



# TOWN OF LOS GATOS

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

May 6, 2016

Honorable Mayor and Town Council:

I am pleased to present to you a balanced Fiscal Year (FY) 2016/17 Proposed Operating Budget for the Town of Los Gatos. The budget for FY 2016/17 reflects a total Town budget of \$72.3 million, an increase of \$17.6 million or 32% when compared to the FY 2015/16 budget. The Town's proposed total General Fund expenditures are \$46.9 million, an increase of \$9 million or 23% when compared to the FY 2015/16 budget. This increase is the result of a significantly larger apportionment of General Fund capital transfers to other funds for capital projects. The General Fund revenues are budgeted at \$35.5 million (excluding debt payments and fund transfers in), a 1% increase over FY 2015/16 budgeted revenues.

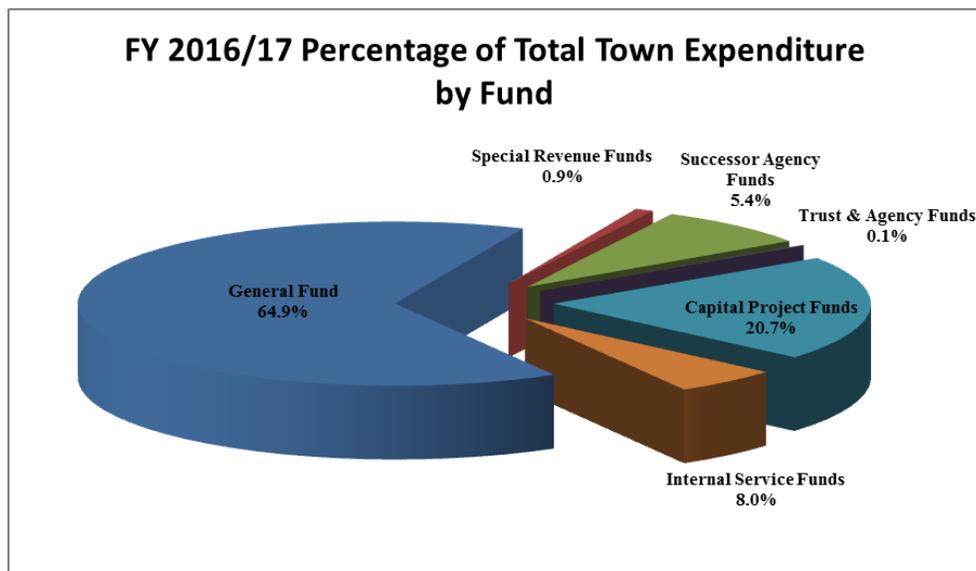
## FY 2016/17 FISCAL OUTLOOK

### Overview

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

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

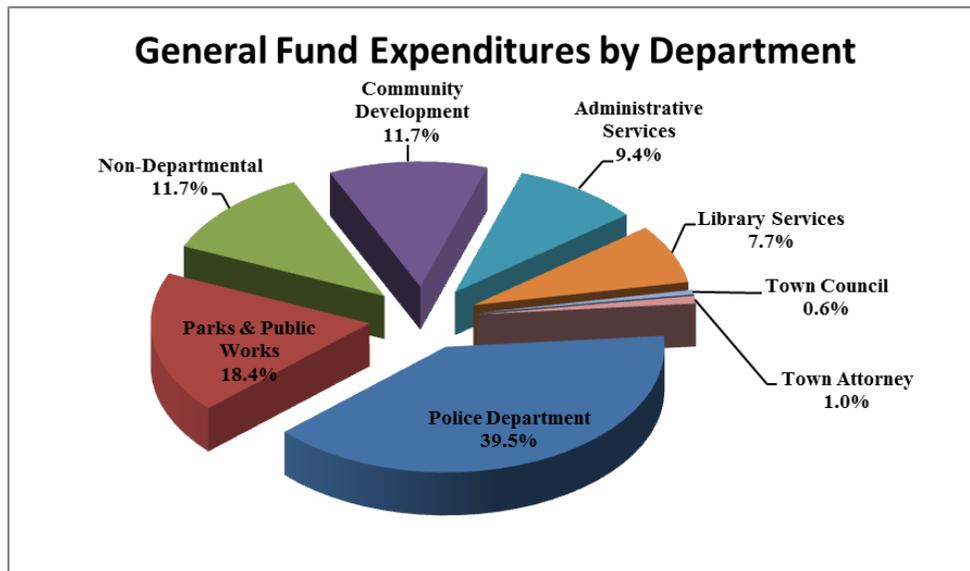
As shown in the chart below, the Proposed Budget is largely funded by the General Fund (64.9%).



