissolution of the RDA and this fiduciary fund can be found in Note 12 in the notes to basic financial statements.

Notes to Basic Financial Statements

The notes provide additional information to facilitate a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The notes to the Basic Financial Statements can be found on pages 58-120 of this report.

ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Government-Wide Financial Statements provide long-term and short-term information about the Town’s overall financial condition. This analysis addresses the financial statements of the Town as a whole, utilizing data from throughout the CAFR to describe the changes between 2019 and 2020.

Net Position Discussion

As shown below, the Town’s combined net position for the year ended June 30, 2020 was \$114.85 million, reflecting a small increase of approximately \$30K to the prior years’ net position of \$114.82 million. In general, net position can serve as an important indicator of whether the Town’s overall financial condition is improving or deteriorating over time.

Town of Los Gatos
Net Position
Governmental Activities
For the Year Ended June 30, 2020

	2020	2019
Current and other Assets	\$ 75,995,161	\$ 79,464,869
Capital Assets	111,700,225	107,542,588
Total Assets	<u>\$187,695,386</u>	<u>\$ 187,007,457</u>
Deferred Outflows - Pension/OPEB	17,441,310	13,521,349
Current Liabilities	18,093,199	17,002,972
Long-Term Liabilities Outstanding	69,465,025	66,521,231
Total Liabilities	<u>\$ 87,558,224</u>	<u>\$ 83,524,203</u>
Deferred Inflows - Pension/OPEB	2,727,441	2,185,494
Net Position		
Net Investment in Capital Assets	111,700,225	107,542,588
Restricted	7,117,984	11,918,688
Unrestricted	<u>(3,967,178)</u>	<u>(4,642,167)</u>
Total Net Position	<u>\$114,851,031</u>	<u>\$ 114,819,109</u>

Current and other assets decreased \$3.5 million from the prior year, primarily due to an approximate \$4.8 million decrease in restricted cash deposits. The decrease is primarily related to the budgeted October 2019 additional discretionary payment (ADP) made by the Town to CalPERS to reduce the Town's actuarial unfunded pension liability beyond the mandated annual payments. Capital assets increased \$4.2 million net of depreciation expense totaling approximately \$3.9 million for the year, much of which is related to the infrastructure investments made throughout the Town including:

- Approximately \$5.8 million in street repair and resurfacing and curb and gutter work Town-wide,
- Approximately \$0.7 million to complete the Almond Grove Street Rehabilitation project,
- \$0.3 million in bicycle and pedestrian improvements, and
- \$0.2 million in energy efficiency upgrades made to the Town's facilities among other current year capital projects.

Current liabilities increased \$1.1 million from the prior year primarily due to increases in accounts payable (\$400K) and accrued payroll (\$285K), claims payable (\$141K), and unearned revenue (\$403K), offset by an decrease in deposits payable and amount due to other governments (\$161K).

Long-term liabilities increased \$3.0 million. The increase is primarily due to the \$3.6 million increases in pension liabilities measured as of June 30, 2019. Due to the actuarial measurement

date the ADP payment of approximately \$4.8 made by the Town in October 2019 will be reflected in the subsequent actuarial valuation. There was an additional increase of \$343K for compensated absences from the prior year. These increases were offset by a \$900K reduction in net other post employment benefits (OPEB) liabilities due to the continued additional discretionary funding of the unfunded OPEB liability. See Note (9) and Note (10) of Notes to the Financial Statements for more information on Town's pension and other post retirement benefit plans.

The largest segment of the Town's net position, representing \$111.7 million of net position, reflects the net investment in capital assets (e.g., land, buildings, infrastructure, and equipment) less accumulated depreciation and related outstanding debt used to acquire those assets. The Town uses these capital assets to provide infrastructure and services to our residents. Therefore, they do not represent a liquid financial resource to the Town and consequently are not readily available for funding current obligations.

Restricted net position totaled approximately \$7.1 million representing approximately \$6.4 million for capital projects and \$670K placed in trust for unfunded pension/OPEB obligations.

As of June 30, 2020, unrestricted net position reports an approximate \$675K increase from a deficit of approximately (-\$4.64 million) the prior year to an ending deficit balance of approximately (-\$3.97 million). The deficit in governmental unrestricted net position is primarily due to the Town's outstanding long term pension and OPEB liabilities. It is not uncommon for governments with these types of long term liabilities to report a deficit in unrestricted net position. A deficit in unrestricted net position is not the only measure to assess the Town's fiscal health, other factors can also be important to consider such as an expanding and growing property tax base and the condition of the Town's infrastructure including streets, parklands, civic center and library, police operations building , neighborhood center, corporation yard and other improvements.

Governmental Activities

Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange revenues. The Statement of Activities is intended to illustrate how the cost of governmental activities is financed and determine the annual change in net position.

Town of Los Gatos
Statement of Activities
For the Year Ended June 30, 2020

	<u>2020</u>	<u>2019</u>
Revenues:		
Program revenues:		
Charges for Services	\$ 10,288,351	\$ 11,350,345
Operating Grants and Contributions	3,854,188	2,175,277
Capital Grants and Contributions	850,113	146,792
General Revenues:		
Property Taxes	18,330,426	17,321,347
Sales Taxes	7,531,425	8,158,152
Franchise Taxes	2,495,792	2,475,916
Other Taxes	1,911,774	2,726,743
Motor Vehicle in Lieu	24,526	14,689
Investment Earnings	2,428,470	1,809,128
Miscellaneous	323,940	2,407,840
Total Revenues	<u>48,039,005</u>	<u>48,586,229</u>
Expenses:		
Police Department	20,446,188	16,635,726 (1)
Parks and Public Works	11,803,005	10,627,716
General Government	7,405,368	8,163,991 (1)
Community Development	5,001,958	5,064,637
Library Services	3,347,523	3,059,294
Sanitation	3,041	684,673
Total Expenses	<u>48,007,083</u>	<u>44,236,037</u>
Change in Net Position	<u>31,922</u>	<u>4,350,192</u>
Net Position, beginning	114,819,109	110,468,917
Net Position, Ending	<u>\$ 114,851,031</u>	<u>\$ 114,819,109</u>

(1) In staff's review of the prior year's Statement of Activities it was discovered an error had been made in the reversal of current year OPEB contributions which was allocated across all departments in error. The credit should have only been charged to general governmental expenses in the prior year. This correction has no effect on net position but changes the expense totals by function but no effect on total expenses on the Statement of Activities for the prior fiscal year ending June 30, 2019.

Governmental Activities Revenue Discussion

The Statement of Activities shown above details how the \$48.0 million in Governmental Activities revenue was derived. As categorized in the Statement of Activities as program revenues, approximately \$10.3 million or 21.4% of the revenues were recorded from those who directly benefited from the program as a charge for service. Another \$4.7 million or 9.8% of the revenues were sourced from operating/capital grants and contributions. The remaining \$33.0 million or 68.8% represents general revenues of the Town, including taxes, intergovernmental revenues, and other miscellaneous revenues.

Program revenues increased by approximately \$1.3 million from the prior year. This is largely due to the Town's effort to qualify for a number of new operational and capital grants from the federal and state government.

The Town's revenues related to Governmental Activities decreased by approximately \$1.9 million from the prior year, a combination of approximately \$1.0 million increase in property taxes and \$620K increase in investment earnings offset by approximately \$630K declines in sales taxes, \$815K in other taxes the majority of the decline coming from loss of transient occupancy taxes, and a \$2.0 million reduction in miscellaneous revenues explained largely by the \$1.8 million one-time gain on the sale recorded to miscellaneous revenues in the prior fiscal year associated with the Winchester land sale.

Property tax is the largest individual revenue source for the Town and collections finished the year \$1.0 million higher than the previous year. This increase was mostly due to an increase in secured taxes as strong demand for residential Town property continued, the approval of the annexations of County pockets with tax revenues accruing to the Town effective FY 2019/20, and new developments driving property values higher. It's important to note that assessed valuations for FY 2019/20 were established on the tax roll in January 2019 and collected in FY 2019/20 and accordingly do not reflect COVID-19 impacts to secured or unsecured property.

At \$7.5 million, sales taxes represent the second largest individual revenue source for the Town. Sales taxes decreased \$0.6 million from the previous year largely due to the economic impacts related to COVID-19 which began in March 2020. The decline was slowed by the receipt for the full fiscal year of FY 2019/20 of a new additional 1/8 cent District Sales Tax approved by the Los Gatos voters in the fall of 2018.

Franchise taxes, the Town's third largest revenue source, finished the year at \$2.5 million, reflecting only a very small increase \$20K from the previous fiscal year.

Investment earnings increased \$619K from the prior year. The primary factor responsible for this growth was the increase in the value of portfolio investments due to the dramatic reduction in prevailing interest rates as a result of the market's reaction to COVID-19. As interest rates decline interest bearing investments increase in value which led to year end (\$1.2M of which approximately \$600K had been recognized in the previous fiscal year) additional investment

gains. These non-cash or paper gains are recognized as investment income as a result of the “mark to market value” procedure required by GASB 31.

Miscellaneous revenues decreased by approximately \$2.0 million from the prior year. The substantial decrease is due to a gain on sale of property recognized the prior fiscal year, the largest segment of which was the approximate \$1.9 million gain on sale of the Winchester land sale finalized in May 2019.

Governmental Activities Expenses Discussion

The Town provides residents and visitors with the following functional services: General Government is comprised of six departments (Town Council, Town Clerk, Town Manager, Town Attorney, Human Resources, Information Technology, and Finance) providing services in general governance, information technology, executive management, economic vitality, legal, records management, risk management, human resources, finance, and accounting. The Town’s Police Department (public safety) provides general law enforcement, crime prevention, dispatch and responses to emergency and non-emergency calls for services. Parks and Public Works provides engineering, construction and maintenance of public streets, street lighting, Town owned buildings, parks, and related infrastructure; as well as traffic engineering and engineering evaluation of private development proposals. Community Development provides planning and zoning services; and building plan check and inspection; and code enforcement services. The Library Department provides library, local history and cultural services to the community.

Total expenses increased \$3.8 million from the prior year. The increase was driven largely by the combination of the following factors:

- Negotiated salary increases and subsequent benefit increases. All non-sworn and management employees received a 3% across the board salary increase and sworn employees received a 4% across the board salary increase.
- General Government expenses increased \$1.2 million from the prior year. The largest share of this increase is a result of a \$416K allocation of this cost center’s share of Internal Service Fund expenses over revenues in FY 2019/20 for which the prior year allocation was a decrease to this cost center of \$346K for its share of Internal Service Fund revenue above expenses. The net difference between fiscal years for this allocation is approximately \$762K between fiscal years.
- Public safety expenses grew by approximately \$2.7 million from the prior year. There are three chief drivers of this increase. First, \$1.9 million of the increase is the pension expense calculated for the Town’s safety risk pool pension plan for the current fiscal year of \$5,646,706 compared to \$3,706,313 expensed in the prior fiscal year. Second, lower position vacancies throughout the fiscal year compared to the prior year added to the increase. Third, the cost of negotiated salary increases and related benefits including the

increased pension contributions for miscellaneous or “non-safety” pension plan positions contributed.

- Parks and Public Works expenses grew by approximately \$0.7 million from the prior year driven primarily by negotiated salary increases and related benefits, increased required employer pension contributions, and increases to depreciation expenses for Town infrastructure.
- Community Development expenses decreased by \$360K for the year due to approximately \$221K lower volume in “pass-through” expenditures for private development activity offsetting cost increases from negotiated salary increases and related benefits and increased required employer pension contributions.
- Library Services expense increased approximately \$288K from the prior year primarily from negotiated salary increases and related benefits and increased required employer pension contributions.
- Sanitation expenses for urban runoff decreased approximately \$682K from the prior year. In the prior fiscal year, the Town received program management fees from the West Valley Sanitation District and expensed those fees for program management. Effective fiscal year 2019/20, the West Valley Clean Water Authority receives its funding through property tax bill assessments and related expenses are paid through the Authority.

FINANCIAL ANALYSIS OF THE TOWN’S FUNDS

Governmental Funds

Recognizing the financial resources measurement focus, the Town’s Governmental Funds provide information on near-term inflows and outflows, and balances of spendable resources. This information is useful in assessing the Town’s financing requirements and may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year. Unlike the Statement of Activities which does not include transfers, the Governmental Funds Balance Sheet does include transfers in and out.

Fund Balance – As discussed below, the Town’s Governmental Funds Balance Sheet reports the following fund balances.

Restricted Fund Balance – The Town has \$7.2 million in fund balance classified as restricted to indicate that it has an externally imposed restriction on how the money may be spent. Of the \$7.2 million restricted fund balance, \$0.7 million is in the General Fund representing amounts placed in an IRS Section 115 trust dedicated as to use for pension expenses. \$6.3 million is restricted for capital projects, and \$0.2 million for maintenance and repairs.

Committed Fund Balance – The Town has \$15.4 million in fund balance classified as committed to indicate that the Town Council previously committed how the money will be spent. Of the \$15.4 million committed fund balance, \$15.1 million is committed to the General Fund, of which \$10.9 million is for budget stabilization and catastrophe response and \$4.5 million is for additional discretionary payments toward pension and OPEB unfunded liabilities.

Assigned Fund Balance – The Town has \$27.5 million in fund balance which is not restricted or committed and is classified as assigned to indicate the Town Council’s intent to be used for specific purposes. The largest assigned fund balance is the Reserve for Capital and Special projects with a balance of approximately \$10 million which is the primary funding source for the Town’s five-year capital improvement plan and special projects as budgeted by the Town.

Additional information on the Town’s Fund Balance can be found in Note (8) of the Notes to the Financial Statements.

Major Governmental Funds results for the year included the following:

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11/30/2020

TOWN OF LOS GATOS
TOTAL GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2020

REVENUES	2020	2019
Property Taxes	18,368,466	17,359,435
Sales Taxes	7,531,425	8,158,152
Other Taxes	1,911,774	2,726,742
Licenses & Permits	4,818,671	5,173,876
Intergovernmental	4,292,453	2,310,655
Charges for Services	5,309,470	5,584,504
Fines and Forfeitures	271,117	510,266
Franchise Fees	2,495,792	2,475,916
Interest	2,428,453	1,809,164
Use of Property	31,039	32,960
Other	376,922	579,755
Total Revenues	47,835,582	46,721,425
EXPENDITURES		
Current:		
Public Safety	15,793,815	14,945,407
General Government	13,024,146	8,004,254
Parks and Public Works	8,168,599	7,962,135
Community Development	4,473,790	4,577,495
Library Services	2,700,802	2,493,617
Sanitation and Other	162,837	628,240
Capital Outlay	7,861,972	7,888,914
Total Expenditures	52,185,961	46,500,062
Excess Revenues over Expenditures	(4,350,379)	221,363
Proceeds from sales of assets	1,566	1,912,316
Transfers in	8,935,260	4,264,131
Transfers out	(8,628,719)	(3,323,756)
Total Other Financing Sources (Uses)	308,107	2,852,691
Net Changes in Fund Balances	(4,042,272)	3,074,054
Beginning/Ending Fund Balances As Restated	54,007,454	50,560,772
Ending Fund Balances	49,965,182	53,634,826

Overall, Total Governmental Funds revenues finished \$1.3 million or 2.8% higher than the prior year, while total expenditures finished \$5.7 million or 12.2% higher than the prior year. The net result is that Governmental Funds income before transfers and other financing sources and uses decreased by \$3.8 million. Of Total Governmental Funds revenues, General Fund revenues totaled \$42. million or nearly 89% of the total \$48.0 million. Total General Fund operating revenues decreased by \$900K, resulting from the net effect of:

- \$1.0 million increase in property tax collections,
- \$600K increase in investment income,
- \$150K increase in intergovernmental revenues for the year,
- \$800K decreases in other taxes,
- \$600K decrease in sales tax, and
- \$500K decrease in licenses and permits.

The declines in revenues from the prior year were impacted by the COVID-19 pandemic and its related restrictions which began in March 2020 and continued through the end of the fiscal year. COVID-19 and its associated economic impacts are expected to continue across the entire spectrum of economic activity both locally and nationally.

General Fund expenditures represent approximately \$44.3 million of the Total Governmental Fund expenditures of \$52.2 million compared to \$38.0 million of total Governmental Funds expenditures of \$46.5 million in the prior year. The increase in governmental funds expenditures was led by an approximate \$5.0M increase in general governmental and an \$850K increase in public safety expenditures from the prior year. The increase in general governmental expenditures was largely attributable to a \$4.8 million ADP paid in October 2019 to pay down an additional portion of the Town's actuarial unfunded pension liability beyond mandated annual payments. Increases in public safety expenditures from the prior year were influenced by lower levels of staff vacancy savings and associated increases in salary and benefits from the prior year. Additionally, salary and benefit cost increases resulting from labor negotiations and mandated increases in employer pension contribution rates were also a contributing factor to increases to all Town departments and services.

Proprietary Funds

The Town's Proprietary Funds (Internal Service Funds) presented in the Fund Financial Statements section basically provide the same type of information in the Government-Wide Financial Statements and include individual segment information.

Total net position in the Internal Service Funds decreased \$0.7 million in the current year. This decrease reflects the use of approximately \$788K transferred from the Town's Facilities Maintenance Fund to provide a funding source for the Town's Capital projects for the Civic center and Recreation building restroom renovations, waterproofing, deck railing repairs, and fire suppression for the Town's IT server room. Equipment Replacement net position was reduced by scheduled fleet and equipment replacements totaling approximately \$540K and transfers out

of approximately \$580K to be used as a funding source for the computer aided dispatch system for the Police department (\$525K) and the purchase of a new patrol vehicle (\$55K). These uses of net position were offset by an approximate \$1.1 million transfer from the Town's General Fund to the Town's Workers Compensation Internal Service fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Changes to the Original Budget

Comparing the FY 2019/20 original budget (or adopted) General Fund expenditures of \$43,256,352 (excluding budgeted transfers-out and debt payments that are reimbursed) to the final adjusted budget of \$47,997,219 indicates a net increase of approximately \$4.7 million. Additions to the original expenditure budget included adjustments approved by Town Council throughout the fiscal year.

Original Budget GF Expenditures	+	=
	Misc. Adjustments & Mid-Year Adjustments	Final Budget
\$43,256,352	\$4,740,867	\$47,997,219

The increase in General Fund appropriations occurred primarily from the following selected budget adjustments made during the fiscal year.

- Use of \$4,232,500 of Pension/OPEB Reserve to make additional discretionary payments (ADPs)
- \$122,820 expenditure budget adjustment for Transportation Analysis Guideline development consultation services from available General Plan Deposit Account
- \$102,000 expenditure budget adjustment for police safety equipment utilizing grant received by the Town
- \$54,797 budget expenditure for tasers and cameras from available Equipment Replacement Fund balance
- \$50,000 expenditure budget increase due to increased water utility costs for Town Parks.
- \$47,000 for tree service expenses from available Tree Replacement account
- \$24,219 increase expenditures for Youth Collection to utilize Library Grant received by the Town
- \$22,677 expenditure budget adjustment traffic signal controller's equipment and service
- \$22,669 increase to salary and benefits for the Town Manager and the Town Attorney
- \$16,165 expenditure budget increase to move temporary FTE hours inadvertently budgeted in the Facilities Maintenance Internal Service Fund.
- \$15,000 to fund additional services by the Town of Los Gatos Chamber of Commerce
- \$10,800 expenditure budget increase for Emergency Operation Center equipment utilizing grant received by the Town

- \$20,220 miscellaneous budget increase in various programs

Variance with the Final General Fund Budget

The General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual (GAAP) for Fiscal Year Ended June 30, 2020 reports an approximate overall favorable variance with the final budget of approximately \$2.1 million. This favorable variance was created largely by the net effect of the following factors:

- Approximately \$661K of expenditures below budget for FY 19/20 work paid from General Plan Update fees (a dedicated revenue source which funds this expenditure). All savings in this budget are carried over to the next fiscal year to be continue the General Plan Update project.
- Actual revenues ended the fiscal year at \$1.6 million below final budgeted revenues. Unfavorable variances from budget were experienced beginning in March 2020 related to the COVID-19 pandemic and its related restrictions. The following economically sensitive revenues experienced declines:
 - An unfavorable variance of (\$1.2 million) sales tax collections
 - An unfavorable variance of (\$1.0 million) Transient Occupancy Tax collections
 - An unfavorable variance of (\$619K) in licenses and permits
 - An unfavorable variance of (213K) in fines and forfeitures
 - An unfavorable variance of (202K) in charges for services
- A favorable variance of \$1.6 million in investment earnings for year. The Town received additional investment earnings for the year in its pension/OPEB trust which was not anticipated during FY 19/20 budget development and a positive trend of interest rates leading to additional interest accrued in year end mark to market valuations.

Significant factors affecting actual expenditures include:

- Community Development expenditures reflected a \$1.3 million favorable variance explained largely by staff vacancies with salary and benefit savings of approximately \$332K, and the General Plan Update expenditures being approximately \$661K lower than budgeted because the budget reflected the entire contract amount which has not been fully executed through the end of the fiscal year. An additional \$208K favorable variance reflects the fiscal year actual activity in the Department pass through program that depends on the timing and the volume of the development projects.
- Public safety expenditures had a favorable variance of approximately \$1.2 million. An \$839K saving is reflecting limited term vacancies in Police Officer, Police Record Specialist,

and Dispatcher positions, and savings of \$363K due to decreased service cost of crossing guards and parking violation services, and travel activity due to the Shelter in Place order.

- Administrative Services reflected a favorable balance of approximately \$501K in large measure due to savings in salary and benefits due to partial year vacancies in the Finance and Clerk Departments positions and savings in special events cost due to cancellation of events.
- Parks and Public Works reflects a favorable variance of approximately \$190K reflecting partial vacancies during the year.
- Library services reflected a favorable variance of \$260K due mainly to salary and benefit savings from staff vacancies in the Library Technology Specialist position and other temporary vacancies.

CAPITAL ASSETS

As of June 30, 2020, the Town's investment in capital assets for its governmental activity is recorded at \$111,700,225 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress, and machinery and equipment. Capital assets increased \$4.2 million net of depreciation expense totaling approximately \$3.9 million for the year.

During FY 2019/20, the Town's approximate \$7.8 million investment in capital assets for the current year represented approximately 4.1% of total assets for governmental activities. Major capital asset events during the current fiscal year include the following:

- \$5.8 million in street repair and resurfacing and curb and gutter work Town-wide, approximately \$0.7 million to complete the Almond Grove Street Rehabilitation project;
- \$0.7 million in equipment purchases, including \$0.5 million in vehicle fleet replacements, and \$0.2 million in mobile cash barriers, license plate recognition system, and other building improvements;
- \$0.4 million in traffic signal improvements;
- \$0.4 million expended on building improvements, retaining walls, park improvements, and parking lot improvement projects;
- \$0.3 million in bicycle and pedestrian improvements; and
- \$0.2 million in energy efficiency upgrades made to the Town's facilities among other current year capital projects.

Town of Los Gatos
Net Investment in Capital Assets
For the Year Ended June 30, 2020

	Governmental Activities
Infrastructure	\$ 63,337,364
Buildings	23,341,210
Land	20,294,810
Equipment	2,682,698
Construction in Progress	2,044,143
	<u>\$ 111,700,225</u>

Additional information on the Town's capital assets is found in Note 5 of this financial report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A product of an ongoing examination of how the Town provides cost-effective services, the Town's budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

During the development and adoption of the Town's FY 2020/21 budget, the Town Council and management considered the following factors:

- In response to the economic impact of COVID-19 pandemic, the Town modified its revenue forecast downward in the FY 2020/21 Budget. For additional details, see Note 15. The FY 2020/21 operating budget is a balanced budget, with the use of General Fund reserves dedicated for one-time uses. The FY 2020/21 Budget reflect maintaining high service levels with little to no increases in the employee headcount. The budget identified contingencies should revenues come in below projected amounts. The Town is carefully monitoring its revenues sources and will identify any modification at the mid-year budget discussion.
- The Town continues to focus on priority issues that involve maintaining public safety and Town infrastructure including streets and parks; and providing library, community development, and other services. These priorities are coordinated with other Core Goals that protect the Town's fiscal health and ensure cost efficient and effective delivery of Town-wide administrative services. The Town's proactive approach to reducing operating expenditures, identifying revenue enhancements, and implementing operating efficiencies has been an effective fiscal approach.
- Specific trends affecting the fund balance forecast include:
 - General property tax collections represent approximately 32.1% (not including the State's property tax "backfill" shifts) of the Town's General Fund revenues. Property tax collections are expected to increase 3.9% in FY 19/20 from the prior year's tax collections.

This increase is primary due to the additional tax collection from the recently annexed parcels. This forecast is based on data from the Santa Clara County Tax Assessor's Office. The Town closely monitor its actual collection and other legislative changes regarding property tax. See Note 16 for more detail.

- The Town anticipates a decrease in general sales tax for FY 2020/21. Sales tax estimates of \$7.9 million for FY 2020/21 were budgeted reflecting a 0.2% decrease from the prior year's adopted sales tax budget.
- The Town's investment portfolio experienced a slight decrease in its overall weighted average annual yield, reducing from 2.05% at June 30, 2019 to 1.86% at June 30, 2020. Prevailing interest rates at the end of fiscal year were at historic lows due to economic impacts of the COVID-19 pandemic and were anticipated to remain at these low levels for the foreseeable future which will likely lower yields on the investment portfolio in the future.
- Transient Occupancy Tax (TOT) revenues are expected to be lower in FY 2020/21 as personal and business-related travel are susceptible to the economic impact of Covid-19 pandemic.
- The Town's pension plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns, changes in actuarial assumptions, and demographic shifts which have outweighed any positive plan experiences. To address this unfunded status, the Town took proactive steps including initiating the prefunding of OPEB obligations, budgeting and programming additional discretionary pension payments to accelerate reduction of unfunded liabilities, and recently partnering with the Town's employee groups to eliminate the existing retiree healthcare benefit for new employees. Even with these proactive steps, the Town continues to be impacted by the continuing rising cost of pension related benefits. Over the next five fiscal years, the Town's five-year forecast includes increasing pension costs due to further changes in actuarial assumptions or lowering the discount rate. The Town's net pension liability is \$24.7 million for the safety cost sharing plan and \$32.5 million for the miscellaneous plan based upon data from CalPERS. To illustrate the sensitivity of the net pension liability to changes in the discount rate, CalPERS estimates that a 1 % reduction in the discount rate from 7.15% to 6.15% would increase the total net pension liability for both Miscellaneous and Safety by \$26.7 million. Conversely, an increase in the discount rate from 7.15% to 8.15% would decrease the total net pension liability for both Miscellaneous and Safety by \$22.0 million.
- In addition, CalPERS provides a hypothetical termination liability estimate of the plans should the contract with CalPERS be terminated. The plan liability on a termination basis is calculated differently from the plans' ongoing funding liability. Since no future employer contributions would be made in the hypothetical termination, benefit payments are secured by risk-free assets. For the Miscellaneous plan, a 3.25%

termination return rate results in a \$103.1 million termination liability. For the Safety plan, a 3.25% termination return rate results in a \$91.9 million termination liability.

- For detailed information about the Town employees' retirement plan please refer to Note 9 of the Notes to Basic Financial Statements Section.

Requests for Information

This financial report is designed to provide residents, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Questions about this report or requests for any additional information, should be directed to Stephen Conway, Director of Finance, at 110 East Main Street, Los Gatos, California, 95030; email at sconway@losgatosca.gov; or phone at (408) 354-6828.

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11/30/2020

Basic Financial Statements

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11/30/2020

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TOWN OF LOS GATOS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2020

GOVERNMENT WIDE FINANCIAL STATEMENTS STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position, Statement of Activities, fund financial statements and the notes to financial statements comprise the Basic Financial Statements of the Town.

The purpose of the Statement of Net Position and the Statement of Activities is to summarize the entire financial activities and financial position of the Town. They are prepared on the same basis of accounting (accrual) used by most businesses, which means they include all the Town's assets and liabilities, as well as its revenues and expenses. The effect is the entire Town's transactions are accounted for, regardless of when cash changes hands, and all material internal transactions between funds have been eliminated.

The Statement of Net Position reports the Town's total assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term debt, and presents similar information to the old balance sheet format while focusing on the composition of the Town's net position (assets minus liabilities). The Statement of Net Position summarizes the financial position of the Town's governmental activities in a single column.

The Town's governmental activities include the activities of the General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds. These funds are serviced by the Town's Internal Service Funds; therefore internal service activities are consolidated with governmental activities after eliminating inter-fund transactions and balances.

The Statement of Activities reports increases and decreases in the Town's net position and is prepared on the full accrual basis of accounting, which means it includes all the Town's revenues and expenses regardless of when cash changed hands. This differs from the "modified accrual" basis of accounting used in the fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities presents the Town's expenses before revenues and by program. Program revenues (revenues generated directly by specific programs) are deducted from program expenses to arrive at the net expense of each governmental program, which is offset by general revenues as listed before the change in net position. From these components, the change in net position is computed and reconciled to the Statement of Net Position.

Both of these statements include the financial activities of the Town.

TOWN OF LOS GATOS
STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental Activities
ASSETS	
Cash and investments	\$ 71,609,969
Restricted cash and investments	784,191
Receivables:	
Accounts	1,459,473
Interest	317,209
Intergovernmental	1,555,607
Materials, supplies and deposits	30,960
Long term notes receivables	237,752
Long-term prepaid pension obligations	
Capital Assets:	
Nondepreciable	22,338,953
Depreciable, net of accumulated depreciation	89,361,272
Total Assets	<u>187,695,386</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions subsequent to measurement date	10,753,665
Pension related amounts	4,179,339
OPEB contributions subsequent to measurement date	2,508,306
Total Deferred Outflows of Resources	<u>17,441,310</u>
LIABILITIES	
Accounts payable	3,772,685
Accrued payroll and benefits	1,700,778
Due to other governments	37,969
Unearned Revenue	4,596,403
Deposits	6,736,953
Claims payable	1,248,411
Long-term liabilities:	
Due within one year:	
Compensated absences	335,642
Due in more than one year:	
Net OPEB liability	9,126,387
Net pension liabilities	57,230,935
Compensated absences	2,772,061
Total Liabilities	<u>87,558,224</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related amounts	2,098,547
OPEB related amounts	628,894
Total Deferred Inflows of Resources	<u>2,727,441</u>
NET POSITION	
Net investment in capital assets	111,700,225
Restricted for:	
Capital projects	6,257,756
Pension	669,978
Lighting and landscape repairs and maintenance	190,250
Total Restricted Net Position	7,117,984
Unrestricted	(3,967,178)
Total Net Position	<u>\$ 114,851,031</u>

**TOWN OF LOS GATOS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and
					Changes in Net Position
					Governmental Activities
Governmental Activities:					
General government	\$ 7,405,368	\$ 1,470,324	\$ 12,290	\$ 8,258	\$ (5,914,496)
Public safety	20,446,188	1,549,207	952,045	9,100	(17,935,836)
Parks and public works	11,803,005	3,674,222	2,824,638	832,755	(4,471,390)
Community development	5,001,958	3,351,753	15,864	-	(1,634,341)
Library services	3,347,523	11,522	49,351	-	(3,286,650)
Sanitation	3,041	231,323	-	-	228,282
Total Governmental Activities	<u>\$ 48,007,083</u>	<u>\$ 10,288,351</u>	<u>\$ 3,854,188</u>	<u>\$ 850,113</u>	<u>(33,014,431)</u>
General revenues:					
Taxes:					
Property taxes					18,330,426
Sales taxes					7,531,425
Franchise taxes					2,495,792
Other taxes					1,911,774
Motor vehicle in lieu					24,526
Investment earnings					2,428,470
Miscellaneous					<u>323,940</u>
Total general revenues					33,046,353
Change in Net Position					31,922
Net Position - Beginning					<u>114,819,109</u>
Net Position - Ending					<u>\$ 114,851,031</u>

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TOWN OF LOS GATOS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
FUND FINANCIAL STATEMENTS &
MAJOR GOVERNMENTAL FUNDS

Fund Financial Statements

The Fund Financial Statements only present major funds individually while nonmajor funds are combined in a single column. Major funds are generally defined as having significant activities or balances in the current year.

Major Governmental Funds:

The Town determined that the following funds were major funds for the year ended June 30, 2020. Individual non-major funds can be found in the supplemental section.

General Fund is the general operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

Draft
11/30/2020

**TOWN OF LOS GATOS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2020**

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash & Investments	\$ 36,974,140	\$ 18,951,321	\$ 6,598,756	\$ 62,524,217
Restricted Cash & Investments	669,978	-	-	669,978
Receivables:				
Accounts	930,815	-	19,277	950,092
Interest	317,209	-	-	317,209
Intergovernmental	1,414,965	480,888	140,642	2,036,495
Other assets	30,960	-	-	30,960
Long term notes	159,000	-	78,752	237,752
Total Assets	\$ 40,497,067	\$ 19,432,209	\$ 6,837,427	\$ 66,766,703
LIABILITIES				
Accounts payable	\$ 957,782	\$ 2,561,695	\$ 4,181	\$ 3,523,658
Accrued payroll and benefits	1,696,044	-	4,734	1,700,778
Due to other governments	37,969	-	-	37,969
Unearned revenue	1,732,822	2,798,786	64,855	4,596,463
Deposits	6,736,953	-	-	6,736,953
Total Liabilities	11,161,570	5,360,481	73,770	16,595,821
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	-	205,700	-	205,700
Total deferred inflows of resources	-	205,700	-	205,700
FUND BALANCE				
Restricted for:				
Capital Outlay	-	88,937	6,168,819	6,257,756
Pension	669,978	-	-	669,978
Repairs and Maintenance	-	-	190,250	190,250
Committed to:				
Budget Stabilization	5,427,603	-	-	5,427,603
Catastrophic	5,427,603	-	-	5,427,603
Pension/OPEB	4,532,500	-	-	4,532,500
Assigned to:				
Open Space	410,000	-	-	410,000
Parking	-	1,460,210	-	1,460,210
Sustainability	140,553	-	-	140,553
Capital/Special Projects	9,969,120	-	-	9,969,120
Comcast PEG	-	50,000	-	50,000
Market Fluctuations	1,218,732	-	-	1,218,732
Compensated Absences	1,539,408	-	-	1,539,408
Capital Projects	-	12,266,881	-	12,266,881
Special Revenue Funds	-	-	404,588	404,588
Total Fund Balances	29,335,497	13,866,028	6,763,657	49,965,182
Total Liabilities and Fund Balances	\$ 40,497,067	\$ 19,432,209	\$ 6,837,427	\$ 66,766,703

TOWN OF LOS GATOS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION-GOVERNMENTAL ACTIVITIES
JUNE 30, 2020

Fund Balance - Total Governmental Funds	\$ 49,965,182
Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds because of the following:	
CAPITAL ASSETS	
Capital assets used in the Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds.	111,700,225
ALLOCATION OF INTERNAL SERVICE FUND NET POSITION	
Internal service funds are used by management to charge the cost of management of certain activities such as insurance, central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included as Governmental Activities in the Statement of Net Position.	7,731,080
DEFERRED INFLOWS OF RESOURCES	
Revenues from grants that are funded in this fiscal year that will not be collected for several months after the Town's fiscal year end are not considered available and are classified as deferred inflows of resources in the governmental funds.	205,700
DEFERRED OUTFLOWS OF RESOURCES	
Contributions subsequent to the measurement date will not be included in the calculation of the Town's net pension liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources.	14,933,004
DEFERRED INFLOWS OF RESOURCES	
In the Government-Wide financial statements certain pension amounts are deferred and amortized over a period of time, however, in the governmental funds no transactions are recorded.	(2,098,547)
DEFERRED OUTFLOWS OF RESOURCES	
Contributions subsequent to the measurement date will not be included in the calculation of the Town's net OPEB liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources.	2,508,306
DEFERRED INFLOWS OF RESOURCES	
In the Government-Wide financial statements certain OPEB amounts are deferred and amortized over a period of time, however, in the governmental funds no transactions are recorded.	(628,894)
LONG-TERM LIABILITIES	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.	
Net Pension Liability	\$ (57,230,935)
Net OPEB Liability	(9,126,387)
Compensated absences	(3,107,703)
	(69,465,025)
Net Position - Governmental Activities	<u><u>\$ 114,851,031</u></u>

**TOWN OF LOS GATOS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 18,330,425	\$ -	\$ 38,041	\$ 18,368,466
Sales Taxes	7,531,425	-	-	7,531,425
Other Taxes	1,877,338	-	34,436	1,911,774
Licenses & Permits	4,053,537	407,340	357,794	4,818,671
Intergovernmental	1,104,075	1,938,684	1,249,694	4,292,453
Charges for Services	4,447,213	862,257	-	5,309,470
Fines and Forfeitures	271,117	-	-	271,117
Franchise Fees	2,495,792	-	-	2,495,792
Interest	2,266,134	47,219	115,100	2,428,453
Use of Property	31,039	-	-	31,039
Other	307,812	69,110	-	376,922
Total Revenues	42,715,907	3,324,610	1,795,065	47,835,582
EXPENDITURES				
Current:				
General Government	13,024,146	-	-	13,024,146
Public Safety	15,793,815	-	-	15,793,815
Parks and Public Works	8,139,106	-	29,493	8,168,599
Community Development	4,473,790	-	-	4,473,790
Library Services	2,700,802	-	-	2,700,802
Sanitation and Other	-	-	162,837	162,837
Capital Outlay	138,384	5,919,125	1,804,463	7,861,972
Total Expenditures	44,270,043	5,919,125	1,996,793	52,185,961
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,554,136)	(2,594,515)	(201,728)	(4,350,379)
OTHER FINANCING SOURCES (USES)				
Proceeds from sales of assets	656	910	-	1,566
Transfers in	599,669	8,325,591	10,000	8,935,260
Transfers (out)	(8,053,847)	(433,952)	(140,920)	(8,628,719)
Total Other Financing Sources (Uses)	(7,453,522)	7,892,549	(130,920)	308,107
NET CHANGES IN FUND BALANCES	(9,007,658)	5,298,034	(332,648)	(4,042,272)
BEGINNING FUND BALANCES, as restated	38,343,155	8,567,994	7,096,305	54,007,454
ENDING FUND BALANCES	\$ 29,335,497	\$ 13,866,028	\$ 6,763,657	\$ 49,965,182

TOWN OF LOS GATOS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (4,042,272)
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Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:

CAPITAL ASSET TRANSACTIONS

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets (additions)	\$ 7,995,690	
Proceeds from sale of assets	(1,566)	
Loss on sale of assets	(904)	
Current Year Depreciation	(3,835,585)	4,157,635

UNAVAILABLE REVENUES

Revenues from grants that are funded in this fiscal year that will not be collected for several months after the Town's fiscal year end are not considered available and are classified as deferred inflows of resources in the governmental funds.	205,700
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OPEB PLAN CONTRIBUTIONS AND EXPENSE

In governmental funds, actual contributions to OPEB plans are reported as expenditures in the year incurred. However, in the Government-Wide Statement of Activities, only the current year OPEB expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.	760,089
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PENSION PLAN CONTRIBUTIONS AND EXPENSE

In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the Government-Wide Statement of Activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.	(56,098)
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ALLOCATION ON INTERNAL SERVICE FUND ACTIVITY

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of the internal service fund is reported with governmental activities.	(723,363)
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COMPENSATED ABSENCES EXPENSE

In governmental funds, compensated absences such as vacations and sick leave are expenditures when taken. However, in the Government-Wide Statement of Activities, the current year change in the compensated absences liability is reported.	(269,769)
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CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	\$ 31,922
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TOWN OF LOS GATOS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 17,970,500	\$ 18,352,880	\$ 18,330,425	\$ (22,455)
Sales Taxes	8,001,917	8,723,000	7,531,425	(1,191,575)
Other Taxes	2,855,730	2,857,285	1,877,338	(979,947)
Franchise Fees	2,458,520	2,458,520	2,495,792	37,272
Licenses & Permits	4,672,534	4,672,534	4,053,537	(618,997)
Intergovernmental	988,441	1,165,460	1,104,075	(61,385)
Charges for Services	4,454,336	4,649,235	4,447,213	(202,022)
Fines and Forfeitures	483,950	483,950	271,117	(212,833)
Interest	629,774	629,774	2,266,134	1,636,360
Use of Property	35,793	35,793	31,039	(4,754)
Other	286,077	286,077	307,812	21,735
Total Revenues	42,837,572	44,314,508	42,715,907	(1,598,601)
EXPENDITURES				
Current:				
General Government:				
Town Council	240,605	240,605	206,163	34,442
Town Attorney	621,391	628,793	559,010	69,783
Administrative Services	4,815,138	4,881,105	4,380,504	500,601
Non-Departmental	3,873,255	8,201,520	7,878,468	323,052
Total General Government	9,550,389	13,952,023	13,024,145	927,878
Public Safety	16,940,786	16,995,583	15,793,815	1,201,768
Community Development	5,760,099	5,760,099	4,473,790	1,286,309
Parks & Public Works	8,070,068	8,328,730	8,139,106	189,624
Library Services	2,935,010	2,960,784	2,700,802	259,982
Capital Outlay	-	-	138,384	(138,384)
Total Expenditures	43,256,352	47,997,219	44,270,042	3,727,177
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(418,780)	(3,682,711)	(1,554,135)	2,128,576
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	1,000	1,201,000	656	(1,200,344)
Transfers In	538,536	593,333	599,669	6,336
Transfers Out	(7,753,140)	(8,053,847)	(8,053,847)	-
Total Other Financing Sources (Uses)	(7,214,604)	(7,460,514)	(7,453,522)	(1,194,008)
NET CHANGES IN FUND BALANCES	\$ (7,633,384)	\$ (11,143,225)	(9,007,657)	\$ 934,568
BEGINNING FUND BALANCE			38,343,155	
ENDING FUND BALANCE			\$ 29,335,498	

TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS

Internal service funds account for Town operations financed and operated in a manner similar to a private business enterprise. The intent of the Town is that the cost of providing goods and services to other Town funds be financed through user charges to those funds.

The concept of major funds does not extend to internal service funds because they are used for internal activities only. In the Government-Wide Statement of Activities, the net revenues and expenses of the internal service funds are allocated to the Town Departments or programs that generated them, thus eliminating internal service funds.

Draft
11/30/2020

**TOWN OF LOS GATOS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2020**

	Governmental Activities Internal Service Funds
ASSETS	
Cash & investments	\$ 9,085,752
Restricted cash & investments	114,213
Accounts Receivable	<u>28,553</u>
Total Assets	<u>9,228,518</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	<u>249,027</u>
Total current liabilities	<u>249,027</u>
Noncurrent liabilities:	
Claims payable	<u>1,248,411</u>
Total noncurrent liabilities	<u>1,248,411</u>
Total Liabilities	<u>1,497,438</u>
Restricted for workers compensation claims	114,213
Unrestricted	<u>7,616,867</u>
Total Net Position	<u><u>\$ 7,731,080</u></u>

**TOWN OF LOS GATOS
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	Governmental Activities Internal Service Funds
OPERATING REVENUES	
Charges for services	\$ 3,209,982
Interest	7
Use of money and property	165,652
Other local taxes	34,437
Other	596,752
	<u>4,006,830</u>
Total Operating Revenues	<u>4,006,830</u>
OPERATING EXPENSES	
Services and Supplies	3,549,649
	<u>3,549,649</u>
Total Operating Expenses	<u>3,549,649</u>
Operating Income	(416,822)
Transfers in (Note 4)	1,061,256
Transfers out (Note 4)	(1,367,797)
	<u>(306,541)</u>
Net transfers	(306,541)
Change in Net Position	(723,363)
BEGINNING NET POSITION	<u>8,454,443</u>
ENDING NET POSITION	<u><u>\$ 7,731,080</u></u>

**TOWN OF LOS GATOS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 4,089,772
Payments to suppliers	(3,620,655)
Payments to employees	-
Claims paid	(733,825)
Net cash provided (used) by operating activities	(264,708)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers In/(Out)	(306,541)
Net cash provided (used) by noncapital financing activities	(306,541)
Net Increase(Decrease) in Cash and Investments	(571,249)
Cash and investments - beginning of year	9,771,214
Cash and investments - end of year	\$ 9,199,965
FINANCIAL STATEMENT PRESENTATION	
Cash & investments	\$ 9,085,752
Restricted cash & investments	114,213
Total	\$ 9,199,965
Reconciliation of Operating Income to Cash Flows from Operating Activities:	
Operating Income	\$ (416,822)
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	-
Change in assets and liabilities:	
Receivables, net	82,942
Material and supplies	-
Deferred outflows of resources	-
Net pension liabilities	-
Deferred inflows of resources	-
Accounts payable	(70,864)
Accrued payroll and benefits	-
Claims payable	140,178
Due to other government	(142)
Cash Flows From Operating Activities	\$ (264,708)

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

FIDUCIARY FUNDS

Trust funds are used to account for assets held by the Town as a trustee agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

Library Private Purpose Trust Fund was established to provide for the servicing of donations and bequests to the Town's Library Program.

RDA Successor Agency Private Purpose Trust Fund was 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 existing Redevelopment Agency obligations.

Draft
11/30/2020

**TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2020**

	Total Private Purpose Trust Funds
ASSETS	
Cash and investments (Note 2)	\$ 2,343,505
Restricted cash and investments (Note 2)	1,987,621
Accounts receivable	8,750
Loans receivable (Note 3)	575,425
Capital assets (Note 5):	
Nondepreciable	5,257,422
Depreciable, net of accumulated depreciation	1,423,701
Total Assets	11,596,424
LIABILITIES	
Accounts payable	3,064
Due to other governments (Note 13)	2
Interest payable	285,390
Long-term debt (Note 6):	
Due within one year	1,250,000
Due in more than one year	14,461,545
Total Liabilities	16,000,001
NET POSITION	
Held in trust	(4,403,577)
Total Net Position	\$ (4,403,577)

**TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	Total Private Purpose Trust Funds
ADDITIONS	
Property taxes	\$ 1,949,284
Investment earnings	53,652
Gifts, bequests and endowments	61,809
Other	1,905,024
Total Additions	<u>3,969,769</u>
DEDUCTIONS	
Program expenses of former RDA	1,916,701
Interest and fiscal agency expenses of RDA	651,462
Library services	82,626
Depreciation expense	101,692
Total Deductions	<u>2,752,481</u>
CHANGE IN NET POSITION	1,217,288
NET POSITION - BEGINNING OF YEAR	<u>(5,620,865)</u>
NET POSITION - END OF YEAR	<u><u>\$ (4,403,577)</u></u>

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Notes to Basic Financial Statements

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Financial Reporting Entity

The Town of Los Gatos (the “Town”) operates under a Council-Manager form of government and provides the following services: public safety (including police and emergency management), parks and public works, community development, library, public improvements, planning and zoning, and general administration services. Redevelopment services were provided primarily through the Redevelopment Agency of the Town which was dissolved on February 1, 2012.

The Town is largely a residential community located in the foothills of the Santa Cruz Mountains and was incorporated as a municipal corporation in 1887. The Town’s population as of January 1, 2020 was 31,439.

As required by generally accepted accounting principles, these financial statements present the Town as the Primary Government and any component units for which the Town is considered financially accountable.

B. Description of Blended Component Units

The Town did not report any component units as a part of the primary government because the Town Council was not the governing body of any entities and no separate entity provided services solely to the Town.

C. Description of Joint Ventures and Public Entity Risk Pool

As described in Note 11, the Town participates in two joint ventures and public entity risk pool activities through formally organized separate legal entities. The financial activities of the Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA) and the Local Agency Workers’ Compensation Excess Joint Powers Authority (LAWCX) are not included in the accompanying basic financial statements as these boards are separate from and independent of the Town administration.

D. Basis of Presentation

The Town’s Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board (“GASB”) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues*, an Amendment of GASB Statement No. 33, No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

These Statements require that the financial statements described below be presented.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the Town). These statements include the financial activities of the overall Town government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. However, interfund services provided and used are not eliminated in the process of consolidation. These statements present *governmental activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meet the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary* and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining governmental funds are aggregated funds and reported as non-major funds.

Internal service funds of the Town (which provide services primarily to other funds of the Town) are presented, in summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are the Town's governmental activities, financial activities of the internal service funds are presented in the governmental activities column when presented at the government-wide level. The costs of these services are allocated to the appropriate function/program in the Statement of Activities.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

E. Major Funds

GASB defines major funds and requires that the Town's major governmental funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The Town may also select other funds it believes should be presented as major funds.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The Town reported the following major governmental funds in the accompanying financial statements:

General Fund is the general operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

The Town also reports the following fund types:

Internal Service Funds are used to account for services, which are provided to other departments on a cost-reimbursement basis. Those services include workers compensation, self-insurance, facilities maintenance, information technology, and equipment replacement.

Fiduciary Funds include Private-Purpose Trust Funds used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of this fund are excluded from the government-wide financial statement but are presented in a separate Fiduciary Fund financial statement.

The Town reported the following Fiduciary Funds in the accompanying financial statements:

Library Private Purpose Trust Fund provides for the servicing of donations and bequests to the Town's Library Program and includes the following:

- **History Project Private Purpose Trust Fund** was established to provide for the servicing of donations, bequests, grant monies and expenditures to the history project partnership of Los Gatos Public Library and the Museum of Los Gatos.
- **Clelles Ness Private Purpose Trust Fund** was established by Ansten R. Ness, M.D. and the Board of Library Trustees for the Town of Los Gatos, as a memorial to his wife, Clelles Ness to use the income and principal of the trust estate to provide materials and services not ordinarily available from public funds.
- **Susan E. (Betty) McClendon Private Purpose Trust Fund** is a bequest to the Los Gatos Public Library from the estate of Susan McClendon established to be used solely for children's services.
- **Barberra J. Cassin Private Purpose Trust Fund** is a bequest to the Town from the estate of Barberra J. Cassin established to be distributed to the Los Gatos Public Library for the purpose of establishing an endowment fund, which is to be used for the support of science, the arts and humanities projects.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

RDA Successor Agency Private Purpose Trust Fund accounts for the assets, liabilities and operations transferred from the dissolution of the Town's Redevelopment Agency in 2012, which includes the following:

- Certificates of Participation issued to finance several capital improvement projects throughout the Town.
- Redevelopment projects and related property tax revenue.
- Affordable Housing Set-Aside Program obligations.
- Repayment of obligations incurred by the Town's Redevelopment Agency prior to its dissolution.

F. Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Town considers property tax revenues reported in the governmental funds to be available if the revenues are collected or are reasonably expected to be collected within sixty days after year-end. For revenues other than property taxes, the Town generally applies the sixty-day period rule but would make exceptions considering the *measurable* and *available* criteria. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which is recognized upon becoming due and payable; and except for claims, judgments and compensated absences, which are recognized when estimable and probable. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property and sales taxes, certain intergovernmental revenues, and interest revenue. Fines, forfeitures, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the Town gives or receives value without directly, receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The Town may fund programs with a combination of cost-reimbursement grants, categorical block grants and/or general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The Town's policy is to first apply restricted grant resources to such programs followed by general revenues as necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The Town applies all applicable GASB pronouncements for certain accounting and financial reporting guidance including those applicable to accounting and reporting for proprietary operations. In December of 2010, GASB issued *GASBS No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

Pension - For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town's California Public Employees' Retirement System (CalPERS) plans (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Town's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Cash and Cash Equivalents - The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State of California statutes and the Town's investment policy authorize the Town to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, collateralized, non-negotiable certificates of deposits, commercial paper rated A-1/P-1, medium-term corporate notes rated A or its equivalent or better by Moody's or Standard & Poor's, asset backed corporate notes, bankers' acceptances, mutual funds, and the State Treasurer's investment pool (Local Agency Investment Fund).

The Town does not enter into repurchase or reverse repurchase agreements.

Investments - Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

Materials, Supplies and Deposits - These assets are held for consumption and are stated at cost using the first-in, first-out method. The costs are recorded as expenditures at the time the item is consumed.

Interfund Receivables and Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/advances from other funds". All other outstanding balances between funds are reported as "due to/from other funds".

Advances - Advances between funds are offset by a nonspendable fund balance in applicable Town funds to indicate the extent to which they are not available for appropriation and are not expendable available financial resources.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Capital Assets - Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their acquisition value on the date contributed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value. Capital assets, including infrastructure, are recorded if acquisition or construction costs exceed \$10,000.

As required by GASB, the Town depreciates capital assets with limited useful lives over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. The Town depreciates using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated.

The Town has assigned the useful lives listed below to capital assets:

Buildings	25-40 years
Improvements	25-40 years
Machinery and equipment	2-20 years
Furniture and fixtures	5-12 years
Software	5-7 years
Infrastructure	20-40 years

Major capital outlay for capital assets and improvements are capitalized as projects are constructed.

Capital assets may be acquired using federal and state grants, contributions from developers, and contributions or grants from other governments. GASB 34 requires that these contributed assets be accounted for as revenue at the time they are contributed.

Deferred Compensation Plan - The Town established a deferred compensation plan created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Deferred compensation plans are not reported as part of the Town's assets or liabilities, as the deferred compensation plan trustees hold those funds in trust on behalf of employees until the employees are eligible to receive the benefits.

Compensated Absences - Accumulated Vacation, Sick Pay and Other Employee Benefits are accrued as earned. Upon termination, employees are paid for all unused vacation at their current hourly rates. Sick leave earned is cashed out based on the following schedule for employees with at least 150 hours accrued and up to a maximum amount as specified under labor contract provisions:

For employees under contract 1-59 months	25.0%
For employees under contract 60-119 months	37.5%
For employees under contract 120 months or more	50.0%

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The Town's liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as liabilities of each fund; the long-term portion is recorded in the Statement of Net Position. The changes of the compensated absences were as follows:

Beginning Balance	\$	2,837,934
Addition		1,705,099
Payments		(1,435,330)
Ending Balance	\$	<u>3,107,703</u>
Compensated Absences Current Portion	\$	<u>335,642</u>

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General fund. Only compensated absences liabilities related to retirements as of the end of the fiscal year are reported in the fund financial statements.