### General Fund

The General Fund pays for core services such as public safety, community development, parks and public works, library, and other services. The revenue used to pay for these services comes primarily from local

taxes such as property tax, sales tax, transient occupancy tax, franchise fees, licenses and permits, Town services, fines and forfeitures and a variety of other sources. As illustrated in the chart below, the majority of General Fund revenue supports funding for Police, Parks and Public Works, Community Development, and Library.



General Fund revenue is estimated at \$35.6 million in the FY 2016/17 Proposed Budget, excluding debt service and fund transfers in). This is an increase of \$0.5 million (1%) when compared to the FY 2015/16 Adopted Budget. While increased Property Tax accounts for the majority of the increase in revenue, Vehicle License Fee (VLF) backfill property tax, Transient Occupancy Tax, and Business License Tax have also increased. Sales Tax revenue is projected to decrease over the prior year.

The Town’s General Fund operating budget expenditures for FY 2016/17 have decreased by \$322,940 or 1.4% compared to the prior year’s adopted budget (excluding fund transfers and debt service). These expenditures are comprised of six major categories of costs, including salaries and benefits, grants and awards, internal service charges, operating expenses for supplies and services, and debt service. The delivery of Town services is highly dependent on labor, which makes up 50.2% of budgeted General Fund expenditures for FY 2016/17.

*Internal Service Funds*

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

The total Townwide proposed expenditures for Internal Service charges are \$3,644,534, which is \$48,659 or 1.4% higher than budgeted FY 2015/16 amounts. This increase is primarily attributed to the purchase of several pieces of replacement equipment.

*Capital Projects Fund*

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

The proposed FY 2016/17 Townwide expenditures from the Capital Projects Funds is \$15 million (excluding transfers out) which is inclusive of \$9.9 million in General Fund Appropriated Reserves for the Town’s CIP program.

### Special Revenue Funds

Special Revenue Funds are a fund type used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Special Revenue Funds account for 0.9% of the Town-wide expenditure budget. The Town's largest Special Revenue Fund is the Urban Run-Off Source Fund at approximately \$530,000. The Total proposed Budget for Special Revenue Funds for FY 2016/17 is \$360,000, a decrease of approximately \$50,000 from FY 2015/16 Adopted Budget.

### Trust & Agency Funds

Trust and Agency funds are used to account for assets held by the Town as a trustee agent for individuals, private organizations and other governments. The Town's Trust and Agency Funds are comprised of four trusts established to provide for the servicing of donations and bequests to the Town's Library program. The FY 2015/16 budgeted expenditures in this trust fund total \$67,000.

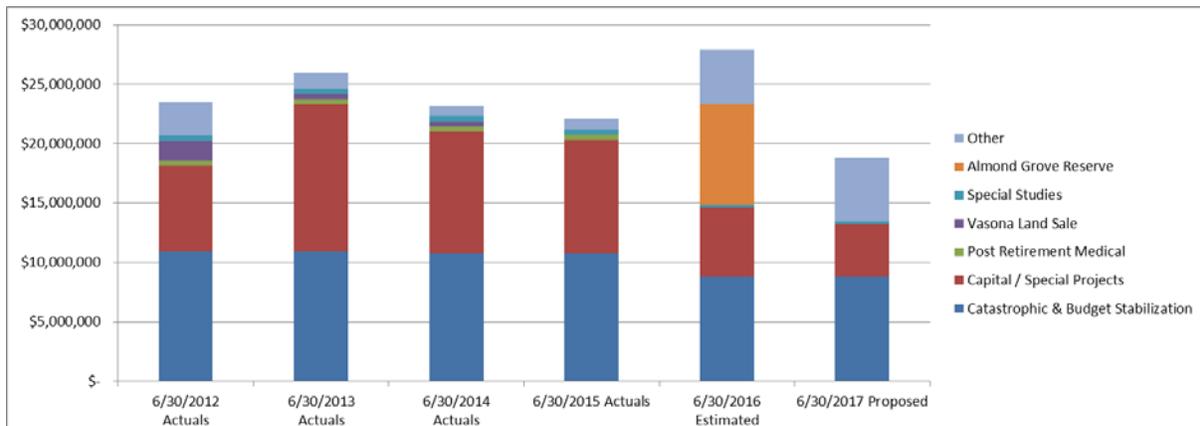
### Successor Agency to the Los Gatos RDA Funds

The Successor Agency to the Los Gatos Redevelopment Agency (RDA) private-purpose trust fund accounts for the assets, liabilities and operations transferred from the dissolution of the Town's RDA, including Certificates of Participation issued to finance several capital improvement projects throughout the Town and repayment of obligations incurred by the Town's RDA prior to its dissolution. The FY 2016/17 budgeted expenditures in this trust fund total \$3.9 million.

### General Fund Reserves

The total General Fund Reserves are forecasted at a balance of approximately \$18.8 million as of June 30, 2017. As indicated in the chart below, the General Fund reserves are decreasing as is to be expected due to the Town's California Public Employees Retirement System (CalPERS) side-fund payoff in June 2014 of \$4.5 million dollars and the transfer to the CIP program of \$9.9 million in FY 2016/17.

Adopted Council policy specifies Catastrophic and Budget Stabilization reserves totaling 25% of General Fund ongoing operating expenditures (12.5% each), or \$8.8 million total for FY 2016/17



Fund Balance Reserves	6/30/2012 Actuals	6/30/2013 Actuals	6/30/2014 Actuals	6/30/2015 Actuals	6/30/2016 Estimated	6/30/2017 Proposed
Catastrophic & Budget Stabilization	\$ 10,900,000	\$ 10,900,000	\$ 10,800,000	\$ 10,800,000	\$ 8,779,822	\$ 8,779,822
Capital / Special Projects	7,265,004	12,427,161	10,218,579	9,511,527	5,841,527	4,441,527
Post Retirement Medical	400,000	400,000	400,000	400,000	-	-
Vasona Land Sale	1,645,329	410,599	411,245	-	-	-
Special Studies	490,000	490,000	490,000	490,000	237,000	237,000
Almond Grove Reserve	-	-	-	-	8,459,973	-
Other	2,787,479	1,349,294	859,294	901,837	4,601,303	5,368,467
<b>Total General Fund Reserves</b>	<b>\$ 23,487,812</b>	<b>\$ 25,977,054</b>	<b>\$ 23,179,118</b>	<b>\$ 22,103,364</b>	<b>\$ 27,919,625</b>	<b>\$ 18,826,816</b>

### *Catastrophic & Budget Stabilization Reserve*

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

### *Capital / Special Projects*

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

### *Post-Retirement Medical*

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

### *Special Studies*

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

### *Almond Grove Reserve*

A reserve for Almond Grove Street Rehabilitation project was established in October 2015.

### *Other*

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

## **Strategic Goals and Priorities**

In September 2015, the Town Council determined the Strategic Priorities for 2015-2017, providing guidance to Town staff on workload prioritization. The Town Council reaffirmed its Core Goals, including: Community Character, Good Governance, Fiscal Stability, Quality Public Infrastructure, Civic Enrichment, and Public Safety.

## **Key Budget Assumptions**

### *Revenues*

The FY 2015/16 Budget assumes healthy economic growth, with the General Fund revenues (excluding debt payments and fund transfers in) expecting to increase by 1% to \$35.5 million. Revenue projections for each category were based upon estimates provided to the Town by Santa Clara County, the Town's sales tax consultant and careful examination of revenue trends and patterns. The economy remains positive which has resulted in staff proposing an increase in operating revenues of \$0.5 million. This is mostly due to forecasted increases in revenues such as Property Tax, Vehicle License Fee (VLF) backfill property tax, Transient Occupancy Tax and Licenses and Permits. Sales Tax revenue is projected to decrease slightly over the prior year.

Property Tax receipts in Los Gatos are expected to increase over the budgeted FY 2015/16 receipts. Property Tax budget projections are based on projections by the Santa Clara County Assessor's Office. Transient Occupancy Tax (TOT) has also increased. Licenses and Permits are expected to increase just slightly as the large scale building projects are fewer in number.