Unearned Revenue - Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unavailable revenue.

Long-Term Liabilities - In the government-wide financial statements and private-purpose trust funds long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Deferred Inflows of Resources - Deferred outflows of resources is a consumption of net position by the Town that is applicable to a future reporting period, for example, contributions to pension and OPEB plans that are after the actuarial measurement date.

Deferred inflows of resources is an acquisition of net position by the Town that is applicable to a future reporting period, for example, unavailable revenue.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Net Position - In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

Fund Balances - The Town does not have a policy identifying a minimum unassigned fund balance. Because amounts in the nonspendable, restricted, committed, and assigned categories are subject to varying constraints on their use, the remaining fund balances are otherwise unassigned.

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Town classifies governmental fund balances as follows:

Non-spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through Council Resolution which is a formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the Town Council.

Assigned includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Town Manager or the Finance Director.

Unassigned includes fund balances within the funds which have not been classified within the above mentioned categories. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Town would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the dates of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting periods. Actual results could differ from those estimates.

Subsequent Events - Management has considered subsequent events through **December 11, 2020**, the date which the financial statements were available to be issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

Property Tax Levy, Collection and Maximum Rates - State of California Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than 2% per year unless the property is sold, transferred, or substantially improved. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the counties, cities, school districts and other districts.

The County of Santa Clara assesses properties, bills for and collects property taxes on the following schedule:

	<u>Secured</u>	<u>Unsecured</u>
Valuation/lien dates	January 1	January 1
Levy dates	January 1	January 1
Due dates (delinquent as of)	50% on November 1 (December 10) 50% on February 1 (April 10)	March 1 (August 31)

The term "unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed. Property taxes levied are recorded as revenue and receivables when they are collected during the fiscal year of levy or within 60 days of year-end.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Budgets and Budgetary Accounting - The Town follows the procedures below when establishing the budgetary data reflected in the financial statements:

1. The Town Manager submits to the Town Council a proposed operating and capital improvement budget for the fiscal year commencing the following July 1. The budgets include the proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through adoption of Town resolution by Council.
4. 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, whereas the Town Council must authorize budget increases and decreases, and transfers between funds.
5. Budgets are adopted on a basis consistent with generally accepted accounting principles except for proprietary funds which budget for capital outlays but not depreciation. Budgets were adopted for the General Fund, Special Revenue Funds, Internal Service Funds and Capital Projects Funds.
6. Budgeted amounts are as originally adopted or as amended by Town Council. Individual budget adjustments or amendments were not material in relation to original appropriations, except for an increase in non-departmental expenditures related to a discretionary lump-sum payment to CalPERS for the pension liability.

Excess of Expenditures over Appropriations - There were no significant expenditures in excess of budget during the year ended June 30, 2020.

Encumbrances - Under encumbrance accounting, purchase orders, contract and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all funds. Encumbrances outstanding at year-end are reported as restrictions, commitments or assignments of fund balances since they do not constitute expenditures or liabilities; unexpended and unencumbered appropriations lapse at year end in all funds. Encumbered appropriations are carried forward to the following year.

Reclassifications - Certain accounts in the prior-year financial statements have been reclassified for the presentation in the current-year financial statements.

G. Accounting and Reporting Changes

In fiscal year 2020, the City did not adopt any new GASB statements.

NOTE 2 - CASH AND INVESTMENTS

The Town pools cash from all sources and all funds except Restricted Cash and Restricted Investments so that it can be invested at the maximum yield, consistent with the primary objectives of safety and liquidity, while ensuring existing funds have cash available for expenditures.

Cash and Investments Defined - The Town includes only cash deposits in banks as cash. Investments in LAIF and government securities mutual funds are next in the order of liquidity, since they may be withdrawn without penalty. U.S. Treasuries, U.S. Agencies and Certificates of Deposit are the Town's least liquid investments, since they must be held to maturity.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2 - CASH AND INVESTMENTS, CONTINUED

Cash Deposits with Banks and Custodial Credit Risk - California Law requires banks and savings and loan institutions to pledge government securities with a fair value of 110% of the Town's cash on deposit, first trust deed mortgage notes with a value of 150% of the deposit, or letters of credit issued by the Federal Home Loan Bank of San Francisco with a value of 100% of the deposit as collateral. Under California Law this collateral is held in the Town's name and places the Town ahead of general creditors of the institution. The Town's cash deposits are collateralized under this law.

The bank balance of the Town's cash deposits was \$15,285,669 and the book balance was \$13,801,981 as of June 30, 2020. The bank balance and the carrying amount differed due to deposits in transit and outstanding checks.

Investments - The Town and its fiscal agent invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called "securities instruments," or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to maximize security, the Town employs the Trust department of a bank as the custodian of all its investments, regardless of their form.

Fair Value Measurements - GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

Local Agency Investment Fund (LAIF) - The Town invests in the California State Treasurer's Local Agency Investment Fund. LAIF, established in 1977, is regulated by California Government Code Section 16429 and is under the day to day administration of the State Treasurer. As of June 30, 2020, the Town had approximately \$12.2 million in LAIF and used a fair value factor of 1.004912795 to calculate the fair value of the investments in LAIF. Of that amount, 96.63% is invested in non-derivative financial products and 3.37% in structured notes and asset-backed securities. These investments are described as follows:

1. **Structured Notes** are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
2. **Asset-Backed Securities**, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

Risk Disclosures

Interest Rate Risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. One of the ways that the Town manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from securities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2 - CASH AND INVESTMENTS, CONTINUED

to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is provided in the summary of cash and investments table on the following page that shows the distribution of the Town's investments by maturity.

Credit Risk is the risk of loss due to the failure of the security issuer. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The summary of cash and investments table on the following page shows the minimum rating under the actual rating of the Town's investments at year end.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town's money market fund and investment in LAIF are not categorized as to custodial credit risk. Its U.S. Government Agency Securities investment is held by a third-party financial institution under the third party's trust department's name and thus not exposed to custodial credit risk.

Concentration of Credit Risk is the risk that the Town's investments are exposed because the types of investments have been too limited. The Town's Policy states that, with the exception of US Treasury securities and LAIF, no more than 50% of the Town's total investment portfolio will be invested in one single security type or with a single financial institution. The Town was in compliance with this policy as of June 30, 2020.

Risk Disclosures, Continued

The following table summarizes the Town's policy related to maturities and concentration of investments:

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Portfolio Percentage</u>
US Treasury Obligations	5 years	None
US Agency Obligations	5 years	None
Bankers Acceptances	180 days	30%
Commercial Paper	270 days	25%
Medium Term Notes	5 years	30%
Collateralized CD's	5 years	30%
CA LAIF	N/A	\$65 million
Money Market Funds	N/A	20%

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2 - CASH AND INVESTMENTS, CONTINUED

The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2020:

Investment Type/Cash Deposit	Available for Operations	Restricted	Total	Concentration of Credit Risk	Minimum Rating	Input Level	Time to Mature (Years)	Weighted Average Maturity
US Treasury Securities	\$ 8,054,756	\$ -	\$ 8,054,756	13.40%	Aaa	2	1-4	2.58 years
US Instrumentality Security	23,940,487	-	23,940,487	39.82%	Aaa	2	0-4	2.02 years
Corporate Securities	15,802,160	-	15,802,160	26.28%	A3	2	0-4	2.38 years
Government Securities Money								
Market Mutual funds	145,920	-	145,920	0.24%	Not Rated	2	n/a	n/a
LAIF	12,185,932	-	12,185,932	20.27%	Not Rated	n/a	n/a	n/a
Total investments	60,129,255	-	60,129,255	100.00%				
Cash Deposit with Banks	13,801,981	2,101,834	15,903,815					
Money Market Accounts	17,388	-	17,388					
Investment held in pension trust	-	669,978	669,978					
Cash on hand at Town	4,850	-	4,850					
Town Cash and Investments	<u>\$73,953,474</u>	<u>\$ 2,771,812</u>	<u>\$76,725,286</u>					

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted by Town debt or Agency agreements.

	Total Town	Fiduciary Funds	Total
Cash and Investments available for operations	\$ 71,609,969	\$ 2,343,505	\$ 73,953,474
Restricted cash and investments	784,191	1,987,621	2,771,812
Total cash and investments	<u>\$ 72,394,160</u>	<u>\$ 4,331,126</u>	<u>\$ 76,725,286</u>

NOTE 3 - LONG-TERM NOTES RECEIVABLE

The Town had the following long-term notes receivable as of June 30, 2020:

Description	Interest Rate	Maturity	Balance
General Fund:			
Rehab Loan to Charities	Various	Various	\$ 159,000
Total General Fund			<u>159,000</u>
Community Development Block Grant Fund (CDBG):			
Housing Conservation Loans	0-5%	Various	78,752
Total CDBG			<u>78,752</u>
Total Long Term Notes Receivable - Government-Wide Statement of Net Position			<u>237,752</u>
Successor Agency Affordable Housing			
Project Match	Various	Various	587,090
Total Long Term Notes Receivable			<u>\$ 824,842</u>

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3 - LONG-TERM NOTES RECEIVABLE, CONTINUED

Active Home Loans and Housing Conservation Loans - The Town used CDBG Funds (funded through federal grants) to assist low and moderate income homeowners to improve their homes and to fund low income housing rental properties acquisition and rehabilitation. These loans are secured by deeds of trust.

Project Match - The Successor Agency has a loan agreement with Project Match, a nonprofit benefit corporation, to acquire and rehabilitate four- or five-bedroom single-family homes. The property is to provide affordable housing rental to very low income senior households. The loan receivable is evidenced by a promissory note and secured by a deed of trust. From inception of the loan through June 30, 2020, no interest or principal payments have been made.

NOTE 4 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables - Amounts due to or due from other funds reflect interfund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances to or from other funds are long-term loans between funds that are to be repaid in their entirety over several years.

Transfers - With Council approval resources may be transferred from one fund to another. Transfers pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects. Transfers between funds during the fiscal year ended June 30, 2019 were as follows:

	Transfer In	Transfer Out
General Fund	\$ 599,669	\$ 8,053,847
Appropriated Reserve Fund	8,325,591	433,952
Non-major Gov't Funds	10,000	140,920
Internal Service Funds	1,061,256	1,367,797
Total Transfers	<u>\$ 9,996,516</u>	<u>\$ 9,996,516</u>

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5 - CAPITAL ASSETS

Changes in the Town's capital assets during the fiscal year are shown as follows:

	Balance at June 30, 2019	Adjustments and Additions	Transfers and Retirements	Balance at June 30, 2020
Capital Assets not being Depreciated				
Land	\$ 20,294,810	\$ -	\$ -	\$ 20,294,810
Construction in Progress	13,718,006	2,294,775	(13,968,638)	2,044,143
Total Capital Assets not being Depreciated	34,012,816	2,294,775	(13,968,638)	22,338,953
Capital Assets being Depreciated				
Buildings and Improvements	30,178,972	51,645	1,664,497	31,895,114
Equipment & Vehicle	11,484,761	654,980	(403,346)	11,736,395
Infrastructure - All Other	25,275,447	922,122	-	26,197,569
Infrastructure - Streets	63,014,800	4,072,168	10,631,392	77,718,360
Total Capital Assets being Depreciated	129,953,980	5,700,915	11,892,543	147,547,438
Less Accumulated Depreciation for:				
Buildings and Improvements	7,923,246	630,658	-	8,553,904
Equipment & Vehicle	8,827,268	627,306	(400,877)	9,053,697
Infrastructure - All Other	6,431,634	775,417	-	7,207,051
Infrastructure - Streets	33,242,060	1,802,203	(1,672,749)	33,371,514
Total accumulated depreciation	56,424,208	3,835,584	(2,073,626)	58,186,166
Net Capital Assets being Depreciated	73,529,772	1,865,331	13,966,169	89,361,272
Governmental Activity Capital Assets, Net	\$ 107,542,588	\$ 4,160,106	\$ (2,469)	\$ 111,700,225

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amount allocated to each function or program is as follows:

Governmental Activities	Depreciation Expense
General Government	\$ 181,357
Community Services	52,599
Public Safety	476,528
Parks & Public Works	2,747,628
Library	377,217
Sanitation	255
Total Governmental Activities	<u>\$ 3,835,584</u>

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5 - CAPITAL ASSETS, CONTINUED

Changes in the RDA Successor Agency trust fund capital assets during the fiscal year are shown as follows:

	Balance at June 30, 2019	Adjustments and Additions	Transfers and Retirements	Balance at June 30, 2020
Capital Assets not being Depreciated				
Land	\$ 5,257,422	\$ -	\$ -	\$ 5,257,422
Total Capital Assets not being Depreciated	5,257,422	-	-	5,257,422
Capital Assets being Depreciated				
Buildings and Improvements	4,067,708	-	-	4,067,708
Total Capital Assets being Depreciated	4,067,708	-	-	4,067,708
Less Accumulated Depreciation for:				
Buildings and Improvements	2,542,315	101,692	-	2,644,007
Total accumulated depreciation	2,542,315	101,692	-	2,644,007
Net Capital Assets being Depreciated	1,525,393	(101,692)	-	1,423,701
Successor Agency Capital Assets, Net	\$ 6,782,815	\$ (101,692)	\$ -	\$ 6,681,123

NOTE 6 - LONG-TERM OBLIGATIONS

The Town generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. As of February 1, 2012, the Town transferred long-term debt issued by the Redevelopment Agency to the Successor Agency trust as a part of the RDA dissolution. The following summarizes the changes in long-term debt in the Successor Agency trust fund during the fiscal year ended June 30, 2020:

Long Term Debt	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Deletion	Ending Balance	Due Within One Year	Due in More Than One Year
2002 COP	2.5 -5%	8/1/2031	\$10,725,000	\$ 6,430,000	\$ 365,000	\$ 6,065,000	\$ 385,000	\$ 5,680,000
2010 COP	2.5 - 4.25%	8/1/2028	15,675,000	10,100,000	830,000	9,270,000	865,000	8,405,000
Subtotal COP			26,400,000	16,530,000	1,195,000	15,335,000	1,250,000	14,085,000
Premiums			735,095	414,200	37,655	376,545		376,545
Total Long-Term Debt			\$27,135,095	\$16,944,200	\$ 1,232,655	\$15,711,545	\$ 1,250,000	\$14,461,545

2002 Certificates of Participation (2002 COPs) - On July 18, 2002, the Town and the Los Gatos Redevelopment Agency issued \$10,725,000 in 2002 COPs, Series A, to finance the acquisition, construction, rehabilitation, equipping and improvement of several capital improvement projects. The Town had pledged lease payments of real property and facilities comprised of the Parks and Public Works Service Center and Baseball Field, as well as Parking Lot No. 1, 2, and 3, as collateral for the repayment of the Certificates. Principal payments are due annually on August 1st, with interest payments due semi-annually on February 1st and August 1st.

2010 Certificates of Participation (2010 COPs) - On June 1, 2010, \$15,675,000 of 2010 COPs were issued to finance the acquisition, construction, and improvement of a library on the Town's Civic Center campus, to be owned and operated by the Town. Principal payments are due annually on August 1, with interest payments due semi-annually on February 1 and August 1.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 6 - LONG-TERM OBLIGATIONS, CONTINUED

To assist the Town in paying the cost of acquisition and construction of various projects, the Town and its Redevelopment Agency entered into lease and reimbursement agreements in 2002 and 2010. Under the agreements, the Agency will use available net tax increment revenues resulting from the projects' effect on land values to repay the Town for all lease payments made by the Town to the Agency under the lease agreements for the projects. Net tax increment revenues are all taxes allocated to and paid into the Successor Agency private-purpose trust fund.

Future debt service requirements of the 2002 and 2010 Certificates of Participation are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2021	1,250,000	658,494	1,908,494
2022	1,300,000	599,850	1,899,850
2023	1,355,000	538,713	1,893,713
2024	1,415,000	479,550	1,894,550
2025	1,485,000	417,300	1,902,300
2026-2030	6,670,000	979,200	7,649,200
2031-2032	1,860,000	142,500	2,002,500
Total COP Debt Service	<u>\$ 15,335,000</u>	<u>\$ 3,815,607</u>	<u>\$ 19,150,607</u>

The Successor Agency must maintain a required amount of cash and investments with the trustee under the terms of the COPs' debt agreements. These funds are pledged as reserves to be used if the Successor Agency fails to meet its obligations under the debt agreements and totaled \$1,987,621 as of June 30, 2020. The California Government Code requires these funds to be invested in accordance with Town ordinances, bond indentures or State statutes. All these funds have been invested as permitted under the Code.

NOTE 7 - SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT COMMITMENT

Special assessment districts are established in various parts of the Town to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements. These assessments are payable over the term of the debt issued to finance the improvements and are used to pay debt service on debt issued to fund the improvements.

The Town is acting only as an agent and has no legal liability with respect to the payment of any indebtedness of the Downtown Parking Assessment District. There was no non-obligated debt outstanding as of June 30, 2020.

NOTE 8 - FUND BALANCES

Fund balance for governmental funds is reported in classifications (nonspendable, restricted, committed, assigned, and unassigned) that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 - FUND BALANCES, CONTINUED

As of June 30, 2020, fund balances were classified as follows:

	Beginning Balance	Adjustments	Adjusted Beginning Balance	Additions	Deletions	Ending Balance
Restricted for						
Capital Outlay	\$ 6,695,233	\$ -	\$ 6,695,233	\$ 1,522,139	\$ (1,959,616)	\$ 6,257,756
Pension	5,015,316	-	5,015,316	420,459	(4,765,797)	669,978
Repairs and Maintenance	208,139	-	208,139	41,603	(59,492)	190,250
Committed to:						
Budget Stabilization	5,419,222	-	5,419,222	8,381	-	5,427,603
Catastrophic	5,419,222	-	5,419,222	8,381	-	5,427,603
Pension/OPEB Reserve	4,232,500	-	4,232,500	300,000	-	4,532,500
Almond Grove Street Project	2,579,997	-	2,579,997	-	(2,579,997)	-
Assigned to:						
Open Space	562,000	-	562,000	-	(152,000)	410,000
Parking	1,460,210	-	1,460,210	-	-	1,460,210
Sustainability	140,553	-	140,553	-	-	140,553
Capital/Special Projects	13,262,303	-	13,262,303	2,615,303	(5,908,486)	9,969,120
Carryover Encumbrances	413,729	-	413,729	-	(413,729)	-
Comcast PEG	50,000	-	50,000	-	-	50,000
Market Fluctuations	-	-	-	1,218,732	-	1,218,732
Vehicle Maintenance & Stores Reserve	1,040,375	-	1,040,375	-	(1,040,375)	-
Workers' Compensation	1,232,654	-	1,232,654	-	(1,232,654)	-
Compensated Absences	1,232,653	372,628	1,605,281	-	(65,873)	1,539,408
Capital Projects	4,344,618	-	4,344,618	11,650,201	(3,727,938)	12,266,881
Special Revenue Funds	326,102	-	326,102	78,486	-	404,588
Total Fund Balance - All Governmental Funds	\$ 53,634,826	\$ 372,628	\$ 54,007,454	\$ 15,879,484	\$ (15,121,052)	\$ 49,965,182

Restricted

Capital Outlay funded from storm drain fees, construction taxes and debt proceeds are legally restricted for major capital projects.

Repairs and Maintenance reflects legally restricted balances for repairs and maintenance of lighting and landscape property and open space property that are financed with special tax assessments on the benefiting property.

Pension amounts are cash and investments held for the purpose of paying for the pension liabilities. Monies are held in an IRS Section 115 Trust over which the Town has control.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 - FUND BALANCES, CONTINUED

Committed

Stabilization Arrangements

The Town Council has established by resolution the budget stabilization arrangement and the catastrophe arrangement. The total balances in these arrangements are to be maintained at 25% of annual General Fund ongoing, operating expenditures, excluding one-time expenditures, divided equally between both arrangements. When either arrangement 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. The arrangements can be used when:

- Unforeseen emergencies, such as a disaster or catastrophic event occur
- Significant decrease in property or sales tax, or other economically sensitive revenues
- Loss of businesses considered to be significant sales tax generators
- Reductions in revenue 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
- One -time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.

Should any of the events listed above 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 or budget stabilization arrangement appropriations. The Town Manager or designee shall then present to the Town Council a budget amendment confirming the nature of the event and authorizing the appropriation of reserve funds.

Pension/OPEB Reserve committed fund balance will be used to fund net pension liabilities for the Town's Miscellaneous and Safety pension plans administered by CALPERS. In the fiscal year ending June 30, 2018 the Town approved an update to its General Fund reserve policy providing to the extent possible that additional annual deposits be calculated and placed into this reserve with the goal of moving the payment of the unfunded pension liability from a 29-year to a 20-year amortization period.

Almond Grove Street Project committed fund balance was used for the infrastructure repairs, improvements and construction along Almond Grove Street.

Assigned

Open Space assigned fund balance will be used to make selective open space acquisitions.

Parking assigned fund balance will be used to mitigate parking issues within the Town.

Sustainability assigned fund balance will be used to fund ongoing sustainability initiatives and programs.

Capital/Special Projects assigned fund balance will be used for the acquisition and construction of capital facilities as well as special projects or activities as directed by the Town Council.

Carryover Encumbrances assigned fund balance is used for encumbered items re-appropriated in the following year.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 - FUND BALANCES, CONTINUED

Comcast PEG assigned fund balance will be used to fund capital improvements linked to the televising of council and planning commission meetings.

Vehicle Maintenance & Stores Reserve assigned fund balance is to be used for maintaining the Town's fleet and providing mail and printing services.

To Workers' Comp assigned fund balance is to be used for future payments to employees due to illness or injury as a result of being employed by the Town.

Compensated Absences assigned fund balance will be used for vacation and sick-pay benefits owed to employees as of June 30, 2020 that were not an obligation of the General Fund because of their long-term nature.

Special Revenue Fund assigned fund balance will be used for the activities of the respective revenue funds.

NOTE 9 - EMPLOYEES' RETIREMENT PLAN

Summary of Pension Amounts

	Miscellaneous Plan	Safety Plan	Total Plans
Deferred Employer Pension Contributions	\$ 8,188,460	\$ 2,565,205	\$ 10,753,665
Deferred Outflows - Pension Related Amounts	\$ 761,117	\$ 3,418,222	\$ 4,179,339
Net Pension Liability	\$ 32,535,248	\$ 24,695,687	\$ 57,230,935
Deferred Inflows - Pension Related Amounts	\$ 482,198	\$ 1,616,347	\$ 2,098,545
Pension Expense	\$ 5,163,057	\$ 5,646,706	\$ 10,809,763

(a) General Information about the Pension Plans

Plan Description - All qualified employees are eligible to participate in the Town's pooled Safety Plan, a cost-sharing multiple-employer defined benefit pension plan and the Town's Miscellaneous (all other) Plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Town resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Audited financial statements of CalPERS can be obtained from its website <https://www.calpers.ca.gov/page/forms-publications>. The Town relies upon actuarial and investment data provided by CalPERS for inclusion and analysis in this report.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, Lump Sum,

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(a) General Information about the Pension Plan, Continued

or the 1959 Survivor Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2020, are summarized as follows:

Hire Date	Miscellaneous			Safety	
	Tier 1	Tier 2	PEPRA	Tier 1	PEPRA
		Prior to September 15, 2012 and before January 1, 2013 with reciprocity or member of CalPERS	On or after January 1, 2013	Before January 1, 2013 with reciprocity or member of CalPERS	On or after January 1, 2013
Benefit Formula	2.5% @ 55	2% @ 60	2% @ 62	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years	5 years	5 years	5 years	5 years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62	50	57
Monthly benefits as a % of eligible compensation	2% to 2.5%	1% to 2.5%	1.5% to 2.5%	3%	2% to 2.7%
Required employee contribution rates	8.00%	7.00%	6.75%	9.00%	12.75%
Required employer contribution rates		10.226%		23.654%	13.900%
Required payment of unfunded liability		\$ 2,328,669		\$1,485,723	\$6,600

Employees Covered

At June 30, 2020, the following employees were covered by the benefit terms for the Miscellaneous and Safety Plans:

	Miscellaneous	Safety
Active	120	35
Transferred	95	9
Separated	79	33
Retired	249	83
Total	543	160

Contributions – Section 20814 (c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year. The Town is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. In addition, the Town is solely responsible for any annual costs associated with payments toward any unfunded accrued liability.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(b) Net Pension Liability

Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 (GASB 68), requires public employers to comply with accounting and financial reporting standards related to the recognition and calculation of pension obligations. Under GASB 68, employers that participate in a defined benefit pension plan administered as a trust or equivalent arrangement are required to record their portion of the net pension liability, pension expense, and deferred outflows/deferred inflows of resources related to pensions in their financial statements as part of their financial position.

The Town's net pension liability for the Miscellaneous Plan is measured as the total pension liability, less the pension plan's fiduciary net position.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used. For the Safety Plan, net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018 rolled forward to June 30, 2018 using standard update procedures. The Town's proportion of the net pension liability (Safety Plan) was based on a projection of the Town's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Town's proportionate share of the net pension liability for the Safety Plan as of the measurement date June 30, 2019 was as follows:

	Proportionate Share of Net Pension Liability
Proportion - June 30, 2018	0.235831%
Proportion - June 30, 2019	0.241003%
Change - Increase (Decrease)	0.005172%

A summary of principal assumptions and methods used to determine the net pension liability is shown below.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(b) Net Pension Liability, continued

Actuarial Assumptions - The June 30, 2018 valuation was rolled forward to determine the June 30, 2019 total pension liability, based on the following actuarial methods and assumptions:

	Miscellaneous Agent Multiple Employer Plan	Safety Cost Sharing Plan
Valuation Date	June 30, 2018	June 30, 2018
Measurement Date	June 30, 2019	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.50%	2.50%
Salary Increases	Varies by Entry Age and Service	
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds	
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies	

1. The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report that can be found on the CalPERS website.

Discount Rate - The discount rate used to measure the total pension liability was 7.15% for the Plan and reflects the long-term expected rate for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS conducted cash flow projections for plans with a higher likelihood of running out of assets with too high of a discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

Long-term Expected Rate of Return – Every four years, CalPERS performs an Asset Liability Management (ALM) review of possible asset allocation alternatives for the Public Employees' Retirement Fund (PERF) investment portfolio. The review examines potential new investment policy portfolios and their impact on the CalPERS Fund. The ALM review also incorporates actuarial-based information to reflect the implications of the various asset allocation alternatives on parameters such as the employer contribution rate. This periodic review is the primary process by which the PERF investment portfolio and actuarial assumptions evolve to reflect the market opportunity set, demographic assumptions and experience, and plan status.

The last ALM was performed in 2017 and the long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(b) Net Pension Liability, continued

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for administrative expenses.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	50.00%	4.80%	5.98%
Global Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	-	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	-	-0.92%
Total	100%		

(a) An expected inflation of 2.00% used for this period.

(b) An expected inflation of 2.92% used for this period.

In addition to the expected returns by asset class, the table below reflects the short-term, long-term, and blended expected rate of return for the total PERF asset allocation as of the 2017 ALM.