## Staffing

The FY 2016/17 Operating Budget has 157.72 budgeted FTEs, including temporary staff. This reflects a decrease of 0.58 FTE compared to the prior year. The recommended FY 2016/17 staffing levels reflect the following changes from the prior year's adjusted budget:

- *Administrative Services and Town Offices* – Staffing reallocations occurred between the Administrative Services, Town Offices, and Library programs; however total FTEs between the programs decreased. The budget also reflects Council action in October 2015 to reinstate a full-time Assistant Town Manager position and the reclassification of the Administrative Technician position to Administrative Analyst position to align the job class more closely to the works as assigned. In addition, a 0.63 FTE Office Assistant position was increased to a 1.0 FTE position to provide administrative support to the Human Resources, Town Attorney and Management Information Systems Departments.
- *Police* –The FY 2016/17 budget includes an operational restructure and reorganization of non-sworn positions which best meets the demands within the Department. The reorganization resulted in a reclassification of a 1.0 FTE Records Specialist within Property and Evidence Investigation Program, reduction of temporary hours for Communication Dispatcher and addition of a 1.0 FTE Communications Dispatcher within the Records and Communication Program. Due to the workload, expertise required, and additional duties of managing Property and Evidence, the Department has recognized the need to reclassify the 1.0 FTE Property and Evidence Records Specialist back to its previous classification as a Community Service Officer, this 1.0 FTE Community Service Officer will be funded from Investigations. In addition, the Records and Evidence Manager has been reclassified to a Police Records Manager. This restructure allowed for improved alignment around departmental effectiveness and vision. These modifications were made without fiscal impact. The part-time Community Services Officer will be eliminated from the Community Development and Police Departments' budgets due to lack of nighttime complaints. In addition to the operational reorganization, temporary staff funding is proposed to the FY 2016/17 budget for technology support, background investigations, and parking control officers. The temporary hour increase is funded from one-time funding. Staff anticipates bringing forward an ongoing funding source for this temporary hour increase at the FY 2016/17 mid-year review for Council consideration, after the completion of the bargaining unit agreements and other fiscal decisions.
- *Community Development Department (CDD)* – Budgeted salary and benefit expenditures reflect the addition of a 0.125 FTE one-time funding for an Associate Planner position. Staff anticipates bringing forward an ongoing funding source for this FTE increase at the FY 2016/17 mid-year review. The part-time Community Services Officer will be eliminated due to lack of nighttime complaints. The budget also reflects Council action in October 2015 to reinstate a full-time Community Development Director position
- *Parks & Public Works (PPW)* – The Parks and Public Works budget reflects a status quo budget no changes in FTEs and a small reduction in temporary hours.
- *Library* - The FY 2016/17 Library budget increased moderately to reflect the new Library Management Team structure. Additionally, some temporary hours have been converted into permanent positions to increase stability in staffing and continuity in service delivery. The temporary Senior Page hours were converted to 1.0 FTE Senior Library Page for better oversight and efficiency of the check-in and shelving functions at the Library.
- *Salary Increases and Elimination of Furloughs* – Salary adjustments (if any) for FY 2016/17 are not finalized at this time, as this is a matter of collective bargaining with the Town's three employee unions. The Town's three bargaining units are: Association of Federal, State, County

and Municipal Employees (AFSCME), Town Employees' Association (TEA) and Los Gatos Police Officers' Association (LGPOA).

#### *Non-Personnel Operating Expenditures*

Non-Personnel expenditure budgets were developed based on actual expenditures in prior years, adjusted for FY 2016/17 funding needs. In light of limited available resources, the FY 2016/17 Proposed Budgeted non-personnel expenditures are conservative, with additions primarily limited to non-discretionary, contractually obligated, or mandated increases.

#### *Unfunded Mandates and Special Projects*

The FY 2016/17 Proposed Budget includes funding to address two unfunded mandates, one for storm water pollution prevention and the second for traffic signage maintenance. Storm water requirements include defined improvements towards monitoring and preventing pollution of the storm drains, including inspecting and cleaning of storm drains, and installing and maintaining filters to prevent pollution. In addition, the federal government has mandated reflectivity levels for signs with prioritization of speed limit and stop signs. It is expected that within a two to three year period, all traffic signs will be affected. Both of these mandates require the Town to increase service levels in these areas to meet existing regulations. Non-compliance could result in fines and liabilities. Funding for these mandates is proposed as a one-time, \$40,000 addition to the FY 2016/17 budget which will continue to address these requirements. It is expected that these mandates will increase over time requiring additional allocation of funds to maintain compliance.

In addition, a new law took effect January 1, 2015 that allows eligible employees who did not previously qualify for sick leave benefits (seasonal, temporary/hourly employees) to start accruing sick leave starting July 1, 2015. This is an on-going expenditure for the Town that is included in the FY 2016/17 budget.

### **Five-Year Financial Plan**

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

Indicative of the continued improvement in the local economy, the Five-Year forecast provided some limited opportunities to fund non-discretionary increases related to various costs such as contractually obligated increases and unavoidable increases in certain employee benefit costs such as pension and health care. The forecast does not include increases in salary and/or benefits which may result from updated Memoranda of Understanding with the Town's bargaining units. Funds were allocated to meet unfunded state and federal mandates such as storm water pollution prevention, reflective signage, and personnel safety training. Funding was also available for continuance of one-time staffing needs in critical service areas such as planning support in Community Development and information technology needs in the Police Department. Other areas of emphasis included one-time funds available for the continued expansion of the downtown garbage and recycling service and an one-time increase in the youth and adult library collections budget.

Provided below is a recap of the most recent Five-Year Financial Plan prepared in early May 2016. The updated Five-Year Financial Plan spans FY 2016/17 – 2020/2021:

## Updated Five-Year Financial Plan

(\$ millions)

		FY 1	FY 2	FY 3	FY 4	FY 5	
Account	Revenue Category	2015/16 Estimated	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast
4100	Property Tax	\$ 10.1	\$ 10.5	\$ 10.8	\$ 11.1	\$ 11.4	\$ 11.8
4110	VLF Backfill Property Tax	3.0	3.0	3.0	3.1	3.1	3.1
4200	Sales & Use Tax	8.1	8.2	8.2	8.5	8.8	9.1
4250	Franchise Fees	2.1	2.2	2.3	2.3	2.4	2.5
4251	Transient Occupancy Tax	1.8	1.9	2.0	2.0	2.1	2.1
4400	Business License Tax	1.3	1.3	1.3	1.3	1.3	1.3
4400	Licenses & Permits	3.1	2.9	3.0	3.1	3.2	3.3
4500	Intergovernmental	0.9	0.7	0.7	0.7	0.7	0.7
4600	Charge for Services	2.8	2.4	2.2	2.3	2.3	2.4
4700	Fines & Forfeitures	0.7	0.7	0.7	0.7	0.7	0.7
4800	Interest	0.3	0.3	0.3	0.4	0.4	0.4
4850	Other Sources	4.2	3.4	3.2	3.2	3.3	3.3
4900	Fund Transfers In	0.4	0.4	0.4	0.4	0.4	0.4
<b>TOTAL REVENUES</b>		<b>38.8</b>	<b>37.9</b>	<b>38.1</b>	<b>39.1</b>	<b>40.1</b>	<b>41.1</b>
Use of Reserves/Deposits		0.7	10.0	0.5	0.5	0.5	0.5
<b>TOTAL REVENUES &amp; TRANSFERS</b>		<b>\$ 39.5</b>	<b>\$ 47.9</b>	<b>\$ 38.6</b>	<b>\$ 39.6</b>	<b>\$ 40.6</b>	<b>\$ 41.6</b>
Account	Expenditure Category	2015/16 Estimated	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast
5110	Salary	\$ 13.6	\$ 14.4	\$ 14.4	\$ 14.5	\$ 14.7	\$ 14.7
5120	Furlough	-	-	-	-	-	-
5130	Temporary Employees	1.1	0.7	0.7	0.7	0.7	0.7
5140	Overtime	0.3	0.4	0.4	0.4	0.4	0.4
5170	Other Salary	0.7	0.1	0.1	0.1	0.1	0.1
5200	Benefits	7.5	8.0	8.4	9.0	9.5	9.6
6000	Supplies, Materials, & Services	5.9	5.8	5.6	5.7	5.8	6.0
6000	Pass Through Expenditures	0.6	-	-	-	-	-
7200	Grants & Awards	0.2	0.2	0.2	0.2	0.2	0.2
7400	Utilities	0.5	0.4	0.5	0.5	0.5	0.5
7700	Fixed Assets	-	-	-	-	-	-
8060	Internal Service Charges	3.5	3.7	3.8	4.1	4.2	4.4
8900	Debt Service	1.9	1.9	1.9	1.9	1.9	1.9
<b>TOTAL EXPENDITURES</b>		<b>\$ 35.8</b>	<b>\$ 35.6</b>	<b>\$ 36.0</b>	<b>\$ 37.1</b>	<b>\$ 38.0</b>	<b>\$ 38.5</b>
9900	Operating Transfers Out	0.1	-	-	-	-	-
9900	Capital Transfers Out to GFAR	0.5	9.9	0.4	0.4	0.4	0.4
9900	GASB 45 Retiree Medical Actuarial	1.5	1.6	1.6	1.6	1.6	1.6
<b>EXPENDITURES</b>		<b>37.9</b>	<b>47.1</b>	<b>38.0</b>	<b>39.1</b>	<b>40.0</b>	<b>40.5</b>
<b>TOTAL EXPENDITURES &amp; ALLOCATIONS</b>		<b>\$ 37.9</b>	<b>\$ 47.1</b>	<b>\$ 38.0</b>	<b>\$ 39.1</b>	<b>\$ 40.0</b>	<b>\$ 40.5</b>
<b>REVENUES LESS EXPENDITURES</b>		<b>\$ 1.6</b>	<b>\$ 0.8</b>	<b>\$ 0.6</b>	<b>\$ 0.5</b>	<b>\$ 0.6</b>	<b>\$ 1.1</b>
ONGOING SHORTFALL MITIGATION		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>NET REVENUES LESS EXPENDITURES</b>		<b>\$ 1.6</b>	<b>\$ 0.8</b>	<b>\$ 0.6</b>	<b>\$ 0.5</b>	<b>\$ 0.6</b>	<b>\$ 1.1</b>