Expected Compound Return (1-10 years)	6.10%
Long Term Expected Return (11-60 years)	8.30%
Blended Return (1-60 years)	7.00%

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(b) Net Pension Liability, continued

The table below shows historical compound annual returns of the Public Employees Retirement Fund for various time periods ending on June 30, 2019 (figures are reported as gross of fees). The compound annual return is the average rate per year compounded over the indicated number of years. It should be recognized that in any given year the rate of return is volatile. The portfolio has an expected volatility of 11.4 percent per year based on the most recent Asset Liability Modelling study. The volatility is a measure of the risk of the portfolio expressed in the standard deviation of the fund's total return distribution, expressed as a percentage. Consequently, when looking at investment returns, it is more instructive to look at returns over longer time horizons.

History of CalPERS Compound Annual Rates of Return and Volatilities					
	1 year	5 year	10 year	20 year	30 year
Compound Annual Return	6.7%	5.8%	9.1%	5.8%	8.1%
Volatility	—	4.4%	6.9%	10.7%	9.8%

CalPERS reported a preliminary 4.7% net return on investments for the 12-month period ended June 30, 2020. The preliminary Fiscal Year 2019-20 return brings total fund performance to 6.3% for the five-year time period, 8.5% for the 10-year time period, and 5.5% for the 20-year time period. Over the past 30 years, the PERF has returned an average of 8.0% annually.

(c) Changes in the Net Pension Liability

The change in the Net Pension Liability for the Miscellaneous Plan is as follows:

<u>Miscellaneous Plan</u>	<u>Total Pension Liability</u>	<u>Fiduciary Net Pension</u>	<u>Net Pension Liability</u>
Beginning Balance	\$ 104,134,737	\$ 73,232,175	\$ 30,902,562
Service Costs	1,771,368		1,771,368
Interest on Total Pension Liability	7,381,846		7,381,846
Changes of Assumptions	-		-
Difference Between Actual and Expected Experience	1,082,289		1,082,289
Net Plan to Plan Resource Movement		-	-
Employer Contributions		3,049,748	(3,049,748)
Employee Contributions		846,125	(846,125)
Net Investment Income		4,759,034	(4,759,034)
Employee Contribution Refunds and Benefit Payments	(5,720,232)	(5,720,232)	-
Administrative Expenses		(52,260)	52,260
Other Miscellaneous Income		170	(170)
Net Changes	4,515,271	2,882,585	1,632,686
Ending Balance	\$ 108,650,008	\$ 76,114,760	\$ 32,535,248

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(c) Changes in the Net Pension Liability, Continued

For the measurement period ended June 30, 2019, the Town contributed \$2,325,357 for the safety Cost-Sharing Plan.

As of June 30, 2020, the Town reported net pension liabilities for its proportionate share of the net pension liability of the safety Cost-Sharing Plan of \$24,695,687.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Town for each plan, calculated using the discount rate for the Plan, as well as what the Local Government's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

Sensitivity to Changes in the Discount Rate	Miscellaneous Agent Multiple Employer Plan	Safety Cost Sharing Plan	Total
1% Decrease (6.15%) Net Pension Liability	\$ 46,452,350	\$ 37,518,167	\$ 83,970,517
Current Discount Rate (7.15%) Net Pension Liability	\$ 32,535,248	\$ 24,695,687	\$ 57,230,935
1% Increase (8.15%) Net Pension Liability	\$ 21,037,757	\$ 14,183,262	\$ 35,221,019

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in a separately issued CalPERS financial report.

(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2020, the Town recognized pension expense of \$5,163,057 for the Miscellaneous Agent Multiple Employer Plan and \$5,646,706 for the Safety Cost Sharing Plan. The Town recognized total pension expense for all plans of \$10,809,763.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources for the Miscellaneous Agent Multiple Employer Plan:

	Miscellaneous	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 8,188,460	\$ -
Changes in assumptions	-	(85,505)
Difference between expected and actual experiences	761,117	-
Net differences between projected and actual earnings on plan investments	-	(396,694)
Totals	<u>\$ 8,949,577</u>	<u>\$ (482,199)</u>

\$8,118,460 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 776,699
2021	(462,531)
2022	(116,574)
2023	81,324
2024	-
Thereafter	-

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for the Safety Cost-Sharing Plan:

	Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,565,205	\$ -
Changes in assumptions	1,012,233	(197,536)
Difference between expected and actual experiences	1,612,405	-
Changes in employer's proportion	793,584	(68,685)
Differences between the employer's contributions and the employer's proportionate share of contributions	-	(1,010,396)
Net differences between projected and actual earnings on plan investments	-	(339,731)
Totals	<u>\$ 5,983,427</u>	<u>\$ (1,616,348)</u>

\$2,565,205 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	\$ 1,609,739
2022	(101,848)
2023	227,882
2024	66,101
2025	-
Thereafter	-

(e) Payable to the Pension Plan

At June 30, 2020, the Town reported a payable of \$99,593 and \$82,168 for the outstanding amount of contributions to the Miscellaneous Agent Multiple-Employer Plan and the Safety Cost-Sharing Plan.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED

(f) IRS Section 115 Trust

In March 2018, the Town established an IRS Section 115 Trust (Trust) with Public Agencies Retirement Services (PARS), an entity independent of CalPERS, in order to prefund the pension liabilities for both the Miscellaneous and Safety defined-benefit pension plans. The Town closed the Trust for the fiscal year ending June 2020 and used it to pay \$4,753,965 more than the unfunded liability payment required by CalPERS for the Miscellaneous Plan. This payment is included in the deferral amount of \$8,188,460 for contributions made after the measurement date for the Miscellaneous Plan.

During the fiscal year ending June 30, 2020, the Town established an alternate IRS Section 115 Trust with the CalPERS California Employer' Pension Prefunding Trust (CEPPT) program.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The Town makes contributions to California Employer's Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit healthcare plan administered by CalPERS. The purpose of the CERBT Fund is to provide California government employers with a trust through which they may prefund retiree medical costs and Other Post-Employment Benefits (OPEB). The Town uses CERBT as its investment vehicle and requests disbursements on an as needed basis to reimburse the Town for the cost of retiree health insurance benefits. Benefit provisions and all other requirements are established by state statute and Town ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

In accordance with the Public Employees' Medical and Hospital Care Act (PEMHCA), employees qualify for retiree health benefits upon five (5) years of service if they meet the vesting requirements as set forth by CalPERS and take a service or disability retirement from Town employment. Additionally, the employee must actually draw a CalPERS pension within ninety (90) days of separation from the Town, provided the employee remains with the Town's health plan through COBRA. For employees who retire on or after February 1, 2016, at Medicare eligibility, the Town will align contributions to the full cost of the employee's enrollment, including enrollment of family members, in a health benefits plan or plans up to a maximum of 100% Single Party and 90% Dependents for Kaiser Bay Area Basic/Medicare/Combo per month. During negotiations in fiscal year 2018/19, the Town's discretionary retiree medical benefit contribution was eliminated for all future hires.

Upon retirement, employees have the option to roll over their sick leave accrual into a Town-managed fund. Employees can request reimbursement of medical expenses from the fund up to the value of their sick leave at retirement.

Contributions - The contribution requirements of plan members and the Town are established and may be amended by the Town. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the Town. For the measurement period July 1, 2018-June 30, 2019, the Town contributed \$2,406,636 to the plan which included \$1,104,025 of cash benefit payments, administrative fees of \$8,013, and \$194,598 of implied subsidy benefit payments. All related obligations are paid from the Town's General Fund.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

Covered Participants

Inactive employees or beneficiaries currently receiving benefits	130
Inactive employees entitled to but not yet receiving benefits	45
Active employees	<u>149</u>
Total	<u><u>324</u></u>

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the June 30, 2019 actuarial valuation, the actuarial assumptions used are as follows:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.75%
Inflation	2.75%
Contribution Policy	Pre-funded through CERBT with the Strategy 1 asset allocation Town contributes at least the ADC
Salary Increases	Aggregate - 3% annually Merit - CalPERS 1997-2015 Experience Study
Projected Salary Increase	3.00%
Investment Rate of Return	6.75%
Mortality, Retirement, Disability, Termination	CalPERS 1997-2015 Experience Study
Mortality Improvement	Post-retirement mortality projected fully generational with Scale MP-2019
Healthcare Trend	Non-Medicare - 7.25% for 2021, decreasing to an ultimate rate of 4.0% in 2076 Medicare - 6.3% for 2021, decreasing to an ultimate rate of 4.0% in 2076
Participation at Retirement	Tier 1 Actives in insurance program: 100% Tier 1 Actives in cash allocation program: 80% Tier 2 Actives in insurance program: 60% Tier 2 Actives in cash allocation program: Agency service < 3 months: 60% Agency service >= 3 months: 40% Waived retirees aged <65: 20% Waived retirees aged ≥65: 0%

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation*	Expected Real Rate of Return
Public Equity	59%	4.82%
Fixed Income	25%	1.47%
TIPS	5%	1.29%
Commodities	3%	0.84%
REITs	8%	3.76%
Assumed Long-Term Rate of Inflation		2.75%
Expected Long-Term Net Rate of Return, Rounded		6.75%

The long-term expected real rates of return are presented as geometric means

* Policy target effective October 1, 2018.

Discount Rate - The discount rate used to measure the total OPEB liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that Town contributions will be made equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

Net OPEB Liability – The net OPEB liability is calculated by subtracting the fiduciary net position (FNP) of the Plan from the total OPEB liability as determined by the actuary. The table that follows displays the changes that applied to the total OPEB liability, FNP, and Net OPEB liability during the measurement period of July 1, 2018 through June 30, 2019.

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Balance at June 30, 2019 (6/30/18 measurement date)	<u>\$ 26,321,184</u>	<u>\$ 16,265,716</u>	<u>\$ 10,055,468</u>
Changes in the year:			
Service cost	1,203,274	-	1,203,274
Interest on the total pension liability	1,814,072	-	1,814,072
Differences between actual and expected experience	(149,297)	-	(149,297)
Changes in assumptions	(392,681)	-	(392,681)
Changes in benefit terms	-	-	-
Contributions - employer	-	2,406,636	(2,406,636)
Contributions - employee	-	-	-
Net investment income	-	1,009,315	(1,009,315)
Administrative expenses	-	(11,502)	11,502
Benefit payments , including refunds of employee contributions	(1,298,623)	(1,298,623)	-
Net changes	<u>1,176,745</u>	<u>2,105,826</u>	<u>(929,081)</u>
Balance at June 30, 2020 (6/30/19 measurement date)	<u>\$ 27,497,929</u>	<u>\$ 18,371,542</u>	<u>\$ 9,126,387</u>

Due to these changes, the Town achieved an OPEB Plan funding status of 66.8% for the June 30, 2019 measurement date.

	Fiscal Year Ending	
	6/30/2020	6/30/2019
Measurement Date	6/30/2019	6/30/2018
Total OPEB Liability (TOL)	27,497,929	26,321,184
Fiduciary Net Position (FNP)	18,371,542	16,265,716
Net OPEB Liability (NOL)	9,126,387	10,055,468
Funded Status (FNP/TOL)	66.8%	61.8%

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

Sensitivity of Actuarial Assumptions – The following tables indicate how much the net OPEB liability varies if the discount rate and healthcare trend rate used to calculate the liability are increased or decreased by one percentage point.

<u>Discount Rate</u>	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Net OPEB Liability	\$ 12,620,092	\$ 9,126,387	\$ 6,231,928

<u>Healthcare Trend</u>	1% Decrease	Current Trend	1% Increase
Net OPEB Liability	\$ 6,581,769	\$ 9,126,387	\$ 11,778,962

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Partial amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The recognition period differs depending on the source of the gain or loss. The measurement period July 1, 2018 through June 30, 2019 investment gains and losses are spread evenly over a 5-year period. All other deferred outflows and inflows created during the measurement period are recognized over a 5.9-year period. The total OPEB expense recognized in the fiscal year ending June 30, 2020 was \$1,748,217 and the Town reported deferrals from the following sources:

	<u>OPEB</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
• Employer contributions made subsequent to the measurement date	\$ 2,508,306	\$ -
• Changes in assumptions	-	(326,125)
• Difference between expected and actual experiences	-	(123,992)
• Net difference between projected and actual earnings on plan investments	-	(178,777)
Totals	<u>\$ 2,508,306</u>	<u>\$ (628,894)</u>

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

The \$2,508,306 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2019 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	\$ (182,070)
2022	\$ (183,070)
2023	\$ (107,070)
2024	\$ (74,011)
2025	(82,673.00)
Thereafter	-

NOTE 11 - RISK MANAGEMENT

The Town participates in the following public entity risk pools through formally organized and separate legal entities. The Town does not have an equity interest in the joint ventures. These entities exercise full powers and authorities within the scope of the related agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the separate entities are not those of the Town, although the Town retains an ongoing financial interest or an ongoing financial responsibility.

Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA) - The Town participates in PLAN, which covers general liability claims in the amount up to \$5,000,000 plus \$25,000,000 in excess liability for total coverage of \$30,000,000 per occurrence. The Town has a deductible or uninsured liability of up to \$50,000 per claim. PLAN also provides all risk property coverage of \$1,000,000,000, excluding flood and earthquake coverage. The Town has a \$5,000 deductible for property and vehicle damage. Once the Town's deductible is met, PLAN becomes responsible for payment of all claims up to the limit. Financial statements may be obtained from PLAN at 375 Beale Street, San Francisco, CA 94105.

Local Agency Workers' Compensation Joint Powers Authority (LAWCX) - The Town is a member of LAWCX for coverage of workers' compensation claims. The Town has a \$250,000 self-insured retention level or uninsured liability for all employees. Once the Town's deductible is met, LAWCX becomes responsible for claims up to \$5,000,000. For claims greater than \$5,000,000, LAWCX has a commercial policy providing coverage. Financial statements may be obtained from LAWCX at 1750 Creekside Oaks Dr., Suite 200, Sacramento, California, 95833. The Town has not significantly reduced its insurance coverage from the prior year and settlements have not exceeded insurance coverage for the past three years.

Liability for Uninsured Claims - The Town is required to record its liability for uninsured claims and to reflect the current portion of this liability as an expenditure in its financial statements. As discussed above, the Town has coverage for such claims, but it has retained the risk for the deductibles, or uninsured portion of these claims.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 11 - RISK MANAGEMENT, CONTINUED

The change in Workers' Compensation and Self-Insurance Service Funds' claims liabilities, is based on historical trend information provided by its third party administrator and was computed as follows as of June 30, 2020:

	Workers' Compensation Internal Service Fund	Self- Insurance Internal Service Fund	Total
Claims payable balance - June 30, 2018	\$ 1,472,324	\$ 131,743	\$ 1,604,067
Claims incurred	1,161,312	29,999	1,191,311
Claims paid	<u>(1,581,441)</u>	<u>(105,704)</u>	<u>(1,687,145)</u>
Claims payable balance - June 30, 2019	1,052,195	56,038	1,108,233
Claims incurred	1,288,810	2,786	1,291,596
Claims paid	<u>(868,681)</u>	<u>(1,799)</u>	<u>(870,480)</u>
Claims payable balance - June 30, 2020	<u>\$ 1,472,324</u>	<u>\$ 57,025</u>	<u>\$ 1,529,349</u>

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Federal and State Grants - The Town participates in several federal and state grant programs. These are subject to examination by grantors and the amount, if any, of disallowed expenditures cannot be determined at this time. The Town expects such amounts, if any, to be immaterial.

Litigation - The Town is subject to litigation arising from the normal course of business. The Town Attorney believes there is no pending litigation which is likely to have a material adverse effect on the financial position of the Town.

Successor Agency - As of June 30, 2020, the Successor Agency Trust fund reported a net deficit of \$4,929,016.

Encumbrances - As of June 30, 2020, the Town had the following encumbered balances that were carried into the next fiscal year:

Appropriated Reserves Fund	3,029,398
Non-major Governmental Funds	4,500
Proprietary Funds	<u>139,391</u>
Total Encumbrances	<u>\$ 3,173,289</u>

NOTE 13 - TOWN/SUCCESSOR AGENCY GRANTS, COOPERATIVE AGREEMENTS

Public Improvement Grants and Cooperative Agreements

In January of 2011, the Redevelopment Agency entered into a public improvement grant and cooperative agreement with the Town for the purpose of funding the acquisition of public land and designing and constructing various public improvements to be owned by the Town provided that the projects were in accordance with the Redevelopment Agency's five year implementation plan and redevelopment plan.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 13 - TOWN/SUCCESSOR AGENCY GRANTS, COOPERATIVE AGREEMENTS, CONTINUED

The improvement plan, as identified in the agreement, called for approximately \$24 million to be granted to the Town for the following projects:

- a. Expansion and improvement of current and new downtown parking
- b. Highway 9 improvements from Highway 17 to Monte Sereno
- c. Almond Grove Area street, sidewalk and other improvements
- d. Downtown Los Gatos gateways, signage, banners and art
- e. Storm drain, retaining wall, street and other improvements
- f. New Los Gatos library building

During the fiscal year ended June 30, 2012, the rights and obligations resulting from this cooperative agreement were transferred to the Successor Agency Trust Fund as a part of the Town's dissolution of its Redevelopment Agency.

Affordable Housing Cooperative Agreement

In March of 2011, the Redevelopment Agency entered into an affordable housing cooperative agreement with the Town for the purpose of funding affordable housing projects and programs to be developed and/or administered by the Town in accordance with the Redevelopment Agency's five year implementation plan and redevelopment plan. The improvement plan, as identified in the agreement, called for approximately \$16 million to be granted to the Town for the following projects:

- a. Development of affordable housing at 224 Main St.
- b. Development of affordable housing at Dittos Lane
- c. Partnership with Senior Housing Solutions for the creation of senior housing in Los Gatos
- d. Partnerships for the conversion of existing residential developments dedicated to affordable housing
- e. Grants to the Santa Clara County Housing Trust for the development of affordable housing.

During the fiscal year ended June 30, 2012, the rights and obligations resulting from this cooperative agreement were transferred to the Successor Agency Trust Fund as a part of the Town's dissolution of its Redevelopment Agency.

NOTE 14 – PRIOR PERIOD ADJUSTMENTS

The Town recorded a prior period adjustment due to a change in how short-term compensated absences are recorded. The Town conformed the accounting to GASB 16, resulting in a restatement of net position:

		Prior Period Adjustment	
	Net Position, as Previously Reported	Removal of short- term compensated absences	Net Position as Restated
Fund Financial Statements:			
General Fund	\$ 37,970,527	\$ 372,628	\$ 38,343,155

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 15 – COVID-19 PANDEMIC

During December 2019, a novel coronavirus disease (COVID-19) was discovered. COVID-19 was subsequently declared a world-wide pandemic by the World Health Organization on March 11, 2020. On March 4, 2020, California State Governor Gavin Newsom proclaimed a State of Emergency as a result of the threat of the COVID-19 in the State of California, leading the Santa Clara County Health Officer to issue a stay-at-home directive effective on March 17, 2020. This halted all business within Santa Clara County outside of essential activities.

COVID-19 had an immediate impact on the Town of Los Gatos' tax revenues. While 2019-20 property tax revenues were insulated from COVID-19 due to the lien date (and change in California Consumer Price Index) of January 1, 2019, preceding the onset of COVID-19 in March 2020, as clearly evident in the Town's basic financial statements, sales tax and transient occupancy tax (TOT) were susceptible to the economic impact of COVID-19. The reduction in sales tax revenue reflects the closure, and later reduced activity of non-essential businesses in response to the restrictions from the shelter-in-place order, while the drop in TOT revenues was directly attributable to the restrictions on the travel industry.

Non-tax revenues were also impacted by COVID-19, largely in permits and fees, caused by some delays in private construction projects and fewer renewals of business licenses.

In response to the economic impact the Town modified its revenue forecasts downward for the Fiscal Year 2020/21 Budget. The Budget identified contingencies should revenues come in below projected amounts. Expenditures reflect maintaining high service levels with little to no increase in employee headcount. To date, the contingencies have not needed to be used, and the Town is carefully monitoring actual revenues and expenditures.

NOTE 16 – SUBSEQUENT EVENTS

Court Decision Regarding Redevelopment Agency (RDA) Distributions

The Town was recently informed that the County of Santa Clara intends on withholding approximately \$1.6 million over the next two fiscal years to recapture excess RDA residual property tax revenues distributed to the Town. County Counsel has advised the Auditor/Controllers office to "look back" three fiscal years to determine the total amount to be recaptured from the Town and paid back over two fiscal years. The immediate impact to the Town Budget will be an unanticipated withholding of approximately \$789K in FY 2020/21.

The County has informed the Town that this action is necessary to comply with a recent appellate court decision [City of Chula Vista v. Sandoval, 49 Cal. App. 5th 539 (2020)] that held that any funds remaining each RDA property tax trust fund (RPPTF) must be distributed in accordance with the taxing entities pro-rata shares without any caps or reductions to the distributions of RPPTF residuals to taxing entities that received pass-through payments.

The County explained that the court concluded that pass-through payments are to be treated as enforceable obligation payments and not considered as part of the property tax increment remaining in the RPPTF. Since the RPPTF's were established, many auditor-controllers, including the County of Santa Clara, had been reducing the RPPTF residual property tax distributions to taxing entities that received pass-through payments. Of note is that when the Town Redevelopment Agency was created, it negotiated property tax pass-through agreements with nearly all of the taxing jurisdictions in the RDA project area with the biggest share allocated was in pass-through agreements with the school districts.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 16 – SUBSEQUENT EVENTS, CONTINUED

The County has informed the Town that these reductions will no longer occur and the RPTTF residuals will be distributed to all taxing entities in accordance with their property tax shares. After the two-year recapture of residual property tax, the Town will continue to receive RPTTF residual property taxes but at lower levels than previously allocated under the County's old allocation method.

Educational Revenue Augmentation Fund (ERAF)

The Town is continuing to monitor developments regarding the distribution of excess ERAF funds. A portion of property tax revenue goes to the ERAF to support local school districts. When the amount contributed to ERAF is more than the minimum cost of funding local schools, excess funds are returned to the County, Cities, and Special Districts. Five counties, including Santa Clara have been using a redistribution' allocation formula that is being contested by the State. The Town's Adopted FY 20/21 Budget has ERAF revenue estimated at \$433,000.

The State's Legislative Analyst Office (LAO) requested Governor Newsom's administration to examine five counties (including Santa Clara County) whose allocation methods for ERAF were questioned by the LAO in three areas: (1) excluding charter school students from the calculations, (2) accounting for the school district's share of property tax formerly allocated to redevelopment agencies, and (3) applying State law for the provision of minimum State aid to schools. The LAO asserts that the counties' interpretation of applicable State law is shifting monies away from schools in favor of local agencies.

The County believes that the Chula Vista ruling (see item above) will help the County with its excess ERAF calculation. Santa Clara and other excess ERAF counties have sent a letter to the State Controller's Office (SCO) to ask the SCO to take the court's decision into consideration when they develop further guidelines for the excess ERAF allocation by counties.

If the LAO were to prevail, the possibility of a revenue claw back could reduce the current year's budgeted ERAF amount to zero. Should the County prevail, the amounts budgeted could actually increase for the current fiscal year. The State is expected to decide this issue in December 2020.

Required Supplementary Information

TOWN OF LOS GATOS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Schedule of Proportionate Share of Net Pension Liability – CalPERS Misc. Agent-Multiple Employer Plan

Measurement Date	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Total Pension Liability						
Service Cost	\$ 1,771,368	\$ 1,700,438	\$ 1,651,550	\$ 1,560,679	\$ 1,491,925	\$ 1,579,547
Interest on total pension liability	7,381,846	7,073,843	6,820,536	6,697,247	6,483,032	6,268,015
Difference between expected and actual experience	1,082,289	994,994	(892,479)	(357,870)	(623,495)	-
Changes in assumptions	-	(655,541)	5,481,432	-	(1,513,132)	-
Changes in benefits	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(5,720,232)	(5,448,374)	(5,138,083)	(4,953,756)	(4,748,786)	(4,241,487)
Net change in total pension liability	4,515,271	3,665,360	7,922,956	2,946,300	1,089,544	3,606,075
Total pension liability - beginning	104,134,737	100,469,377	92,546,421	89,600,121	88,510,577	84,904,502
Total pension liability - ending (a)	\$ 108,650,008	\$ 104,134,737	\$ 100,469,377	\$ 92,546,421	\$ 89,600,121	\$ 88,510,577
Plan fiduciary net position						
Contributions - employer	3,049,748	2,669,104	2,407,496	2,223,782	1,941,765	1,796,079
Contributions - employee	846,125	761,705	682,891	691,770	679,796	668,167
Plan to plan resource movement	-	(170)	-	(28,866)	22,561	-
Projected Earnings on Plan Investments	-	-	-	-	-	4,328,173
Recognized Difference between Projected and Actual Earnings	-	-	-	-	-	1,166,344
Net Investment Income	4,759,034	5,883,868	7,171,443	369,185	1,470,873	-
Net Difference between Projected and Actual Earnings	-	-	-	-	-	4,665,374
Benefit payments, including refunds of employee contribution	(5,720,232)	(5,448,374)	(5,138,083)	(4,953,756)	(4,748,786)	(4,241,487)
Administrative Expenses	(52,260)	(108,582)	(95,455)	(40,462)	(74,706)	-
Other Miscellaneous Income/(Expense) ¹	170	(206,199)	-	-	-	-
Net change in plan fiduciary net position	2,882,585	3,551,352	5,028,292	(1,738,347)	(708,497)	8,382,650
Plan fiduciary net position - beginning	73,232,175	69,680,823	64,652,531	66,390,878	67,099,375	58,716,725
Plan fiduciary net position - ending (b)	\$ 76,114,760	\$ 73,232,175	\$ 69,680,823	\$ 64,652,531	\$ 66,390,878	\$ 67,099,375
Net pension liability - ending (a) - (b)	\$ 32,535,248	\$ 30,902,562	\$ 30,788,554	\$ 27,893,890	\$ 23,209,243	\$ 21,411,202
Plan fiduciary net position as a percentage of the total pension liability	70.05%	70.32%	69.36%	69.86%	74.10%	75.81%
Covered payroll	10,211,967	9,576,157	9,024,370	9,198,318	8,487,940	8,406,315
Net pension liability as a percentage of covered payroll	318.60%	322.70%	341.17%	303.25%	273.44%	254.70%

1. During Fiscal Year 2017-18, as a result of GASB No. 75, CalPERS reported its proportionate share of activity related to postemployment benefit for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75. Additionally, CalPERS employees participate in various State of California agent pension plans and during FY2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68.

TOWN OF LOS GATOS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Schedule of Proportionate Share of Net Pension Liability – CalPERS Safety Cost-Sharing Plan

Measurement Date	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the net pension liability	0.24100%	0.23583%	0.22603%	0.22394%	0.14860%	0.28588%
Proportionate share of the net pension liability	\$24,695,687	\$22,725,267	\$22,415,954	\$19,377,843	\$10,199,904	\$17,788,690
Covered payroll*	\$ 4,445,061	\$ 5,079,440	\$ 4,941,138	\$ 5,022,498	\$ 4,897,104	\$ 4,916,535
Proportionate share of the net pension liability as percentage of covered payroll	555.58%	447.40%	453.66%	385.82%	208.28%	361.81%
Plan fiduciary net position as a percentage of of the total pension liability	75.26%	75.26%	73.31%	74.06%	78.40%	75.66%

* For the year ending on the measurement date.