\*FY 2016/17 9.9 million in use of Reserves/Deposit is for capital projects funding, inclusive of 9.5 million for Phase 2 of the Almond Grove Street Rehabilitation Project.

The updated forecast for fiscal year 2016/17 year-end estimates indicate excess revenues over expenditures in the amount of approximately 800,000. The forecasted excess is reflective of moderate growth in the Town's Property Tax collections, Transient Occupancy Taxes, business licenses, and other licenses and permits. As per the current Town General Fund Reserve Policy, because the minimum combined levels in the Catastrophic and Budget Stabilization reserves satisfies the required funding level of the 25% of the FY 2016/17 operating budget, year-end savings typically transfers to the General Fund Reserve for Capital Projects to be available to fund future capital projects. The Council may wish to discuss other priorities for the excess such as the establishment of a CalPERS Reserve (see Pension Liabilities discussion) and/or other purposes.

## **State Budget Impacts**

Details on the State of California Proposed FY 2016/17 budget will be available as part of the Governor's May Revised Budget and it is not expected to be materially different from the Governor's FY 2016/17 Proposed Budget released in January 2016.

The State of California Legislative Analyst's Office reported in February that the State has enjoyed remarkable economic growth over the past year. The Office added the cautionary note that the State may be reaching the peak of this long expansion. Responding to this concern, the Governor's January 2016-17 budget proposals included a mix of adding to reserves (raising the State reserves to a target of more than \$10 billion), one time spending opportunities, and ongoing budget commitments based on California budget priorities. The Governor's budget allocates most other discretionary resources to one time infrastructure spending. Outside the General Fund, the Governor plans to: (1) spend \$3.1 billion cap-and-trade auction revenues, (2) provide additional revenues for transportation, and (3) extend the managed care organization (MCO) tax.

Regarding transportation revenues, the Governor's proposed budget allocates about half of the new transportation revenues to the State and half to local agencies to support various existing and new programs. Specifically, the Governor proposes to allocate about \$1.5 billion to rehabilitate state highways, about \$1.4 billion for local streets and roads, \$400 million for transit, \$200 million to improve trade corridors, and \$120 million for state highway maintenance. If adopted, this proposal would have the effect in FY 2016/17 of increasing fuel tax funding of local streets and roads by about \$324 million, with an estimated increase to the Town's Gas Tax revenues of approximately \$160,000 next fiscal year. Under current law, the Town's share of Gas Tax revenues is proposed to be reduced again in FY 2016/17 by approximately \$28,000 from FY 2015/16 to \$630,000 for FY 2016/17.

## **Ongoing Budget Issues:**

### ***Fire Protection Services***

Fire Protection Services for the Town of Los Gatos are provided by the Santa Clara County Central Fire Protection District. These services have been provided under an annexation agreement effective March 18, 1970 in which the tax rate then in effect for Town's fire protection services was essentially transferred to the County's Central Fire Protection District. Based upon the latest assessed valuation reports provided by the County of Santa Clara, the property tax collected from Los Gatos residents for FY 2015/16 and remitted to the Santa Clara County Central Fire Protection District for fire protection services is estimated to be approximately \$14.2 million.