Draft
11/30/2020

TOWN OF LOS GATOS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Schedule of Pension Plan Contributions – Miscellaneous Agent Multiple-Employer Plan

Fiscal Year	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 3,366,304	\$ 3,049,748	\$ 2,669,133	\$ 2,407,496	\$ 2,223,782	\$ 1,941,765
Contributions in Relation to the Actuarially Determined Contribution	<u>(8,188,460)</u>	<u>(3,049,748)</u>	<u>(2,669,133)</u>	<u>(2,407,496)</u>	<u>(2,223,782)</u>	<u>(1,941,765)</u>
Contribution Deficiency (Excess)	\$ (4,822,156)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	11,743,677	10,211,967	9,576,157	9,024,370	9,198,318	8,487,940
Contributions as a Percentage of Covered Payroll	28.66%	29.86%	27.87%	26.68%	24.18%	22.88%

*Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

Schedule of Pension Plan Contributions – Safety Cost-Sharing Plan

Fiscal Year	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 2,565,205	\$ 2,325,357	\$ 1,951,711	\$ 302,911	\$ 297,000	\$ 295,000
Contributions in Relation to the Actuarially Determined Contribution	<u>(2,565,205)</u>	<u>(2,325,357)</u>	<u>(1,951,711)</u>	<u>(302,911)</u>	<u>(297,000)</u>	<u>(295,000)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	4,928,821	4,445,061	5,079,440	4,941,138	5,022,498	4,897,104
Contributions as a Percentage of Covered Payroll	52.05%	52.31%	38.42%	6.13%	5.91%	6.02%

*Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

Actuarial Methods and Assumptions used for Pension Actuarially Determined Contributions

Actuarial Cost Method	Entry Age Normal
Amortization Method	For details, see June 30, 2016 CalPERS Funding Valuation Report
Amortization Period	For details, see June 30, 2016 CalPERS Funding Valuation Report
Asset Valuation Method	Fair Value of Assets. For details, see June 30, 2016 CalPERS Funding Valuation Report
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.375% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	CalPERS 1997-2011 experience study
Mortality	CalPERS 1997-2011 experience study Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

TOWN OF LOS GATOS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Schedule of Changes in Net OPEB Liability and Related Ratios

Measurement Date	6/30/2019	6/30/2018	6/30/2017
Changes in Total OPEB Liability			
Service Cost	\$ 1,203,274	\$ 1,168,227	\$ 1,134,000
Interest on net liability	1,814,072	1,706,270	1,607,000
Difference between expected and actual experience	(149,297)	-	-
Changes in assumptions	(392,681)	-	-
Benefit payments	(1,298,623)	(1,326,313)	(1,269,000)
Net change in total OPEB liability	1,176,745	1,548,184	1,472,000
Total OPEB liability - beginning	26,321,184	24,773,000	23,301,000
Total OPEB liability - ending (a)	<u>\$ 27,497,929</u>	<u>\$ 26,321,184</u>	<u>\$ 24,773,000</u>
Changes in plan fiduciary net position			
Contributions - employer	2,406,636	2,935,313	3,878,000
Contributions - employee	-	-	-
Net Investment Income	1,009,315	1,082,977	1,049,000
Benefit payments	(1,298,623)	(1,326,313)	(1,269,000)
Administrative Expenses	(11,502)	(34,261)	(14,000)
Net change in plan fiduciary net position	2,105,826	2,657,716	3,644,000
Plan fiduciary net position - beginning	16,265,716	13,608,000	9,964,000
Plan fiduciary net position - ending (b)	<u>\$ 18,371,542</u>	<u>\$ 16,265,716</u>	<u>\$ 13,608,000</u>
Net OPEB liability - ending (a) - (b)	\$ 9,126,387	\$ 10,055,468	\$ 11,165,000
Plan fiduciary net position as a percentage of the total OPEB liability	66.8%	61.8%	54.9%
Covered payroll	17,338,201	16,192,060	14,985,716
Net pension liability as a percentage of covered payroll	52.64%	62.10%	74.50%

Schedule of Employer Contributions

Fiscal Year	2020	2019	2018
Actuarially Determined Contribution (ADC)	\$ 2,172,000	\$ 2,108,000	\$ 2,129,000
Actual Contributions	2,508,306	2,406,636	2,935,000
Contribution deficiency/(excess)	(336,306)	(298,636)	(806,000)
Covered employee payroll	17,406,541	17,338,201	14,985,716
Contributions as a percentage of covered payroll	14.4%	13.9%	19.6%

TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Actuarial Methods and Assumptions used for 2019/20 OPEB Actuarially Determined Contribution

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal, Level percentage of pay
Amortization Method	Level percentage of pay
Amortization Period	19-year fixed period for 2019/20
Asset Valuation Method	Investment gains and losses spread over 5-year rolling period
Discount Rate	6.75%
General Inflation	2.75%
Medical Trend	Non-medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076
Mortality	CalPERS 1997-2015 experience study
Mortality Improvement	Post-retirement mortality projected fully generational with Scale MP-2017

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11/30/2020

Supplementary Information

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
MAJOR GOVERNMENTAL FUND BUDGET SCHEDULES
(OTHER THAN THE GENERAL FUND) AND
NONMAJOR GOVERNMENTAL FUNDS

Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP):

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

Capital Projects Funds:

Storm Drain Basin Funds were established to account for fees paid in conjunction with the development in specified drainage areas.

Construction Tax Funds were established to account for tax levies on building additions or alterations including capital improvements, underground utilities and parks.

Gas Tax Fund was established to account for revenue and expenditures under the State of California Streets and Highways Code Sections 2106, 2107 and 2107.5, as well as for the Roads Maintenance Rehabilitation Act. The revenues must be used for the maintenance and construction of streets.

Special Revenue Funds:

Community Development Block Grant Fund was established to account for grant funds received and expended under the Community Development Act of 1974.

Non-Point Source Maintenance Fund was established to comply with obligations under the National Pollutant Discharge Elimination system permit issued by the California Regional Water Quality Control Board.

Lighting and Landscape Fund was established to account for maintenance of trees, landscaping, irrigation systems and lighting within the boundaries of Tract No. 8439.

TOWN OF LOS GATOS
APPROPRIATED RESERVES FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Other taxes			\$ -	\$ -
Licenses & permits	\$ 110,000	\$ 110,000	\$ 407,340	\$ 297,340
Intergovernmental	1,627,763	1,903,527	1,938,684	35,157
Charges for services	1,446,577	840,289	862,257	21,968
Interest	-	-	47,219	47,219
Other	20,755	326,446	69,110	(257,336)
Total Revenues	3,205,095	3,180,262	3,324,610	144,348
EXPENDITURES				
Parks and public works	-	-	-	-
Payments to Successor Agency	-	-	-	-
Capital outlay	11,014,724	9,305,582	5,919,125	3,386,457
Total Expenditures	11,014,724	9,305,582	5,919,125	3,386,457
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(7,809,629)	(6,125,320)	(2,594,515)	3,530,805
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	910	910
Transfers in	7,994,884	8,325,591	8,325,591	-
Transfers (out)	(427,616)	(427,616)	(433,952)	(6,336)
Total Other Financing Sources (Uses)	7,567,268	7,897,975	7,892,549	(5,426)
CHANGE IN FUND BALANCE	\$ (242,361)	\$ 1,772,655	5,298,034	\$ 3,525,379
BEGINNING FUND BALANCE			8,567,994	
ENDING FUND BALANCE			\$ 13,866,028	

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2020

	CAPITAL PROJECTS FUNDS				
	Storm Drains Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds	Community Development Fund
ASSETS					
Cash & Investments	\$ 2,760,276	\$ 3,118,173	\$ 208,412	\$ 6,086,861	\$ 94,412
Receivables:					
Accounts	-	-	-	-	-
Intergovernmental Receivable	-	-	81,958	81,958	58,344
Long Term Notes Receivable	-	-	-	-	78,752
Total Assets	<u>\$ 2,760,276</u>	<u>\$ 3,118,173</u>	<u>\$ 290,370</u>	<u>\$ 6,168,819</u>	<u>\$ 231,508</u>
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued Payroll and Benefits	-	-	-	-	-
Unearned revenue	-	-	-	-	64,855
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,855</u>
FUND BALANCE					
Restricted for:					
Repairs and Maintenance	-	-	-	-	-
Capital Projects	2,760,276	3,118,173	290,370	6,168,819	-
Assigned for:					
Special Revenue Funds	-	-	-	-	166,653
Unassigned	-	-	-	-	-
Total Fund Balances	<u>2,760,276</u>	<u>3,118,173</u>	<u>290,370</u>	<u>6,168,819</u>	<u>166,653</u>
Total Liabilities and Fund Balances	<u>\$ 2,760,276</u>	<u>\$ 3,118,173</u>	<u>\$ 290,370</u>	<u>\$ 6,168,819</u>	<u>\$ 231,508</u>

(Continued)

SPECIAL REVENUE FUNDS			
Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	Total Nonmajor Governmental Funds
\$ 225,099	\$ 192,384	\$ 511,895	\$ 6,598,756
19,277	-	19,277	19,277
-	340	58,684	140,642
-	-	78,752	78,752
<u>\$ 244,376</u>	<u>\$ 192,724</u>	<u>\$ 668,608</u>	<u>\$ 6,837,427</u>
\$ 1,707	\$ 2,474	\$ 4,181	\$ 4,181
4,734	-	4,734	4,734
-	-	64,855	64,855
<u>6,441</u>	<u>2,474</u>	<u>73,770</u>	<u>73,770</u>
-	190,250	190,250	190,250
-	-	-	6,168,819
<u>237,935</u>	<u>-</u>	<u>404,588</u>	<u>404,588</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>237,935</u>	<u>190,250</u>	<u>594,838</u>	<u>6,763,657</u>
<u>\$ 244,376</u>	<u>\$ 192,724</u>	<u>\$ 668,608</u>	<u>\$ 6,837,427</u>

(Concluded)

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	CAPITAL PROJECTS FUNDS			
	Storm Drain Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds
REVENUES				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	34,436	-	34,436
License and permits	126,471	-	-	126,471
Intergovernmental	-	-	1,249,694	1,249,694
Interest	46,248	53,052	12,238	111,538
Total Revenues	172,719	87,488	1,261,932	1,522,139
EXPENDITURES				
Current:				
Parks and Public Works	-	-	-	-
Community Services	-	-	-	-
Sanitation and Other	-	-	-	-
Capital Outlay	11,000	49,000	1,719,384	1,779,384
Total Expenditures	11,000	49,000	1,719,384	1,779,384
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	161,719	38,488	(457,452)	(257,245)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers (out)	(30,000)	-	(106,000)	(136,000)
Total Other Financing Sources (Uses)	(30,000)	-	(106,000)	(136,000)
Changes in Fund Balances	131,719	38,488	(563,452)	(393,245)
Fund Balances - Beginning of year	2,628,557	3,079,685	853,822	6,562,064
Fund Balances - End of year	\$ 2,760,276	\$ 3,118,173	\$ 290,370	\$ 6,168,819

(Continued)

SPECIAL REVENUE FUNDS				
Community Development Fund	Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	Total
\$ -	\$ -	\$ 38,041	\$ 38,041	\$ 38,041
-	-	-	-	34,436
-	231,323	-	231,323	357,794
-	-	-	-	1,249,694
-	-	3,562	3,562	115,100
-	231,323	41,603	272,926	1,795,065
-	-	29,493	29,493	29,493
-	162,837	-	162,837	162,837
-	-	25,079	25,079	1,804,463
-	162,837	54,572	217,409	1,996,793
-	68,486	(12,969)	55,517	(201,728)
-	10,000	-	10,000	10,000
-	-	(4,920)	(4,920)	(140,920)
-	10,000	(4,920)	5,080	(130,920)
-	78,486	(17,889)	60,597	(332,648)
166,653	159,449	208,139	534,241	7,096,305
\$ 166,653	\$ 237,935	\$ 190,250	\$ 594,838	\$ 6,763,657

(Concluded)

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	STORM DRAIN FUNDS			CONSTRUCTION TAX		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	30,000	34,436	4,436
License and permits	92,500	126,471	33,971	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Interest	12,040	46,248	34,208	22,490	53,052	30,562
Total Revenues	104,540	172,719	68,179	52,490	87,488	34,998
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital outlay	11,000	11,000	-	49,000	49,000	-
Total Expenditures	11,000	11,000	-	49,000	49,000	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	93,540	161,719	68,179	3,490	38,488	34,998
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	(30,000)	(30,000)	-	-	-	-
Total Other Financing Sources (Uses)	(30,000)	(30,000)	-	-	-	-
CHANGE IN FUND BALANCE	\$ 63,540	131,719	\$ 68,179	\$ 3,490	38,488	\$ 34,998
BEGINNING FUND BALANCE		2,628,557			3,079,685	
ENDING FUND BALANCE		\$ 2,760,276			\$ 3,118,173	

(Continued)

GAS TAX			COMMUNITY DEVELOPMENT BLOCK GRANT			NON-POINT SOURCE MAINTANENCE		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	231,323	231,323	-
1,363,738	1,249,694	(114,044)	-	-	-	-	-	-
-	-	-	-	-	-	353,071	-	(353,071)
1,210	12,238	11,028	-	-	-	-	-	-
1,364,948	1,261,932	(103,016)	-	-	-	584,394	231,323	(353,071)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	579,173	162,837	416,336
1,719,384	1,719,384	-	-	-	-	-	-	-
1,719,384	1,719,384	-	-	-	-	579,173	162,837	416,336
(354,436)	(457,452)	(103,016)	-	-	-	5,221	68,486	63,265
-	-	-	-	-	-	10,000	10,000	-
(106,000)	(106,000)	-	-	-	-	-	-	-
(106,000)	(106,000)	-	-	-	-	10,000	10,000	-
\$ (460,436)	(563,452)	\$ (103,016)	\$ -	-	\$ -	\$ 15,221	78,486	\$ 63,265
	853,822			166,653			159,449	
	\$ 290,370			\$ 166,653			\$ 237,935	

(Continued)

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	LIGHTING AND LANDSCAPING			TOTALS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ 38,220	\$ 38,041	\$ (179)	\$ 38,220	\$ 38,041	\$ (179)
Other taxes	-	-	-	30,000	34,436	4,436
License and permits	-	-	-	323,823	357,794	33,971
Intergovernmental	-	-	-	1,363,738	1,249,694	(114,044)
Charges for services	-	-	-	353,071	-	(353,071)
Interest	1,460	3,562	2,102	37,200	115,100	77,900
Total Revenues	39,680	41,603	1,923	2,146,052	1,795,065	(350,987)
EXPENDITURES						
Parks and public works	44,057	29,493	14,564	44,057	29,493	14,564
Sanitation and other	-	-	-	579,173	162,837	416,336
Capital outlay	67,579	25,079	42,500	1,846,963	1,804,463	42,500
Total Expenditures	111,636	54,572	57,064	2,470,193	1,996,793	473,400
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(71,956)	(12,969)	58,987	(324,141)	(201,728)	122,413
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	10,000	10,000	-
Operating transfers (out)	(4,920)	(4,920)	-	(140,920)	(140,920)	-
Total Other Financing Sources (Uses)	(4,920)	(4,920)	-	(130,920)	(130,920)	-
CHANGE IN FUND BALANCE	<u>\$ (76,876)</u>	<u>(17,889)</u>	<u>\$ 58,987</u>	<u>\$ (455,061)</u>	<u>(332,648)</u>	<u>\$ 122,413</u>
BEGINNING FUND BALANCE		208,139			7,096,305	
ENDING FUND BALANCE		<u>\$ 190,250</u>			<u>\$ 6,763,657</u>	

(Concluded)

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

PROPRIETARY FUNDS
INTERNAL SERVICE FUNDS

Internal Service Funds are used to finance and account for special activities and service performed by a designated department for other departments in the Town on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they are used for internal activities only. In the Government-Wide Statement of Activities, the net revenues and expenses of the internal service funds are allocated to the Town departments or programs that generated them, thus eliminating internal service funds

However, internal service funds are still presented separately in the fund financial statements and include the following funds:

Equipment Replacement Fund was established to account for the replacement of major Town equipment and all vehicle replacement.

Workers' Compensation Fund was established to account for future claims that may occur related to workers compensation injuries.

Self-Insurance Fund was established to account for future general liability claims against the Town.

Information Technology Fund was established to account for the replacement of management information computer systems and components.

Facilities Maintenance Fund was established to account for preventative maintenance and repair for all Town buildings.

FY 2019 Values
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2020

	Equipment Replacement	Workers' Comp	Self Insurance	Information Technology	Facilities Maintenance	Total
ASSETS						
Cash & Investments	\$ 1,925,053	\$ 2,888,558	\$ 1,347,639	\$ 2,732,385	\$ 192,117	\$ 9,085,752
Restricted Cash & Investments	-	114,213	-	-	-	114,213
Receivables:						
Accounts	-	-	-	2,443	26,110	28,553
Total Assets	1,925,053	3,002,771	1,347,639	2,734,828	218,227	9,228,518
LIABILITIES						
Accounts Payable	-	2,644	-	130,625	115,758	249,027
Claims Payable	-	1,191,386	57,025	-	-	1,248,411
Total Liabilities	-	1,194,030	57,025	130,625	115,758	1,497,438
NET POSITION						
Restricted for:						
Workers comp- ensation claims	-	114,213	-	-	-	114,213
Unrestricted	1,925,053	1,694,528	1,290,614	2,604,203	102,469	7,616,867
Total Net Position	\$ 1,925,053	\$ 1,808,741	\$ 1,290,614	\$ 2,604,203	\$ 102,469	\$ 7,731,080

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Equipment Replacement	Workers' Comp	Self Insurance	Information Technology	Facilities Maintenance	Total
OPERATING REVENUES						
Charges for services	\$ 199,095	\$ 903,434	\$ 378,133	\$ 881,936	\$ 847,384	\$ 3,209,982
Interest	-	7	-	-	-	7
Use of money and property	-	-	-	-	165,652	165,652
Other local taxes	-	-	-	-	34,437	34,437
Other	36,987	526,552	-	-	33,213	596,752
Total Operating Revenues	236,082	1,429,993	378,133	881,936	1,080,686	4,006,830
OPERATING EXPENSES						
Insurance expenses	-	529,241	344,762	-	-	874,003
Services and supplies	540,036	996,348	56,061	796,201	1,161,003	3,549,649
Total Operating Expenses	540,036	1,525,589	400,823	796,201	1,161,003	4,423,652
Operating Income (loss)	(303,954)	(95,596)	(22,690)	85,735	(80,317)	(416,822)
Transfers in	-	1,061,256	-	-	-	1,061,256
Transfers out	(579,797)	-	-	-	(788,000)	(1,367,797)
Net Transfers	(579,797)	1,061,256	-	-	(788,000)	(306,541)
Change in Net Position	(883,751)	965,660	(22,690)	85,735	(868,317)	(723,363)
BEGINNING NET POSITION	2,808,804	843,081	1,313,304	2,518,468	970,786	8,454,443
ENDING NET POSITION	\$ 1,925,053	\$ 1,808,741	\$ 1,290,614	\$ 2,604,203	\$ 102,469	\$ 7,731,080

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Equipment Replacement	Worker's Comp	Self Insurance	Information Technology	Facilities Maintenance	Total
CASH FLOWS FROM						
OPERATING ACTIVITIES						
Receipts from customers	\$ 236,082	\$ 1,497,589	\$ 378,133	\$ 881,405	\$ 1,096,563	\$ 4,089,772
Payments to suppliers	(625,467)	(1,009,831)	(71,599)	(741,233)	(1,172,525)	(3,620,655)
Claims paid	-	(390,050)	(343,775)	-	-	(733,825)
Net Cash Provided (Used) by Operating Activities	(389,385)	97,708	(37,241)	140,172	(75,962)	(264,708)
CASH FLOWS FROM						
NONCAPITAL FINANCING						
ACTIVITIES						
Transfers In/(Out)	(579,797)	1,061,256	-	-	(788,000)	(306,541)
Net Cash Provided (Used) by Noncapital Financing Activities	(579,797)	1,061,256	-	-	(788,000)	(306,541)
Net Increase(Decrease) in Cash and Investments	(969,182)	1,158,964	(37,241)	140,172	(863,962)	(571,249)
Cash and investments - beginning of year	2,894,235	1,843,807	1,384,880	2,592,213	1,056,079	9,771,214
Cash and investments - end of year	\$ 1,925,053	\$ 3,002,771	\$ 1,347,639	\$ 2,732,385	\$ 192,117	\$ 9,199,965
Reconciliation of Operating Income to Cash Flows from Operating Activities:						
Operating Income	\$ (303,954)	\$ (95,596)	\$ (22,690)	\$ 85,735	\$ (80,317)	\$ (416,822)
Change in assets and liabilities:						
Receivables, net	-	67,596	-	(531)	15,877	82,942
Accounts payable	(85,378)	(13,483)	(15,538)	54,968	(11,433)	(70,864)
Claims payable		139,191	987	-	-	140,178
Due to other government	(53)	-	-	-	(89)	(142)
Cash Flows From Operating Activities	\$ (389,385)	\$ 97,708	\$ (37,241)	\$ 140,172	\$ (75,962)	\$ (264,708)

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

FIDUCIARY FUNDS
PRIVATE PURPOSE TRUST FUNDS

Library Private Purpose Trust Fund was established to provide for the servicing of donations and bequests to the Town's Library Program.

RDA Successor Agency Private Purpose Trust Fund was 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 existing Redevelopment Agency obligations.

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TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2020

	Library	RDA Successor Agency	Total
ASSETS			
Cash and investments (Note 2)	\$ 521,067	\$ 1,822,438	\$ 2,343,505
Restricted cash and investments (Note 2)	-	1,987,621	1,987,621
Accounts receivable	8,750	-	8,750
Loans receivable (Note 3)	-	575,425	575,425
Capital assets (Note 5):			
Nondepreciable	-	5,257,422	5,257,422
Depreciable, net of accumulated depreciation	-	1,423,701	1,423,701
Total Assets	529,817	11,066,607	11,596,424
LIABILITIES			
Accounts payable	3,000	64	3,064
Due to other governments	2	-	2
Interest payable	-	285,390	285,390
Long-term debt (Note 6):			
Due within one year	-	1,250,000	1,250,000
Due in more than one year	-	14,461,545	14,461,545
Total Liabilities	3,002	15,996,999	16,000,001
NET POSITION			
Held in trust	526,815	(4,930,392)	(4,403,577)
Total Net Position	\$ 526,815	\$ (4,930,392)	\$ (4,403,577)

**TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	Library	RDA Successor Agency	Total
ADDITIONS			
Property taxes	\$ -	\$ 1,949,284	\$ 1,949,284
Investment earnings	9,617	44,035	53,652
Gifts, bequests and endowments	61,809	-	61,809
Other	-	1,905,024	1,905,024
Total Additions	71,426	3,898,343	3,969,769
DEDUCTIONS			
Program expenses	-	1,916,701	1,916,701
Interest and fiscal agency expenses of RDA	-	651,462	651,462
Library services	82,626	-	82,626
Capital Outlay	-	-	-
Depreciation expense	-	101,692	101,692
Total Deductions	82,626	2,669,855	2,752,481
CHANGE IN NET POSITION	(11,200)	1,228,488	1,217,288
NET POSITION - BEGINNING OF YEAR	538,015	(6,158,880)	(5,620,865)
NET POSITION - END OF YEAR	<u>\$ 526,815</u>	<u>\$ (4,930,392)</u>	<u>\$ (4,403,577)</u>

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STATISTICAL SECTION

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STATISTICAL (UNAUDITED)

This part of the Town of Los Gatos Comprehensive Annual Financial Report (“CAFR”) presents the detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town’s overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how Town’s financial performance and well-being have changed over time. (Schedule 1, Schedule 2, Schedule 3, and Schedule 4).

Revenue Capacity

These schedules contain information to help the reader assess one of the Town’s most significant local revenue source, the property tax (Schedule 5, Schedule 6, Schedule 7, and Schedule 8).

Debt Capacity

These schedules present information to help the reader assess the affordability of the Town’s current levels of outstanding debt and its ability to issue additional debt in the future (Schedule 9, Schedule 10, and Schedule 11)

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town’s financial activities take place (Schedule 12, Schedule 13, and schedule 14).

Operating Information

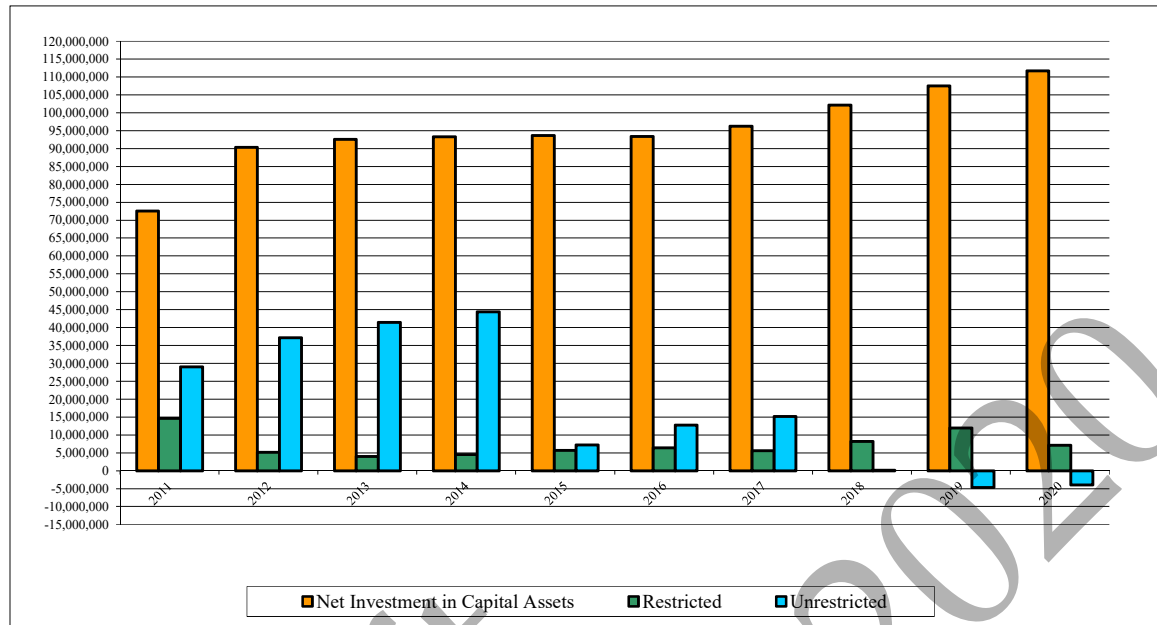
These schedules contain service and infrastructure data to help the reader understand how the information in the Town’s CAFR relates to the services the Town provides and activities it performs (Schedule 15 and Schedule 16).

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Town of Los Gatos
Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)

Schedule 1



Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position	
2011	72,567,355	14,652,823	29,017,520	116,237,698	(1)
2012	90,333,451	5,167,236	37,192,210	132,692,897	
2013	92,558,523	3,949,583	41,480,377	137,988,483	
2014	93,251,117	4,485,246	44,393,265	142,129,628	
2015	93,687,029	5,663,182	7,180,919	106,531,130	(2)
2016	93,383,855	6,386,014	12,744,637	112,514,506	
2017	96,265,652	5,627,707	15,134,420	117,027,779	
2018	102,098,729	8,199,598	170,590	110,468,917	(4)
2019	107,542,588	11,918,688	-4,642,167	114,819,109	(3)
2020	111,700,225	7,117,984	-3,967,178	114,851,031	

(1) The decrease in Restricted Net Position from FY 2010 to FY 2011 was primarily due to the issuance of the \$15.7 million Certificates of Participation in FY 2010.

(2) The decrease in Restricted Net Position GASB 68 Implementation of Unfunded Pension Liability of Statement of Net Position.

(3) The decrease in unrestricted net position resulted largely from the use of approximately \$8.0 million in unrestricted cash balances in the Town's GFAR fund during the year to invest in the Town's infrastructure and equipment.

(4) Net position was restated for FY 2018 for amounts placed into fiduciary funds, reclassified to General Fund Restricted Asset.

Town of Los Gatos
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

Expenses	2010/11	2011/12	2012/13	2013/14
Governmental Activities:				
General Government	\$ 5,180,153	\$ 6,145,143	\$ 6,564,768	\$ 6,955,804
Police Department	13,495,885	14,124,798	13,731,754	14,119,786
Parks and Public Works	7,155,905	7,827,332	7,829,315	8,154,616
Community Development	3,099,269	3,434,551	4,094,188	4,424,040
Community Services	666,015	-	-	-
Library Services	1,892,805	1,938,577	2,128,823	2,234,431
Sanitation	342,893	158,205	393,205	363,180
Redevelopment	16,794,022	919,821	1,277,063	21,687
Interest and Fees	1,278,381	1,123,842	-	-
Total Governmental Activities	\$ 49,905,328	\$ 35,672,269	\$ 36,019,116	\$ 36,273,544

Program Revenues				
Charges for Services:				
General Government	\$ 1,156,931	\$ 1,131,424	\$ 1,416,593	\$ 2,179,077
Police Department	2,153,843	2,324,397	2,450,630	3,206,579
Parks and Public Works	810,022	1,215,382	3,044,401	1,550,867
Community Development	3,097,192	3,448,433	4,649,444	5,156,061
Community Services	98,803	-	-	-
Library Services	39,491	37,662	50,696	51,775
Sanitation	135,000	135,000	403,294	328,648
Operating Grants and Contributions:				
General Government	15,638	6,453	8,406	-
Police Department	27,748	29,980	91,360	42,661
Parks and Public Works	809,272	993,827	835,724	994,096
Community Services	182,683	-	-	-
Library Services	10,662	109	40	14,662
Sanitation	9,002	-	-	-
Capital Grants and Contributions:				
General Government	-	-	169,270	-
Police Department	-	-	-	-
Parks and Public Works	2,375,759	641,811	2,757,660	2,274,879
Community Development	-	-	-	19,360
Total Program Revenues	\$ 10,922,046	\$ 9,964,478	\$ 15,877,518	\$ 15,818,665

General Revenues	2010/11	2011/12	2012/13	2013/14
Property Taxes	\$ 18,226,001	\$ 14,088,866	\$ 11,968,377	\$ 11,712,312
Sales Taxes	9,971,409	9,889,100	8,757,428	8,029,571
Franchise Taxes	-	-	-	-
Other Taxes	2,906,264	3,698,753	3,324,791	3,718,405
Motor Vehicle in Lieu	139,814	15,238	15,790	13,068
Investment Earnings	760,905	331,420	(133,375)	772,200
Loss on Disposal of Capital Assets	-	-	-	-
Sale of Property	(870,127)	-	54,425	-
Miscellaneous	41,943	2,275,160	1,154,647	350,468
Extraordinary Gain (Loss) Dissolution of RDA	-	11,864,453	295,101	-
Total General Revenues	\$ 31,176,209	\$ 42,162,990	\$ 25,437,184	\$ 24,596,024

Change in Net Position

\$ (7,807,073)	\$ 16,455,199	\$ 5,295,586	\$ 4,141,145
----------------	---------------	--------------	--------------

2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
\$ 6,465,852	\$ 6,993,661	\$ 6,771,628	\$ 7,948,918	\$ 8,163,991	\$ 7,405,368
12,644,221	12,825,688	14,587,597	15,545,521	16,635,726	20,446,188
8,069,352	8,320,623	9,502,707	10,047,003	10,627,716	11,803,005
4,047,738	3,227,224	5,093,459	4,667,609	5,064,637	5,001,958
-	-	-	-	-	-
2,553,414	2,522,142	2,868,748	3,087,684	3,059,294	3,347,523
491,359	528,580	466,762	536,296	684,673	3,041
-	-	-	-	-	-
-	-	-	-	-	-
\$ 34,271,936	\$ 34,417,918	\$ 39,290,901	\$ 41,833,031	\$ 44,236,037	\$ 48,007,083

\$ 1,888,213	\$ 1,517,012	\$ 1,669,020	\$ 1,701,146	\$ 1,562,683	\$ 1,470,324
3,529,166	3,278,585	2,076,688	1,888,359	1,745,889	1,549,207
2,206,765	1,516,108	2,155,841	4,150,068	2,910,936	3,674,222
5,027,497	4,359,146	3,803,626	3,456,390	4,155,231	3,351,753
-	-	-	-	-	-
53,123	46,192	46,746	14,702	9,476	11,522
328,868	368,813	410,626	771,442	966,130	231,323
-	15,291	-	-	-	12,290
24,838	98,138	837,329	895,730	826,643	952,045
907,745	749,300	665,779	953,294	1,301,152	2,824,638
-	-	-	-	-	15,864
4,062	12,228	-	57,200	47,482	49,351
-	-	-	-	-	-
176,705	-	-	-	-	8,258
-	-	-	-	-	9,100
2,338,154	1,610,657	770,600	348,437	146,792	832,755
-	-	9,280	-	-	-
\$ 16,485,136	\$ 13,571,470	\$ 12,445,535	\$ 14,236,768	\$ 28,665,066	\$ 14,992,652

2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
\$ 12,931,603	\$ 13,763,458	\$ 14,756,214	\$ 15,958,406	\$ 17,321,347	\$ 18,330,426
8,202,678	7,501,175	8,925,276	7,466,253	8,158,152	7,531,425
2,215,430	2,258,892	2,366,908	2,474,814	2,475,916	2,495,792
2,062,893	1,997,497	2,351,223	2,667,840	2,726,743	1,911,774
-	12,308	14,056	16,483	14,689	24,526
428,772	698,324	192,260	333,120	1,809,128	2,428,470
-	-	-	-	-	-
-	-	-	-	-	-
813,324	598,170	528,946	622,105	2,407,840	323,940
-	-	-	-	-	-
\$ 26,654,700	\$ 26,829,824	\$ 29,134,883	\$ 29,539,021	\$ 34,913,815	\$ 33,046,353
\$ 8,867,900	\$ 5,983,376	\$ 2,289,517	\$ 1,942,758	\$ 19,342,844	\$ 31,922

Town of Los Gatos
Fund Balance, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal			
	2010/11	2011/12	2012/13	2013/14
General Fund				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved	-	-	-	-
Nonspendable	1,500,000	-	-	-
Restricted	-	-	-	-
Committed				
Assigned	21,806,781	21,992,886	20,758,156	23,791,749
Unassigned	2,433,556	4,019,409	7,502,446	1,363,376
Total General Fund	<u>\$ 25,740,337</u>	<u>\$ 26,012,295</u>	<u>\$ 28,260,602</u>	<u>\$ 25,155,125</u>
All Other Governmental Funds				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:				
Special Revenue Funds	-	-	-	-
Capital Project Funds	-	-	-	-
Debt Service Funds	-	-	-	-
Nonspendable	-	-	-	-
Restricted	14,764,334	5,167,236	3,949,583	4,485,246
Committed	-	-	-	-
Assigned	4,786,547	5,389,674	6,097,182	8,191,823
Unassigned	(23,889)	107,107	157,208	183,045
Total All Other Governmental Funds	<u>\$ 19,526,992</u>	<u>\$ 10,664,017</u>	<u>\$ 10,203,973</u>	<u>\$ 12,860,114</u>
Total Fund Balances	<u>\$ 45,267,329</u>	<u>\$ 36,676,312</u>	<u>\$ 38,464,575</u>	<u>\$ 38,015,239</u>

Year					
2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,206,851	5,015,316	669,978
	20,019,187	15,129,925	12,953,399	15,070,944	15,387,706
24,121,256	9,555,085	14,050,699	17,475,285	18,256,895	13,277,813
-	-	-	-	-	-
<u>\$ 24,121,256</u>	<u>\$ 29,574,272</u>	<u>\$ 29,180,624</u>	<u>\$ 31,635,535</u>	<u>\$ 38,343,155</u>	<u>\$ 29,335,497</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
5,663,182	6,386,014	5,627,707	6,992,747	6,903,372	6,448,006
-	3,696,000	10,354,584	5,571,087	2,579,997	-
15,346,558	11,099,076	7,928,994	6,361,403	6,180,930	14,181,679
206,875	-	-	-	-	-
<u>\$ 21,216,615</u>	<u>\$ 21,181,090</u>	<u>\$ 23,911,285</u>	<u>\$ 18,925,237</u>	<u>\$ 15,664,299</u>	<u>\$ 20,629,685</u>
<u>\$ 45,337,871</u>	<u>\$ 50,755,362</u>	<u>\$ 53,091,909</u>	<u>\$ 50,560,772</u>	<u>\$ 54,007,454</u>	<u>\$ 49,965,182</u>

Town of Los Gatos
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year				
	2010/11	2011/12	2012/13	2013/14	2014/15
Revenues:					
Taxes	\$ 31,549,352	\$ 27,676,719	\$ 24,596,799	\$ 23,475,393	\$ 23,208,820
Intergovernmental	3,248,303	1,669,729	2,615,191	2,440,127	2,921,002
Charges for Service	4,107,386	5,550,671	6,529,234	5,837,581	5,794,386
Licenses & Permits	2,967,819	3,242,348	4,015,871	5,343,265	6,467,771
Investment Income	691,022	291,484	(133,380)	772,164	428,735
Fines and Forfeitures	737,903	809,790	688,125	795,720	868,564
Franchise Fees	-	-	-	-	2,215,430
Use of Property	38,502	38,974	38,910	37,741	32,209
Other	2,904,862	5,412,328	4,577,584	3,648,277	3,130,975
Total Revenues	46,245,149	44,692,043	42,928,334	42,350,268	45,067,892
Expenditures:					
Current					
Public Safety	13,004,041	13,392,953	13,370,032	13,742,189	13,747,198
Public Works	5,222,504	5,440,960	5,616,197	5,611,283	5,840,097
Community Development	2,973,587	3,226,195	4,235,832	4,335,599	4,218,500
Community Services	663,645	-	-	-	-
Library Services	1,806,611	1,805,479	2,055,069	2,131,438	2,268,844
Sanitation & Other	314,899	116,607	359,725	322,817	411,863
General Government	6,318,706	8,046,794	8,331,444	8,499,854	8,647,451
Redevelopment	18,958,126	3,282,155	1,277,063	21,687	-
Capital Outlay	15,839,303	10,929,491	6,568,653	4,097,662	3,800,478
Debt Service					
Principal Repayment	485,000	934,167	-	-	-
Interest and Fiscal Charges	1,019,881	1,143,185	-	-	-
Total Expenditures	66,606,303	48,317,986	41,814,015	38,762,529	38,934,431
Excess (Deficiency) of Revenues Over (Under) Expenditures	(20,361,154)	(3,625,943)	1,114,319	3,587,739	6,133,461
Other Financing Sources(Uses):					
Debt Issuance	-	-	-	-	-
Transfers In	3,928,107	3,735,440	2,841,881	3,418,872	8,977,220
Transfers Out	(3,545,168)	(3,661,894)	(2,463,850)	(2,921,409)	(7,788,049)
Proceeds from Sale of Property	-	-	-	-	-
Proceeds from Issuance of Debt	-	-	-	-	-
Total Other Financing Sources(Uses)	382,939	73,546	378,031	497,463	1,189,171
Special Item:					
Sale of Property	-	-	-	-	-
Extraordinary Gain (Loss) RDA Dissolution	-	(5,038,620)	295,913	-	-
Prepayment of Pension Obligations	-	-	-	(4,534,538)	-
Net Change in Fund Balances	\$ (19,978,215)	\$ (3,552,397)	\$ 1,492,350	\$ 4,085,202	\$ 7,322,632
Debt Service as a Percentage of Non Capital Expenditures	2.96%	5.56%	0.00%	0.00%	0.00%

	2015/16		2016/17		2017/18		2018/19		2019/20
\$	23,269,892	\$	25,945,129	\$	26,253,026	\$	28,244,329	\$	27,811,665
	2,573,475		1,715,580		2,124,903		2,310,655		4,498,153
	4,773,001		4,210,174		5,395,057		5,584,504		5,309,470
	5,442,133		5,075,503		5,937,044		5,173,876		4,818,671
	698,308		192,978		332,938		1,809,164		2,428,453
	879,277		917,105		676,212		510,266		271,117
	2,258,892		2,366,908		2,474,814		2,475,916		2,495,792
	31,723		32,096		32,206		32,960		31,039
	2,396,992		1,011,939		640,844		579,755		376,922
	42,323,693		41,467,412		43,867,044		46,721,425		48,041,282
	13,763,316		13,251,288		14,423,554		14,945,407		15,793,815
	6,307,266		6,633,748		7,125,686		7,962,135		8,168,599
	3,695,504		3,793,930		4,192,165		4,577,495		4,473,790
	-		-		-		-		-
	2,332,268		2,508,677		2,529,017		2,493,617		2,700,802
	452,726		466,762		521,147		628,240		162,837
	9,144,797		8,390,959		8,770,082		8,004,254		13,024,146
	-		-		-		-		-
	3,241,657		6,867,034		9,778,058		7,888,914		7,861,972
	-		-		-		-		-
	-		-		-		-		-
	38,937,534		41,912,398		47,339,709		46,500,062		52,185,961
	3,386,159		(444,986)		(3,472,665)		221,363		(4,144,679)
	-		-		-		-		-
	3,315,846		7,907,692		3,176,760		4,264,131		8,935,260
	(1,284,514)		(7,612,012)		(3,880,131)		(3,323,756)		(8,628,719)
					378,219		1,912,316		1,566
	-		4,435		-		-		-
	2,031,332		300,115		(325,152)		2,852,691		308,107
	-		-		-		-		-
	-		-		-		-		-
	-		-		-		-		-
\$	5,417,491	\$	(144,871)	\$	(3,797,817)	\$	3,074,054	\$	(3,836,572)

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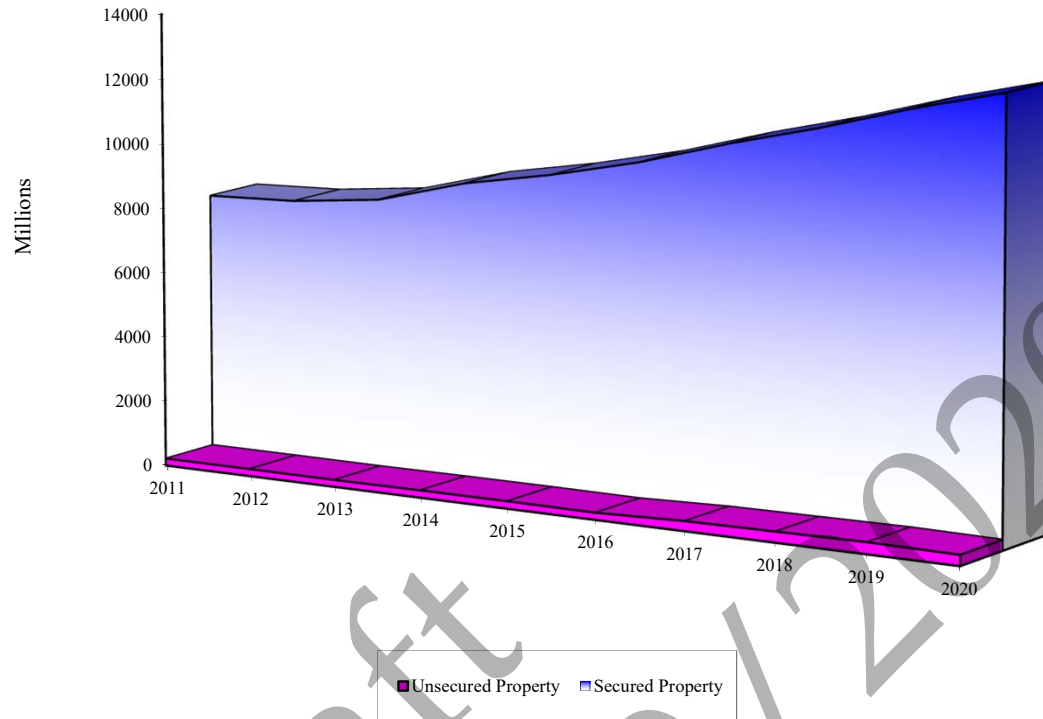
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Town of Los Gatos
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Schedule 5

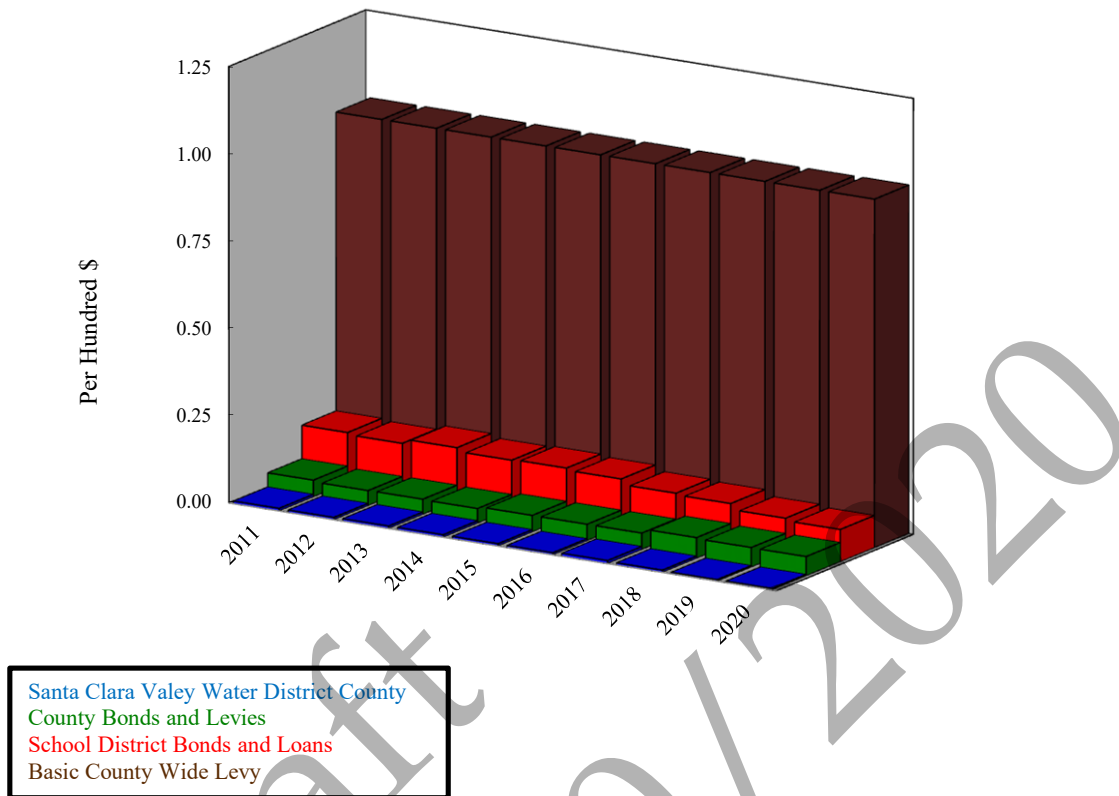


Fiscal Year	Utility and Unsecured Property	Percent Change	Secured Property	Percent Change	Total Assessed	Estimated Full Market	Total Direct Tax Rate
2011	217,353,236	-9.92%	8,044,692,600	-0.39%	8,262,045,836	32,178,770,400	1.0555
2012	217,297,593	-0.03%	8,152,459,157	1.34%	8,369,756,750	32,609,836,628	1.0499
2013	211,268,609	-2.77%	8,465,420,032	3.84%	8,676,688,641	33,861,680,128	1.0508
2014	224,079,502	6.06%	9,238,816,900	9.14%	9,462,896,402	36,955,267,600	1.0493
2015	227,331,042	1.45%	9,767,782,505	5.73%	9,995,113,547	39,071,130,020	1.0544
2016	217,035,545	-4.53%	10,417,804,357	6.65%	10,634,839,902	41,671,217,428	1.0533
2017	304,443,013	40.27%	11,240,554,198	7.90%	11,544,997,211	44,962,216,792	1.0560
2018	330,504,877	8.56%	11,969,049,272	6.48%	12,299,554,149	47,876,197,088	1.0659
2019	359,276,665	8.71%	12,795,393,103	6.90%	13,154,669,768	51,181,572,412	1.0607
2020	331,517,212	-7.73%	13,510,676,336	5.59%	13,842,193,548	54,042,705,344	1.0598

Source: Santa Clara County Assessed Value Report

Town of Los Gatos
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years

Schedule 6



Fiscal Year	Basic County Wide Levy	County Bonds and Levies	Santa Clara Valley Water District	School District Bonds and Loans	Total
2011	1.0000	0.0483	0.0072	0.1449	1.2004
2012	1.0000	0.0435	0.0064	0.1393	1.1892
2013	1.0000	0.0439	0.0069	0.1523	1.2031
2014	1.0000	0.0423	0.0070	0.1417	1.1910
2015	1.0000	0.0479	0.0065	0.1442	1.1986
2016	1.0000	0.0476	0.0057	0.1381	1.1914
2017	1.0000	0.0474	0.0086	0.1223	1.1783
2018	1.0000	0.0597	0.0062	0.1177	1.1836
2019	1.0000	0.0565	0.0042	0.1006	1.1613
2020	1.0000	0.0557	0.0041	0.0935	1.1533

Source: Santa Clara County Book of Tax Rates

Town of Los Gatos
Principle Property Tax Payers
Last Five Fiscal Years *

ASSESSEE NAME	2015/16		2016/17		2017/18
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value
750 University LLC	\$ 19,379,620	0.19%	\$ 19,675,159	0.18%	\$ 25,241,863
980 JR LLC					
Alberto Way Holdings LLC	24,188,966	0.23%	24,557,845	0.22%	25,048,998
Ann R. Desantis					
Boccardo Corporation	21,617,318	0.21%	21,918,921	0.20%	22,211,650
CH Realty IV Downing LP					
D&K Los Gatos LLC	16,293,163	0.16%			
David A. and Shari Flick Trustee					
Donahue Schriber Realty Group LP					53,872,083
DS Downing Los Gatos LLC	21,980,568	0.21%	22,315,770	0.20%	
DS Village Square			22,799,599	0.20%	
El Camino Hospital	26,477,160	0.25%	26,880,933	0.24%	23,353,576
Equestrian 3 Investments LLC					29,584,251
Fox Creek Fund LLC					
Good Samaritan Hospital LP	19,880,366	0.19%	22,402,756	0.20%	22,516,823
Grade Way Associations VI					
Green Eyes LLC					
Grosvenor USA Ltd.	23,449,975	0.23%			
Health Care REIT Inc,	20,089,903	0.19%	20,396,274	0.18%	
International Hotel					30,144,617
Kay Kaoru and Go Sasaki Sr., Trustees	24,744,983	0.24%	25,122,131	0.22%	25,624,027
Knowles Los Gatos LLC	49,167,836	0.47%	49,917,644	0.44%	50,915,995
KSL Capital Partners	30,134,614	0.29%	30,105,945	0.27%	25,893,946
Leland E Lester, Trustee			29,004,169	0.26%	
LG Business Park Bldg 3 LLC	61,947,284	0.59%			53,465,724
LG Business Park Bldg 4 LLC					43,937,857
LG Business Park LLC	17,507,261	0.17%	31,070,572	0.28%	
LG Hotel LLC	15,497,395	0.15%			
Los Gatos Hotel Corp.	15,676,113	0.15%			
Lyon Baytree Apartments LLC					
Preylock Los Gatos LLC					
Safeway Inc.					24,394,468
San Jose Water Works	37,081,049	0.36%	38,710,728	0.34%	41,202,805
Serramonte Corporate Center LLC					
SI 32 LLC	141,348,894	1.36%	143,442,269	1.28%	146,317,944
Sobrato Interests IV LLC	44,930,482	0.43%	42,240,994	0.38%	43,071,837
SRI Old Town LLC	31,744,252	0.30%	32,228,351	0.29%	32,872,917
Summerhill N40 LLC					
Summerhill Prospect Avenue LLC			18,274,508	0.16%	
Wealthcap Los Gatos 121			109,100,000	0.97%	111,282,000
Wealthcap Los Gatos 31			84,000,000	0.75%	85,680,000
Windrose Los Gatos Properties LLC	-	0.00%		0.00%	
Total - Principal taxpayers	\$ 663,137,202	6.37%	\$ 814,164,568.00	7.24%	\$ 916,633,381.00
Total - All real properties assessed by the Town (1)	\$10,416,786,877		\$11,239,536,718		\$11,968,031,792

(1) Assessed value includes only net secured real properties.

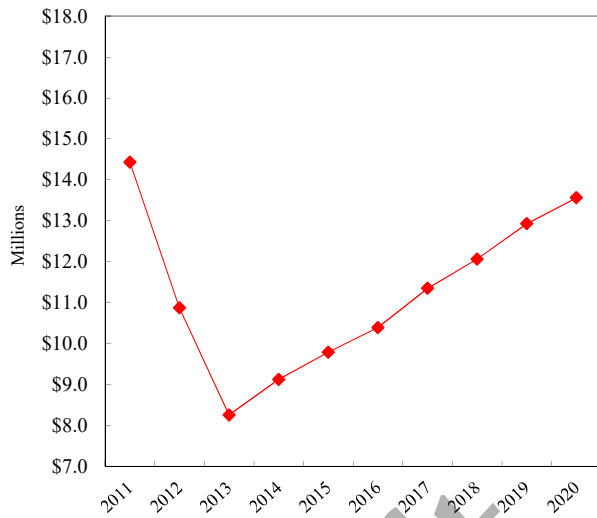
(2) Excludes the value of tax-exempt properties

Source Data: California Municipal Statistics, Inc.

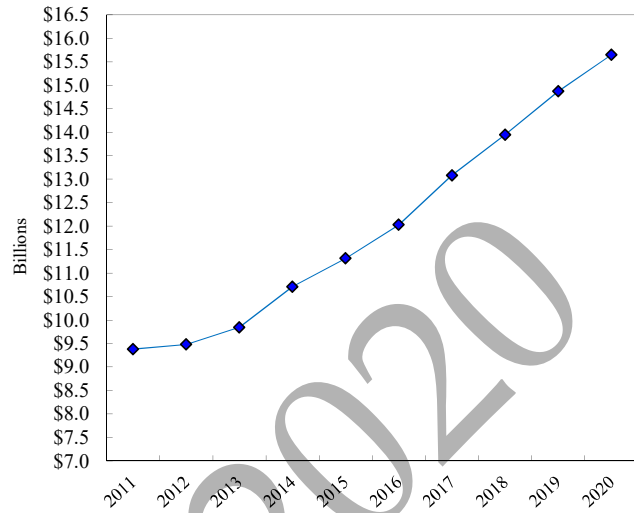
Schedule 7

Percentage of Total City Taxable Assessed Value	2018/19		2019/20	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
0.21%	\$ 25,746,699	0.20%	\$ 26,261,632	0.19%
	19,277,879	0.15%		
0.21%	25,549,975	0.20%	24,158,350	0.18%
0.19%	22,651,732	0.18%	23,099,314	0.17%
0.45%	56,370,186	0.44%	57,497,587	0.43%
0.20%	28,596,104	0.22%	30,789,155	0.23%
0.25%	28,563,864	0.22%	25,525,880	0.19%
	21,558,664	0.17%		
0.19%	22,934,274	0.18%	23,391,289	0.17%
0.25%	30,747,509	0.24%	31,362,458	0.23%
0.21%	26,135,962	0.20%	28,864,942	0.21%
0.43%	51,934,313	0.41%	52,972,998	0.39%
0.22%	26,411,820	0.21%	33,069,058	0.24%
0.45%				
0.37%				
			89,141,472	0.66%
0.20%			25,752,231	0.19%
0.34%	46,150,577	0.36%	47,777,432	0.35%
	200,844,610	1.57%	204,861,501	1.52%
1.22%	149,208,182	1.17%	152,166,578	1.13%
0.36%	43,919,879	0.34%	44,781,377	0.33%
0.27%	33,530,374	0.26%	34,200,980	0.25%
			56,244,782	0.42%
0.93%	113,507,640	0.89%	115,777,792	0.86%
0.72%	87,393,600	0.68%		
7.66%	\$ 1,061,033,843.00	8.29%	\$ 1,127,696,808.00	8.35%
	\$12,793,751,423		\$13,509,034,656	

Tax Levied



Value of Property



Fiscal Year	Town Property Tax Levied and Collected	Redevelopment Agency Property Tax Levied and Collected	Total Property Tax Levied and Collected	Value of Town Property subject to Local Tax Rate	Value of Redevelopment Agency Property Subject to Local Tax Rate	Value of Property Subject to Local Tax Rate
2011	7,567,880	6,861,650	14,429,530	8,262,045,836	1,117,973,351	9,380,019,187
2012	7,520,265	3,349,254	10,869,519	8,369,756,750	1,109,305,673	9,479,062,423
2013	8,253,442	-	8,253,442	8,676,688,641	1,167,752,021	9,844,440,662
2014	9,120,626	-	9,120,626	9,462,896,402	1,249,873,303	10,712,769,705
2015	9,787,519	-	9,787,519	9,995,113,547	1,318,214,863	11,313,328,410
2016	10,388,424	-	10,388,424	10,634,839,902	1,395,509,489	12,030,349,391
2017	11,345,588	-	11,345,588	11,544,997,211	1,537,577,241	13,082,574,452
2018	12,060,228	-	12,060,228	12,299,554,149	1,650,746,473	13,950,300,622
2019	12,924,592	-	12,924,592	13,154,669,768	1,717,358,555	14,872,028,323
2020	13,559,587	-	13,559,587	13,842,193,548	1,809,729,058	15,651,922,606

Sources: Santa Clara County Auditor-Controller Office and the Town of Los Gatos

Fiscal Year	Governmental Activities						
	1992 Certificate of Participation	2002 Certificate of Participation	2010 Certificate of Participation	Total Governmental Activities	Total Primary Government	Percentage of Personal Income	Per Capita
2011	240,000	8,865,000	15,675,000	24,780,000	24,780,000	19.7%	835.72
2012	-	-	-	-	-	0.0% ¹⁾	0.00
2013	-	-	-	-	-	0.0%	0.00
2014	-	-	-	-	-	0.0%	0.00
2015	-	-	-	-	-	0.0%	0.00
2016	-	-	-	-	-	0.0%	0.00
2017	-	-	-	-	-	0.0%	0.00
2018	-	-	-	-	-	0.0%	0.00
2019	-	-	-	-	-	0.0%	0.00
2020	-	-	-	-	-	0.0%	0.00

¹⁾ Debt was transferred to the Successor Agency Trust Fund as a part of the RDA dissolution

2019/20 Assessed Valuation:

\$13,842,193,548

	% Applicable	(1)	Total Debt at June 30, 2020	Estimated Share of Direct and Overlapping Debt at June 30, 2020
DIRECT AND OVERLAPPING BONDED DEBT:				
Overlapping Tax & Assessment Debt				
Santa Clara County	2.685%		\$ 881,455,000	\$ 23,667,067
West Valley-Mission Community College District	9.282%		\$ 617,330,000	\$ 57,300,571
Campbell Union High School District	7.875%		\$ 369,655,000	\$ 29,110,331
Los Gatos-Saratoga Joint Union High School District	34.723%		\$ 88,930,000	\$ 30,879,164
Cambrian School District	0.454%		\$ 48,499,944	\$ 220,190
Campbell Union High School District	7.818%		\$ 218,860,233	\$ 17,110,493
Los Gatos Union School District	71.118%		\$ 76,655,000	\$ 54,515,503
Saratoga Union School District	0.032%		\$ 21,227,353	\$ 6,793
Union School District	20.485%		\$ 112,109,206	\$ 22,965,571
Midpeninsula Regional Open Space District	4.423%		\$ 88,810,000	\$ 3,928,066
Santa Clara Valley Water District Benefit Assessment District	2.685%		\$ 65,495,000	\$ 1,758,541
Total Overlapping Tax and Assessment Debt				\$ 241,462,290
Overlapping General Fund Debt				
Santa Clara County General Fund Obligations	2.685%		\$ 966,725,100	\$ 25,956,569
Santa Clara County Pension Obligations	2.685%		\$ 346,996,639	\$ 9,316,860
Santa Clara County Board of Education Certificates of Participation	2.685%		\$ 3,480,000	\$ 93,438
West Valley-Mission Community College District General Fund Obligations	9.282%		\$ 50,780,000	\$ 4,713,400
Campbell Union High School District General Fund Obligations	7.875%		\$ 20,000,000	\$ 1,575,000
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	34.723%		\$ 2,634,000	\$ 914,604
Campbell Union School District General Fund Obligations	7.818%		\$ 2,440,000	\$ 190,759
Saratoga Union School District Certificates of Participation	0.032%		\$ 3,150,000	\$ 1,008
Santa Clara County Vector Control District Certificates of Participation	2.685%		\$ 2,010,000	\$ 53,969
Midpeninsula Regional Open Space Park District General Fund Obligations	4.423%		\$ 111,985,600	\$ 4,953,123
Total Gross Overlapping General Fund Debt				\$ 47,768,730
Less: Santa Clara County Supported Obligations				\$ 1,969,609
Total Overlapping General Fund Debt				\$ 45,799,121
Overlapping Tax Increment Debt (Successor Agency)				
Town of Los Gatos Certificated of Participations				\$ 15,335,000
Total of Overlapping Tax Increment Debt				\$ 15,335,000
Total Direct Debt				\$0
Total Gross Overlapping Debt				\$ 304,566,020
Total Net Overlapping Debt				\$ 302,596,411
Gross Combined Total Debt				\$ 304,566,020 (2)
Net Combined Total Debt				\$ 302,596,411

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue bonds and non-bonded capital lease obligations.

Ratios to 2019/20 Assessed Valuation:

Total Overlapping Tax and Assessment Debt: 1.74%

Total Direct Debt: 0.00%

Gross Combined Total Debt: 2.20%

Net Combined Total Debt: 2.19%

Ratios to Redevelopment Incremental Valuation (\$1,471,897,930):

Total Overlapping Tax Increment Debt: 1.040%

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Town of Los Gatos
Legal Debt Margin Information,
Last Ten Fiscal Years
(In Thousands of Dollars)

	Fiscal				
	2010/11	2011/12	2012/13	2013/14	2014/15
Debt Limit	\$ 1,204,551	\$ 1,195,035	\$ 1,216,131	\$ 1,263,138	\$ 1,379,254
Debt Applicable to Limit	-	-	-	-	-
Legal Debt Margin	\$ 1,204,551	\$ 1,195,035	\$ 1,216,131	\$ 1,263,138	\$ 1,379,254
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	0.00%	0.00%	0.00%	0.00%	0.00%

Notes:

- (1) The Town of Los Gatos is a general law city and has a debt limit of 15%.
- (2) Excludes RDA assessed valuation and debt transferred to the Successor Agency trust as a part of the RDA dissolution.

Legal Debt Margin Calculation
for Fiscal Year 2019/20

Assessed Value	\$ 13,842,193,548
Debt Limit	2,076,329,032
Debt Applicable to Limit:	
Legal Debt Margin	<u><u>\$ 2,076,329,032</u></u>

Fiscal Year				
2015/16	2016/17	2017/18	2018/19	2019/20
\$ 1,444,943	\$ 1,556,252	\$ 1,679,736	\$ 1,789,097	\$ 2,076,329
-	-	-	-	-
\$ 1,444,943	\$ 1,556,252	\$ 1,679,736	\$ 1,789,097	\$ 2,076,329

0.00% 0.00% 0.00% 0.00% 0.00%

Fiscal Year Ended	Population (1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income (3)	Median Age (4)	Public School Enrollment (5)	County Unemployment Rate (6)
2011	29,651	1,833,410	61,833	44.22	6,184	10.3%
2012	29,808	1,854,892	62,228	42.64	6,352	8.7%
2013	30,247	2,140,641	70,772	45.8	6,420	6.8%
2014	30,443	2,267,912	74,497	45.80	6,522	5.7%
2015	30,505	2,197,885	72,050	46.10	6,622	3.8%
2016	31,376	2,286,087	72,861	46.30	6,646	3.5%
2017	31,314	2,281,569	72,861	46.50	6,631	3.8%
2018	30,601	2,290,638	74,855	46.81	6,588	2.6%
2019	30,998	2,365,178	76,301	46.72	6,544	2.6%
2020	31,439	2,546,748	81,006	46.83	6,520	10.7%

Source:

- (1) California State Dept. of Finance - Population Research Unit (January 2019)
- (2) California State Dept. of Finance - Estimate equals county per capita average times population
- (3) US Census Bureau - QuickFacts
- (4) Claritas demographic snapshot report
- (5) Los Gatos Saratoga Joint Union and Los Gatos Union Elementary School Districts
- (6) State of California, Employment Development Dept., Labor Market Info. Div.

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Town of Los Gatos
Principal Employers
Last Ten Fiscal Years

	2010/11		2011/12	
	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment
<u>Principal Employers</u>				
Columbia Health Care Assoc/Mission Oaks Hospital	2,000	12.60%	2,000	13.89%
El Camino Hospital, Los Gatos	700	4.41%	700	4.86%
Los Gatos Union School District	300	1.89%	275	1.91%
Los Gatos-Saratoga High School District	300	1.89%	270	1.88%
Netflix	800	5.04%	800	5.56%
Safeway	250	1.57%	250	1.74%
Alain Pinel Realtors	220	1.39%	150	1.04%
Verizon	-	0.00%	-	0.00%
Courtside Tennis Club	200	1.26%	200	1.39%
Town of Los Gatos	138	0.87%	136	0.94%
Whole Foods	-	0.00%	-	0.00%
Vasona Creek Health Care Center	-	0.00%	-	0.00%
Good Samaritan Regional Cancer Center	-	0.00%	-	0.00%
Roku	-	0.00%	-	0.00%
Terraces of Los Gatos	-	0.00%	-	0.00%

Source: Town of Los Gatos, Finance Department and Muniservices

2012/13		2013/14		2014/15	
Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment
2,000	13.29%	2,000	13.52%	-	0.00%
700	4.65%	700	4.73%	560	3.73%
275	1.83%	237	1.60%	273	1.82%
270	1.79%	256	1.73%	157	1.05%
900	5.98%	825	5.58%	1,530	10.19%
250	1.66%	250	1.69%	314	2.09%
150	1.00%	156	1.05%	156	1.04%
-	0.00%	-	0.00%	-	0.00%
200	1.33%	295	1.99%	440	2.93%
138	0.92%	144	0.97%	157	1.05%
-	0.00%	-	0.00%	179	1.19%
-	0.00%	-	0.00%	233	1.55%
-	0.00%	-	0.00%	200	1.33%
-	0.00%	-	0.00%	-	0.00%
-	0.00%	-	0.00%	-	0.00%

Principal Employers

	2015/16		2016/17	
	Percentage of Total Town Employment		Percentage of Total Town Employment	
	Emp.		Emp.	
Columbia Health Care Assoc/Mission Oaks Hospital	-	0.00%	-	0.00%
El Camino Hospital, Los Gatos	560	3.53%	560	3.49%
Los Gatos Union School District	280	1.76%	274	1.71%
Los Gatos-Saratoga High School District	157	0.99%	370	2.30%
Netflix	1,976	12.45%	1,864	11.61%
Safeway	314	1.98%	314	1.95%
Alain Pinel Realtors	146	0.92%	148	0.92%
Verizon	-	0.00%	-	0.00%
Courtside Tennis Club	440	2.77%	468	2.91%
Town of Los Gatos	158	1.00%	160	1.00%
Whole Foods	179	1.13%	179	1.11%
Vasona Creek Health Care Center	233	1.47%	233	1.45%
Good Samaritan Regional Cancer Center	200	1.26%	200	1.25%
Roku	487	3.07%	554	3.45%
Terraces of Los Gatos	228	1.44%	228	1.42%

2017/18		2018/19		2019/20	
Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment
	0.00%		0.00%		0.00%
560	3.43%	560	3.49%	560	3.49%
267	1.64%	281	1.75%	281	1.75%
367	2.25%	367	2.28%	367	2.28%
2,117	12.98%	2,314	14.41%	2,314	14.41%
314	1.92%	314	1.95%	314	1.95%
131	0.80%	131	0.82%	131	0.82%
	0.00%		0.00%		0.00%
542	3.32%	542	3.37%	542	3.37%
159	0.97%	160	1.00%	160	1.00%
179	1.10%	125	0.78%	125	0.78%
233	1.43%	233	1.45%	233	1.45%
200	1.23%	200	1.25%	200	1.25%
664	4.07%	516	3.21%	516	3.21%
228	1.40%	228	1.42%	228	1.42%

Town of Los Gatos
Full-time-Equivalent Employees by Function/Program
Last Ten Fiscal Years

Schedule 14

Function/Program	Full-time-Equivalent Employees as of June 30									
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
General Government	18.90	20.15	20.40	20.73	20.97	20.97	21.35	21.97	22.16	21.80
Police	59.50	60.50	58.00	57.50	60.00	59.00	59.00	59.00	59.00	60.00
Culture and Recreation	3.25	-	-	-	-	-	-	-	-	-
Economic Development	1.00	1.00	-	0.50	0.63	0.63	0.63	0.75	0.75	0.75
Library	8.60	8.60	8.60	10.30	10.80	11.00	12.25	12.25	12.50	12.50
Planning	15.00	16.00	17.50	17.50	19.50	19.00	19.26	19.63	20.08	20.08
Public Works	32.50	32.00	31.00	31.50	32.00	33.50	33.50	34.50	34.50	34.50
Total	147.75	138.75	138.25	135.50	137.53	144.10	145.98	148.10	148.99	149.63

Full-time equivalent employment is calculated as one or more employee positions totaling one full year of service or approximately 2,080 hours a year.

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FUNCTION/PROGRAM

	2010/11	2011/12	2012/13	2013/14
General government				
Building Permits Issued				
Residential Permits Issued	711	747	738	813
Residential Permits Value	42,974,043	66,072,341	75,227,889	87,307,822
Commercial Permits Issued	128	107	137	139
Commercial Permits Value	31,289,431	17,663,124	46,855,615	138,676,507
Publically Owned Permits Issued	11	-	-	-
Publically Owned Permits Value	40,000	-	-	-
Residential Parking Permits				
Number of Special Event Permits Issued	96	89	125	133
Number of Annual Permits Issued	713	1,223	1,320	1,376
City Clerk				
Number of Council Resolutions Passed	76	59	74	86
Number of Ordinances Passed	6	13	20	16
Number of Contracts Passed	218	227	220	196
General Services				
Number of Purchase Orders Issued	336	358	318	301
Police				
Physical Arrests	872	690	648	641
Parking Violations	14,377	12,938	11,991	14,421
Traffic Violations	2,718	2,908	3,333	4,747
DUI Arrests	98	89	86	62
Library				
Circulated e-audiobooks	1,994	3,388	4,774	2,414 *
Other Public Works				
Street Resurfacing/Overlay/Reconstruction (miles)	4.7	8.0	8.0	10.0
ADA Compliance: Curb Ramps	17	19	19	19
Traffic Circles	1	1	1	-
Street Poles	1,708	1,611	1,611	1,611
Planning and Development Department				
Building & Safety Inspections Performed	10,977	11,738	11,902	12,764
Redevelopment: Number of active projects	1	1	-	-

* July 2013 the Library separated from Northern CA Digital Library, Patrons had no longer access to collections of multiple libraries. By 2014 patrons access to more materials.

** The Town streamlined the special event application where multiple events require only one permit.

Fiscal Year					
2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
805	899	744	849	814	898
76,896,111	85,000,754	53,625,891	63,083,249	80,030,846	47,961,529
133	147	135	105	122	92
178,195,997	20,185,884	50,024,177	16,626,196	13,295,999	12,389,688
-	-	-			
-	-	-			
127	107	118	113	78	**
1,570	1,363	1,251	1,342	1,395	1,400
72	61	69	69	59	57
9	11	5	17	11	24
222	283	240	262	245	242
277	334	331	322	343	359
695	987	1,030	1,164	1,138	616
13,321	13,975	12,863	11,784	6,817	4,023
4,633	5,400	4,634	4,757	2,877	1,225
48	58	60	51	70	64
5,867 *	7,761	10,006	8,844	12,130	57,839
1.8	8.0	10.0	2.6	5.8	16.2
23	11	30	68	49	68
1	1	1	1	1	1
1,609	1,609	1,609	1,762	1,830	1,830
11,652	8,655	14,722	13,918	13,966	13,633
-	-	-	-	-	-

014 the Library has expanded its contents giving

Town of Los Gatos
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Year					
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Police						
Number of Stations	2	2	2	2	2	2
Number of Patrol Units	14	14	14	14	14	14
Parking Enforcement Vehicles	2	2	2	2	2	2
Other Public Works						
Streets (miles)	132	132	132	132	132	132
Streetlights	2,115	2,116	2,116	2,109	1,609	1,609
Traffic Signals	28	29	29	29	29	30
Parks and Recreation						
Number of Parks	12	12	12	12	12	12
Number of Community Centers	1	1	1	1	1	1
Number of Parks & Open Spaces	N/A	N/A	N/A	N/A	N/A	N/A
Parking						
Number of Parking Garages	1	1	1	1	1	1
Number of Parking Lots	22	22	22	22	22	22
Number of Off Street Parking Garage Spaces	1,126	1,126	1,126	1,126	1,126	1,126
Number of Downtown Off-Street Parking Spaces	N/A	N/A	N/A	N/A	N/A	N/A

Source: Town of Los Gatos, Finance Department

<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
2	2	2	2
14	14	14	14
2	2	2	2
132	132	132	132
1,609	1,762	1,830	1,830
30	30	31	31
12	12	N/A	N/A
1	1	1	1
N/A	N/A	17	17
1	1	1	1
22	22	22	22
1,126	1,126	N/A	N/A
N/A	N/A	1,269	1,269

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OTHER INDEPENDENT AUDITOR'S REPORT

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Members of the Town Council
of the Town of Los Gatos
Los Gatos, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos, California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of Los Gatos, California's basic financial statements, and have issued our report thereon dated **December xx, 2020**.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Los Gatos, California's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Los Gatos, California's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Los Gatos, California's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Honorable Mayor and Members of the Town Council
of the Town of Los Gatos
Los Gatos, California
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Los Gatos, California's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Badawi and Associates
Certified Public Accountants
Berkeley, California
December xx, 2020

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11/30/2020

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11/30/2020





**TOWN OF LOS GATOS
COUNCIL FINANCE COMMITTEE
REPORT**

MEETING DATE: 12/7/2020

ITEM NO: 5

DESK ITEM

DATE: December 7, 2020
TO: Council Finance Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Discuss and Provide Comments to the Town Council Regarding the Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.

REMARKS:

Staff received comments from Committee members and the public. Attachment 2 contains Committee Member's comments. Attachment 3 contains public comments received after publication of the Staff report and before 11:01 a.m. Monday December 7, 2020. In addition, one Committee member found typographical errors which will be corrected:

- Page 18, Management discussion bullet 7 should be the continuation of the sentence in bullet 6.
- Page 34, last line should be FY20/21 not FY19/20.

Staff and the Auditor will be available to respond questions during the meeting.

Staff responses to the Committee Members' questions are below.

Questions on the MD&A

Question: Page 19 talks about \$2.2M in increases in intergovernmental grant revenues. What is the source of the grant that contributed to the increase and how are the funds used?

Answer: The majority of the approximate \$2.0M increase in Intergovernmental revenues was attributed to the approximate \$1.0M increase in revenues received from the VTA Measure B funding. There was an additional receipt of approximately \$500K higher revenues received from MTC (\$182K) and from the VTA/TFCA (\$353K) capital grants. All of these monies were dedicated as funding sources for local street and road improvement projects.

PREPARED BY: Stephen Conway
Finance Director

Reviewed by: Town Manager and Assistant Town Manager

REMARKS (continued):

Question: Page 24 note 1 talks about a reclassification of 2019, although the reclassification doesn't appear to be made in the 2019 numbers. What is the dollar amount? And how and when was the misclassification identified? Also, since you disclose the need for the reclassification, do you want to change the 2019 numbers?

Answer: In staff's review of the changes in expenses by fiscal year and functional category in the prior year's Statement of Activities, it was discovered an error had been made in the reversal of the FY 2019 OPEB contributions which was allocated across all departments instead of being limited to the general government category. The credit should have only been charged to general governmental expenses in the prior year. This correction has no effect on net position but changes the expense totals by function. Total expenses did not change but the categories were affected on the Statement of Activities for the prior fiscal year ending June 30. 2019 as follows:

Question: Page 26 discussion of the Governmental Activities Expenses explains the increase in General Government expense is due to large swings in the amount allocated with the current year allocation adjustment increasing costs while the prior year allocation adjustment decreased costs. What is the reason for the large swing?

Answer: Please see the following table for details of error correction.

DETAILS OF FYE 2019 STATEMENT OF ACTIVITIES CORRECTION

Functions/Programs	As Previously Reported	Correct 2019	Reverse Prior Year 2019	REVISED 2019
Expenses: Expenses: Expenses:	2019	OPEB Contrib. Credit	OPEB Contrib Credit	Expense
Police Department	\$ 16,635,726		\$ 1,089,749	\$ 17,725,475
Parks and Public Works	\$ 10,627,716		\$ 482,861	\$ 11,110,577
General Government	\$ 8,163,991	\$ (2,406,637)	\$ 383,505	\$ 6,140,859
Community Development	\$ 5,064,637		\$ 297,983	\$ 5,362,620
Library Services	\$ 3,059,294		\$ 152,539	\$ 3,211,833
Sanitation	\$ 684,673			\$ 684,673
	\$ 44,236,037	\$ (2,406,637)	\$ 2,406,637	\$ 44,236,037

Question: Page 26 discussion of Governmental Activities Expenses explains that Sworn employees received a 4% raise while all Non-sworn and management employees received 3%. What was the reason Sworn officers received a larger increase than the non-sworn employees? I'm particularly sensitive to this given the much larger per person pension costs for sworn officers.

REMARKS (continued):

Answer: In recognition for POA's willingness to contribute to the Town's unfunded pension liability, they received a slightly higher raise than non-sworn employees. Sworn employees also did not receive the 1.5% one-time bonus that the other bargaining units received in 2018.

Question: Page 27 indicates there is \$700K in the Restricted Fund Balance that represents amounts placed in an IRS Section 115 trust. Restricted cash in the Government Fund on the Governmental Funds balance sheet reflects a similar amount. When do you expect to pay the funds to the Section 115 IRS Trust?

Answer: The funds have been placed in a CEPPT (IRS 115 qualified Trust). These funds are anticipated to be used in FY 20/21 to pay off a selected amortization base (CalPERS liability) as identified and recommended to the Town Council by staff after consultation with the Town's Finance Commission and the Town's actuary, Bartel and Associates.

Question: Page 28 indicates the Governmental Funds Balance Sheet has \$4.5M identified in the Committed Fund Balance for additional discretionary payments toward pension and OPEB unfunded liabilities. How do you expect to use the \$4.5M and when will the funds in the Committed Reserve be utilized/paid to CALPERS?

Answer: \$3.6M of the General Fund Pension/OPEB reserve was used in July 2020 for additional discretionary payment made to CalPERS, the balance will be available to fund future ADP's to pay down the Town's unfunded pension liability.

Question: Page 29 has a table of Total Governmental Funds Revenues, Expenditures and Changes in Fund Balances year over year. How does the \$4.8M in Intergovernmental Revenues tie to the aggregate of the \$8,854K plus \$850K for Grants and Contributions in the Town-wide Statement of Activities on page 41, and to the \$2.2M increase over prior year receipts for "intergovernmental (grants) revenues" on page 19?

Answer: Intergovernmental revenues is just one subset of Grants and Contributions which included contributions from Non Gov sources. The total Operating Grants and Contributions (\$3,854,188) and Capital Grants and Contributions (\$850,111) reported on page 41 of the draft CAFR appear to add to \$4,704,301. (Intergovernmental listed under program revenue include; public safety sales tax & supp law enforcement grant, PPW includes Measure B & gas tax.)

Question: Page 32 discusses General Fund Variances from budget for revenues and expenditures. It indicates that 5 revenue categories declined a total of \$3.2M due to COVID over 4 months. If you annualize the 4 months to a year, it is \$9.7M. Total revenue for the year from these 5 categories per the Statement on page 48 is \$18,179K. This implies that for the 4 month period, revenues from these 5 categories declined 53%. Is this a realistic analysis, and if so, how much does the current 2020-2021 budget assume revenue from these categories decline over prior year non COVID impacted revenue?

REMARKS (continued):

Answer: The variance from budget is not equivalent to a revenue decline per se. Revenues could actually improve from the prior fiscal year but still have a negative variance from budget if the budget had forecasted larger growth than was met in the actuals collected. The variance from budget is for the entire fiscal year, though a major factor, not all of the variance from budget was due to COVID 19. Staff will be providing an update to major revenue trends in FY 20/21 on December 15, 2020.

Question: Page 34 under Economic Factor and Next Year's Budgets talks about the Town having identified contingencies should there be a revenue shortfall. Without going into specifics, what are the nature and type of actions the Town would consider?

Answer: Possible contingencies include the use of one-time revenues, operational savings initiatives, and the possible use of reserves upon recommendation by staff and Town Council approval.

Questions on the Basic Financial Statements

Statement of Position—Town-wide

Question: Why the \$11.7M decrease to \$22.3M in Nondepreciable assets year over year? Note 5 indicates there were \$13.97M of Transfers and Retirements. Was this change primarily transfers of completed projects for street infrastructure that are now depreciable?

Answer: These changes in asset classification reflect amounts held in construction in progress (non-depreciable) that upon completion in FY 19/20 were reclassified and become "depreciable" assets once completed and placed into service.

Statement of Activities—Town-wide

Question: Compensated absences liability is growing. Can the Town do anything to manage it down, potentially to conserve cash, even if it's necessary to wait to address in the next labor negotiations?

Answer: Compensated absence accruals are the result of labor negotiations with all the Town bargaining units. There are leave balance caps on some of the leave types.

Governmental Funds Balance Sheet

Question: It looks like you broke Capital projects into 2 categories this year. The total of the 2 reserves increased \$4.7M. What is the purpose of splitting the account into 2 categories? Also, from Note 8, it looks like the Capital Projects fund increased from \$4.3M to \$12.2M year over year? Why the large increase that was effectively a transfer from the Capital/Special Projects fund?

REMARKS (continued):

Answer: The use of the title was to keep it distinct from the General Fund's Capital and Special Projects Reserve for tracking purposes. If the same title was used for the GFAR fund balance it would be combined into a much larger amount than the amount that correlates specifically to the General Fund Reserve for Capital and Special Projects. All amounts in GFAR not restricted or assigned for parking or Comcast PEG are considered assigned for capital projects.

Question: What is the Market Fluctuations Reserve? How does it differ from other reserves, if it is?

Answer: Market Fluctuations is an assigned reserve to identify fund balance for unrealized investment gains recorded as interest revenue for the year under GASB 31 that are not available as a cash asset unless sold. The Town typically holds all of its investments until maturity.

Question: Note 8: I would suggest that the purpose of the Capital Projects Reserve Fund and the Market Fluctuations Reserve Fund also be disclosed in Note 8.

Answer: Noted. We had no balance the prior year in Market Fluctuations, staff will add a short description to the CAFR footnote.

Reconciliation of Governmental Funds Balance Sheet to Government-Wide Net Position—
Governmental Activities

Question: What is reason for 8.5% decrease in Allocation of Internal Service Funds Net Position to \$7,731 amount from the prior year of \$8,454?

Answer: The primary reason can be found on page 115 of the June 30, 2020 CAFR Combining Statement of Revenues and Changes in Net Position. The Town's Facilities Maintenance fund transferred out \$788K to the Town's GFAR fund in FY 19/20 to fund five separate projects as planned in Town's FY 19/20 Capital Improvement plan including \$183K of ADA Restrooms in the Adult Recreation Building, \$300K for ADA restrooms and HR offices, \$30K for Civic Center Plaza Railings, \$75K for waterproofing, and \$200K for fire suppression for the Town's IT Server Room. An additional 580K was also transferred out of the Equipment Replacement Fund to provide funding source for the Computer Aided Dispatch \$525K and \$55K to the Town's General Fund for Body Worn Cameras and Energy Weapons. These reductions in net position were offset by a \$1.1M transfer from the Town's General Fund to the Town's Workers Compensation Internal Service fund to provide additional resources to address future claims. The effect of these transfers (\$306K) and use of Equipment Replacement net position to purchase scheduled fleet and equipment replacements (\$540K) were the primary drivers of the overall \$723K reduction in net position between fiscal years.

REMARKS (continued):

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance—page 46

Question: Note 4 explains the nature of the Transfers in and out, but it doesn't give the dollar magnitude of any of the categories. For transfers that are reported as \$1M or more in the footnote, what are the dollar amounts for capital projects & outlays, lease or debt payments, operating expense, and low and moderate-income housing projects in the General Fund, Appropriated Reserve Fund, and Internal Service Funds transfers?

Answer: The table in note 4 is a standard note presentation of fund transfers in and out between Town funds that is found in most governmental CAFRS. The most significant transfers were transfers out of the Town's General Fund \$6,982,591 to the Town's GFAR fund to provide funding sources for the Town's capital improvement plan. The General Fund also transferred \$1,061,256 to the Worker's Compensation Internal Service Fund as described in the answer regarding the change in total net position in the Internal Service funds. There were no transfers for lease or debt service payments or low and moderate income housing projects, this is legacy language that could be omitted in the final draft. The transfers out of Internal Service funds were also discussed previously in the discussion of the change in Internal Service Fund net position.

General Fund Statement of Revenues, Expenditures and Changes in Fund Balance—Budget to Actual

Question: When comparing Actual results to the Final Budget, the Town has a negative variance for every operating revenue account which is a swing from the prior year when the Town had a positive variance in all categories except 2 of the smaller accounts. The revenue variance in 2019 was a positive \$2.4M and the variance in 2020 was a negative \$1.6M, a swing of \$4.0 million. The explanation on page 32 of the MD&A on the impact from COVID explains \$3.2M of the swing. But even in the absence of COVID there is still a \$600K decline in the favorable revenue variance. In addition, the favorable Expenditures variance declined significantly in 2020 from \$7.3M to \$3.7M year over year. The swing appears to be more than a statistical budgetary aberration. Was there a structural reason for the decline in favorable variances? I did not in the discussion on pages 32 and 33, there continued to be favorable expense variance incurred for unfilled staff positions.

Answer: The bulk of the variance from budget is attributed as you have mentioned to the economic impacts of the COVID -19 pandemic. There are other factors which may have played a role such as the cyclical nature of private development and its effects on building permit revenues and charges for services. Other revenues impacted were lower parking fines due to Council approved changes to downtown parking enforcement to aid the downtown's economic recovery and rent forgiveness for use of Town facilities. These actions, among other factors, could be considered additional collateral effects to revenues sustained as a result of the COVID-19 pandemic. (sale of land was not completed until FY 2021)

REMARKS (continued):

Proprietary Funds—Internal Service Funds Statement of Revenue, Expenses and Changes in Net Position—page 51

Question: Why did the Charges for services decrease for 13% year over year to \$3,029K. Were services less or costs of services reduced?

Answer: IT Internal Service Fund charges were reduced because staff charges were moved to the General Fund and funded there with General Fund operating revenues. The reduction in staffing costs allowed the Charges for Services charged to Town departments for IT services to be lowered to recover non-personnel costs which are still paid out of the IT Internal Service Fund. (Two smaller internal service funds closed with activity now accounted for in the general Fund)

Question/Observation: It would be very useful for the Town Council to have a standalone paragraph on page 3 discussing the COVID impact on revenue in Q4. You discuss how much sales tax went down, but knowing the actual decline in Q4 revenue for all fees and taxes in Q4 would allow a better forecast of decreased revenue in 2021.

Answer: The CAFR document includes much discussion of COVID-19 anticipated impacts to the FY 20/21 budget in the MD&A's Economic Factors and Next Year's Budgets and Rates section beginning on page 34 through page 36 of the draft CAFR.

Question: On page 4, it would be very good to note as on page 24 a \$4,000,000 decline in net position in 2020 compared to 2019.

Answer: There was actually a small increase to total net position of \$32,000 between FY 2020 and 2019.

Question: On page 4 in the pension paragraph detailing amounts, add that the liabilities are based on a 7.15% investment return and a change of 1% would result in an increased liability of \$X as shown on page 84 and also that the 2020 CalPERS return was 4.7%. Want to give more perspective that the liability is understated.

Answer: The measurement period for the net pension liability is actually presented in the June 30, 2020 CAFR is actually as of June 30, 2019. CalPERS reported a return on asset for the fiscal year ended June 30, 2019 of 6.7%. Net pension liability is presented fairly according to generally accepted accounting principles. The following paragraph on page 4 provides detailed cautionary language that the selection and potential changes in underlying pension assumptions could result in obligations being higher or lower and directs the reader to the discount rate sensitivity in Note 9.

Question: On page 4, in the third paragraph, delete "from zero in 2019." Duplicative.

Answer: Noted.

REMARKS (continued):

Question: On page 18 in the second bullet point paragraph, may want to add the page 29-line of 2020 excess revenues over expenditures of negative \$4,350,379 compared to a positive \$221,363 in 2019. Shows a \$4 million decline year on year.

Answer: The increase in governmental expenditures is explained more thoroughly on page 30 of the MD&A. The increase largely resulted from the General Governmental expenditures recording a \$4.8M expenditure related to the October 2019 additional discretionary payment made to CalPERS.

Question: On page 25, new operational and capital grants of \$1.3 million were noted. Are these recurring or one-time?

Answer: The increase was largely attributable to increases receipt of VTA Measure B grant funding. Part of the VTA grants are formula based, the others are based on a competitive basis with other governments.

Question: On page 26, the paragraph on salary increases should note the effective date and the \$ impact in 2020.

Answer: Noted.

Question: On page 35, in the pension paragraph add that the 2020 CalPERS return was 4.7%.

Answer: Noted. The pension discussion on page 35 reports the June 30, 2019 measurement date. CalPERS return for that fiscal year was 6.7%. To help illustrate the variability of future investment returns staff added the table on page 82 which reflects CalPERS short-term, long-term, and blended expected rate of return for the PERF fund.

Question: On page 48, why was interest under forecast by \$1.6 million?

Answer: Page 48 reports a positive variance of \$1.6M (interest revenues exceeding budget) mostly due to a dramatic decline of prevailing interest leading to an approximate \$1.2M GASB 31 "mark to market" increase to interest earned at June 30, 2020. At time of the FY 19/20 budget preparation, interest rates were slowly stable, tending to slowly fall or remain flat, hence no expectation of large portfolio market gains based on prevailing rates. The Town holds its investments to maturity so it would not be wise to budget the speculative interest gain as an operational revenue as the Town would have to sell its positions in the bonds in order to actually receive this market value gain in cash.

Question: On page 48, what was the anticipated sale gain of \$1.2 million that did not occur?

Answer: The anticipated sale was the Town's Winchester lot (fire station parcel) sold to the County's Central Fire District. Escrow on the sale was finalized and payment received in July 2020.

SUBJECT: Draft Comprehensive Annual Financial Report for the Fiscal Year Ended
June 30, 2020

DATE: December 7, 2020

REMARKS (continued):

Question: On page 81, in the discount rate paragraph line 6 delete "adequate and the use of" and insert "used rather than the municipal bond rate" and delete "calculation is not necessary."

Answer: Noted however the language is the standard GASB 67 disclosure for this item. The result of the mandated cash flow calculation tests determines which discount rate to be utilized

Question: On page 95 under COVID, need to have more specific dollar estimates of declines in revenue in 2021, including actual declines in Q4 2020.

Answer: FY 2020/21 revenue estimates will be discussed at Town Council on December 15, 2020. Because of the nature of sales taxes collected in the Town, it is not possible to discern specific dollar amounts related exclusively to COVID-19 versus other factors.

Attachment (previously distributed):

1. Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.

Attachment (distributed with this Desk Item):

2. Committee Member Comments
3. Public Comment Received after distributing the Staff Report and before 11:01 a.m. Monday December 7, 2020.

Comments from Terry Duryea, Finance Committee Member:

Hi Laurel, Arn and Steve

Hope each of you are weathering the unrelentless, but rainless, Covid storm as well as possible.

Here are my comments, which are mostly questions, on the draft CAFR. The questions are to help better understand the 2020 financial story and reasons for changes from 2019. I also have one key question on the impact of Covid on 2020/2021 based on the 4 month impact on 2020 that I'd like you to address. I've tried to include questions on the basic financial statements only if I couldn't find the answers in the MD&A.

Questions on the MD&A

- Page 19 talks about \$2.2M in increases in intergovernmental grant revenues. What are the source of the grant the contributed to the increase and how are the funds used?
- Page 24 note 1 talks about a reclassification of 2019, although the reclassification doesn't appear to be made in the 2019 numbers. What is the dollar amount? And how and when was the misclassification identified? Also, since you disclose the need for the reclassification, do you want to change the 2019 numbers?
- Page 26 discussion of the Governmental Activities Expenses explains the increase in General Government expense is due to large swings in the amount allocated with the current year allocation adjustment increasing costs while the prior year allocation adjustment decreased costs. What is the reason for the large swing?
- Page 26 discussion of Governmental Activities Expenses explains that Sworn employees received a 4% raise while all Non-sworn and management employees received 3%. What was the reason Sworn officers received a larger increase than the non-sworn employees. I'm particularly sensitive to this given the much larger per person pension costs for sworn officers.
- Page 27 indicates there is \$700K in the Restricted Fund Balance that represents amounts placed in an IRS Section 115 trust. Restricted cash in the Government Fund on the Governmental Funds balance sheet reflects a similar amount. When do you expect to pay the funds to the Section 115 IRS Trust?
- Page 28 indicates the Governmental Funds Balance Sheet has \$4.5M identified in the Committed Fund Balance for additional discretionary payments toward pension and OPEB unfunded liabilities. How do you expect to use the \$4.5M and when will the funds in the Committed Reserve be utilized/paid to CALPERs?
- Page 29 has a table of Total Governmental Funds Revenues, Expenditures and Changes in Fund Balances year over year. How does the \$4.8M in Intergovernmental Revenues tie to the aggregate of the \$8,854K plus \$850K for Grants and Contributions in the Townwide Statement of Activities on page 41, and to the \$2.2M increase over prior year receipts for "intergovernmental (grants) revenues" on page 19?
- Page 32 discusses General Fund Variances from budget for revenues and expenditures. It indicates that 5 revenue categories declined a total of \$3.2M due to Covid over 4 months. If you annualize the 4 months to a year, it is \$9.7M. Total revenue for the year from these 5 categories per the Statement on page 48 is \$18,179K. This implies that for the 4 month period, revenues from these 5 categories declined 53%. Is this a realistic analysis, and if so, how much does the current 2020-2021 budget assume revenue from these categories decline over prior year non Covid impacted revenue?

- Page 34 under Economic Factor and Next Year's Budgets talks about the Town having identified contingencies should there be a revenue shortfall. Without going into specifics, what are the nature and type of actions the Town would consider?

Questions on the Basic Financial Statements

Statement of Position—Town wide

- Why the \$11.7M decrease to \$22.3M in Nondepreciable assets year over year? Note 5 indicates there were \$13.97M of Transfers and Retirements. Was this change primarily transfers of completed projects for street infrastructure that are now depreciable?

Statement of Activities—Town wide

- Compensated absences liability is growing. Can the Town do anything to manage it down, potentially to conserve cash, even if it's necessary to wait to address in the next labor negotiations?

Governmental Funds Balance Sheet

- It looks like you broke Capital projects into 2 categories this year. The total of the 2 reserves increased \$4.7M. What is the purpose of splitting the account into 2 categories? Also, from Note 8, it looks like the Capital Projects fund increased from \$4.3M to \$12.2M year over year? Why the large increase that was effectively a transfer from the Capital/Special Projects fund?
- What is the Market Fluctuations Reserve? How does it differ from other reserves, if it is?
- Note 8: I would suggest that the purpose of the Capital Projects Reserve Fund and the Market Fluctuations Reserve Fund also be disclosed in Note 8.

Reconciliation of Governmental Funds Balance Sheet to Government-Wide Net Position—Governmental Activities

- What is reason for 8.5% decrease in Allocation of Internal Service Funds Net Position to \$7,731 amount from the prior year of \$8,454?

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance—page 46

- Note 4 explains the nature of the Transfers in and out, but it doesn't give the dollar magnitude of any of the categories. For transfers that are reported as \$1M or more in the footnote, what are the dollar amounts for capital projects & outlays, lease or debt payments, operating expense, and low and moderate-income housing projects in the General Fund, Appropriated Reserve Fund, and Internal Service Funds transfers?

General Fund Statement of Revenues, Expenditures and Changes in Fund Balance—Budget to Actual

- When comparing Actual results to the Final Budget, the Town has a negative variance for every operating revenue account which is a swing from the prior year when the Town had a positive variance in all categories except 2 of the smaller accounts. The revenue variance in 2019 was a positive \$2.4M and the variance in 2020 was a negative \$1.6M, a swing of \$4.0 million. The explanation on page 32 of the MD&A on the impact from Covid explains \$3.2M of the swing. But even in the absence of Covid there is still a \$600K decline in the favorable revenue variance. In addition, the favorable Expenditures variance declined significantly in 2020 from \$7.3M to \$3.7M year over year. The swing appears to be more than a statistical budgetary aberration. Was there a structural reason for the decline in favorable variances? I did not in the discussion

on pages 32 and 33, there continued to be favorable expense variance incurred for unfilled staff positions.

Proprietary Funds—Internal Service Funds Statement of Revenue, Expenses and Changes in Net Position—page 51

- Why did the Charges for services decrease for 13% year over year to \$3,029K. Were services less or costs of services reduced?

From: [Ronald Dickel](#)
To: [Stephen Conway](#); [Gitta Ungvari](#)
Cc: [Arn Andrews](#); [Laurel Prevetti](#)
Subject: Finance Meeting Monday
Date: Sunday, December 6, 2020 3:29:54 PM

Steve and Gitta

First, thanks Gitta for printing out the CAFR and agenda items. Much appreciated.

I look forward to the discussion Monday, but want to list out the following various comments and questions for discussion. I would appreciate this being distributed appropriately with the Brown Act to members of the finance committee.

Investment Report

Regarding the Investment Report, you have been extending the portfolio's maturities to a weighted average of 556 days, yielding a return of 1.86%. How do you view the risk of increasing maturities? If it was riskless, you would have always had increased maturities before presumably.

Also, assuming that the current treasury and other bonds yields hold steady, how much will the yield of 1.86% decline by the end of FY 2021?

Finally, \$24,500,000 has been withdrawn YTD compared to \$11,800,000 deposited. How does this compare to prior years and do you anticipate more net withdrawals for the year?

CAFR

It would be very useful for the Town Council to have a standalone paragraph on page 3 discussing the COVID impact on revenue in Q4. You discuss how much sales tax went down, but knowing the actual decline in Q4 revenue for all fees and taxes in Q4 would allow a better forecast of decreased revenue in 2021.

On page 4, it would be very good to note as on page 24 a \$4,000,000 decline in net position in 2020 compared to 2019.

On page 4 in the pension paragraph detailing amounts, add that the liabilities are based on a 7.15% investment return and a change of 1% would result in an increased liability of \$X as shown on page 84 and also that the 2020 Calpers return was 4.7%. Want to give more perspective that the liability is understated.

On page 4, in the third paragraph, delete "from zero in 2019." Duplicative.

On page 18 in the second bullet point paragraph, may want to add the page 29 line of 2020 excess revenues over expenditures of negative \$4,350,379 compared to a positive \$221,363 in 2019. Shows a \$4 mln decline year on year.

On page 25, new operational and capital grants of \$1.3 mln were noted. Are these recurring or one-time?

On page 26, the paragraph on salary increases should note the effective date and the \$ impact in 2020.

On page 35, in the pension paragraph add that the 2020 Calpers return was 4.7%.

On page 48, why was interest under forecast by \$1.6 mln?

On page 48, what was the anticipated sale gain of \$1.2 mln that did not occur?

On page 81, in the discount rate paragraph line 6 delete "adequate and the use of" and insert "used rather than the municipal bond rate" and delete "calculation is not necessary."

On page 95 under Covid, need to have more specific dollar estimates of declines in revenue in 2021, including actual declines in Q4 2020.

Thanks for all the hard work on the CAFR in these trying covid times. See you tomorrow.

Ron

Subject: Comments of CAFR

From: Phil Koen <pkoen@monteropartners.com>
Sent: Monday, December 7, 2020 10:22 AM
To: Laurel Prevetti <LPrevetti@losgatosca.gov>
Cc: Marico Sayoc <MSayoc@losgatosca.gov>; Rob Rennie <RRennie@losgatosca.gov>; Stephen Conway <sconway@losgatosca.gov>; Terry Duryea <[REDACTED]>; Ron Dickel <[REDACTED]>; Rick Tinsley <[REDACTED]>; [REDACTED]
Subject: Comments of CAFR

Hello Laurel,

Due to a conflict I will not attend the Finance Committee meeting tonight, so I am sending you my written comments in advance of the meeting for your review and consideration. I have also copied the Finance Committee members on this email.

Since perhaps not all members of the Committee are equally versed in the reporting requirements outline by GASB 34 for the MD&A section of the CAFR, I have attached a brief background piece that discusses those reporting requirements and the linkage to the transmittal letter. Hopefully, everyone will find this educational and helpful.

In an effort to be constructive I have taken the time to redraft the Financial Highlights section of the MD&A with the goal of providing a balanced discussion of both the positive and negative changes from prior year and to provide more disclosure regarding a) the negative unrestricted net position, b) the Town's net pension liability and the cost of the pension plans, and c) the trend in government-wide revenue and expenses. Please note that I have broken the Highlights into a section that discusses Government-Wide results vs. Fund Level results. The current draft does not make that distinction clear.

I am aware that members of the Finance Committee have already shared their comments with you, many of which I agree with. Not wanting to duplicate those comments, I will focus on my top four concerns.

Unrestricted Net Position

On page 18 of the CAFR an explanation of the \$675k decrease in the negative unrestricted net position is provided. I do not agree with the explanation and would ask that the auditors to confirm the explanation. At a high level, the improvement was due to a slightly larger year over year increase in spendable assets and deferred outflows versus the increase in total liabilities and deferred inflows. I am not of the opinion that use of restricted cash to invest in infrastructure is the cause for the slight improvement in unrestricted net position. Additionally, I think it is important to fully disclose that a negative unrestricted net position indicates that the Town does not have sufficient assets to meet its long-term obligations such as the pension and OPEB plans as of the end of the fiscal year. As pointed out in the CAFR, this is not an uncommon occurrence when governments overly rely on a pay-as-you-go model vs funding the accrued liability. Having a negative unrestricted net position is not a positive financial metric and should not be minimized.

Total Net Pension and Deferred Outflows

In the transmittal letter the Town mentions that the net pension liability is \$57.2 million and the OPEB net liability is \$9.1 million. I would suggest that all comments regarding the pension and OPEB liabilities be moved from the transmittal letter to the Highlights section of the MD&A and further comments provided. For example, there is no discussion in the Highlights section that the ADP of \$4.8 million discussed in the transmittal letter is included in the Deferred Outflows

and accounts for the entire increase in Deferred Outflows from prior year. Additionally, there is no disclosure that total pension and OPEB expense in the government-wide expenses totaled \$12.6m and increased 14.6% from prior year. The rate of increase in pension and OPEB expenses relative to the rate of increase in Government-wide total revenues (which grew only 1.1%) has a material impact on the Town's long-term financial health. There needs to be more discussion regarding the recent trends and expected future trends.

Economic Factors, trends affecting the forecasted fund balance and Footnotes 15 and 16

The CAFR discusses the impact of COVID 19 on the Town's financial position in footnote 15. Specifically, it discusses that sale tax and TOT receipts **decreased** in FY 20 from FY 19 **actual levels**. However, the CAFR is confusing in its discussion of the budget for FY 21 and potentially misleads the reader into thinking that the FY 21 budget is conservative in its revenue forecast. Specifically, on page 35 the CAFR discusses that both sales tax and TOT receipts were budgeted to reflect decreases from "**prior year's adopted**" budget, not prior year's actual results. While on the surface that sounds conservative, however, the FY 21 approved budget for both revenue streams represent an **INCREASE** from FY 20 actual levels. In the case of sales tax, the increase is approximately \$400k, and for TOT receipts the increase is also approximately \$400k. Given the prolonged impact of COVID 19 on the local economy, it is highly unlikely that these budgets are to be achieved and it is more likely than not there will be material shortfall from the adopted budget for both tax receipts.

Footnote 15 goes on to mention that the budget identified "contingences should revenues come in below projected amounts" and that the "Town is carefully monitoring actual revenues and expenditures". While that might indeed be the case, the footnote should disclose what those "contingences" are and should also provide the reader with some insight into the likelihood of such contingences being acted upon. I am not aware of any actual revenues or expenditures for Q1 FY 21 being published, so there is no context for the reader to judge the conditions that are expected to have a significant impact on the current year results from operations and financial position.

My concern is further heightened when footnote 16 is taken into consideration. Footnote 16 warns the reader that there could be an additional \$1.2 million negative impact on the FY 21 operating results arising from the claw back of RDA distributions and ERAF distributions. When we combine this with the highly likely shortfall in sales and TOT receipts, the Town could be facing at least \$2.0 million in known potential FY 21 revenue shortfalls. Please note that this does not include other COVID sensitive revenue streams such as permits and fees, and business licenses and it also assumes that sale tax and TOT receipts are equal to prior years. How the Town plans to address a potential material shortfall in revenue should be discussed in the CAFR.

General Fund Unassigned Fund Balance

Again, in FY 20, the Staff has classified the entire general fund balance of \$29.3 million into restricted, committed and assigned fund balances, choosing not to keep any of the general fund balance as unassigned. I believe this misleads the reader into thinking that the assigned fund balances are truly assigned. History has shown that whenever a budget expenditure adjustment is proposed which needs resources to fund, the Staff has pulled such funding from the Capital/Special Projects assigned fund balance. The Capital/Special Projects fund balance has been used to fund everything from incremental headcount, on-going tree trimming services and engineering consultants in addition to funding the Capital Improvement Fund.

GASB 54 addresses the fund balance distinctions. When funds are "assigned", the government is setting these funds aside for the specific purpose identified. This indicates to the reader that the resources are at a minimum intended to be used for that purpose. In the case of the Capital/Special Projects footnote 8 in the CAFR states, "the Capital/Special Projects assigned fund balance will be used for the acquisition and construction of capital facilities as well as special projects or activities as directed by the Town Council."

Given the history of using this fund balance to routinely provide resources for budget expenditure adjustments, I recommend that some amount of the General Fund balance, perhaps \$2 million, remain "unassigned". This will indicate to the reader that these funds are available to the Council to be used as directed and improves the integrity of the

Capital/Special Projects assigned balance. If you look at many cities in Santa Clara county, most have some amount of the General Fund balance as “unassigned”.

There is one other point that should be made while we are discussing fund balances. The resolution passed in June 2020 which approved the fund balance under GASB 54 specifically established a Surplus Property Revenue General Fund Reserve to receive the monies from the sale of surplus property and assigned approximately \$1.2 million to the Surplus Property Reserve as of the closing of FY 20. That reserve does not appear in the General Fund balance sheet presented in the CAFR. Instead there is a new assigned fund balance called “Market fluctuations”. There is no explanation in the CAFR about this change nor the intent of the “market fluctuations” assigned fund balance. Furthermore since the Surplus Property Revenue General Fund Reserve was established by a Council Resolution which would indicate that the reserve is a “committed reserve” like the budget stabilization and catastrophic reserves, I am not sure that the Staff has the power to change this fund designation to a “assigned” fund balance. I am under the impression that only a Council resolution can reassign monies from a committed to an assigned fund balance. This point needs to be closely examined.

Thank you for considering the above. I apologize for the length of this email, but getting the CAFR correct is very important.

Phil Koen