### ***Pension Liabilities***

In Fiscal Year 2015/16, the Town Council's Finance Committee met a number of times to consider strategies to address the Town's unfunded pension liabilities. Based on information received from staff and the actuaries from California Public Employees Retirement System (CalPERS), the Committee recommended to Town Council a "blended" approach of (1) recommending a modification of the Town's reserve policy by establishing a new California Public Employees Retirement System (CalPERS) Reserve in the General Fund to accumulate funds needed to match rising costs of pensions and (2) to consider a "fresh start" option, reducing the amortization period from approximately 30 years to 20 years.

Because CalPERS policy requires a "direct rate smoothing" amortization method to be used for the "fresh start" option, there are higher forecasted initial payments than the "status quo" amortization now in effect in the near term, lower payments in the medium-term, and higher annual payments again in the later term. To be able to budget and fund the anticipated increases to pension expense associated with the shorter amortization period consistently, the Committee recommended the establishment of a General Fund PERS Reserve for a portion of annual year-end savings (yet to be determined) that will be either

used to make a “lump sum” pay down or retained in the CalPERS Reserve for future payments for the recommended 20-year “fresh start” option. The “fresh start” option will result in higher average annual employer payments than would have otherwise occurred over the 30-year amortization period, and are expected to save approximately \$2 to \$3 million dollars in total interest costs compared to the approximate average 30 year amortization period now in place.

***Other Post -Employment Benefits (OPEB)***

The FY 2016/17 Proposed Budget includes an allocation of approximately \$940,000 in “pay-as-you-go” payments for retiree medical employer contributions. In addition, the proposed budget also includes a \$1,650,000 payment to the Town’s California Employee Retirement Benefit Trust (CERBT). The Trust was established on June 30, 2007 and was established to address the unfunded liability that resulted from the implementation of a new accounting standard for post-employment benefits. The Town makes annual contributions to the 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 pre-fund retiree medical costs and other post-employment benefits. To date the retiree health benefits have been paid entirely out of current operating budgets and no withdrawals have been made from the Town’s CERBT “pre-funding” account. The current balance in this account is approximately \$8.3 million as of the close of business May 3, 2016.

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

**Conclusion**

While the global, national, state, and local economy appears to remain on the positive side, the Town anticipates that future years may present only limited available resources to augment staffing and services. Therefore, the FY 2016/17 budget proposes to maintain service levels and provide for minimal staffing additions.

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

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

- Stephen Conway, Finance Director
- Gitta Ungvari, Administrative Analyst
- Mark Gaeta, Accountant
- Nicole Tram, Payroll Specialist
- Melissa Ynegas, Account Technician
- Linda Isherwood, Analyst

Respectfully submitted,



Laurel Prevetti  
Town Manager



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

PRESENTED TO

**Town of Los Gatos  
California**

For the Fiscal Year Beginning

**July 1, 2015**

Executive Director

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

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

# CORE GOALS AND STRATEGIC PRIORITIES

## CORE GOALS

### COMMUNITY CHARACTER



### GOOD GOVERNANCE



### FISCAL STABILITY



### QUALITY PUBLIC INFRASTRUCTURE



### CIVIC ENRICHMENT



### PUBLIC SAFETY



### STRATEGIC PRIORITIES FY 2015-2017 - (% Complete)

- Smoking Restrictions Expanded (95%)
- Almond Grove Street Project Funding (95%)
- Transportation & Parking Around Schools (35%)
- Downtown Parking (10%)

### STRATEGIC PRIORITIES: FY 2014-2016 IN-PROGRESS (% COMPLETE)

- General Plan Implementation (25%)
- Planned Development Policies & Procedures (75%)
- Alcohol & Entertainment Policies (30%)
- Facilitate Privately-led Effort to Address Downtown Parking (25%)
- Diversity of Businesses in the Downtown (60%)
- Sale or Lease of Town Properties (25%)
- Phase I of Almond Grove Streets Project (75%)
- Funding Mechanisms to Provide Ongoing Street Maintenance Funding (50%)
- Complete Streets Policy Implementation Plan/Bicycle Pedestrian Master Plan (10%)
- Veterans Memorial (25%)
- Civic Center as a Community Resource (10%)
- Regional Communications & Interoperability (50%)
- Evacuation Plans for Areas Subject to Flooding & Fire (75%)
- Community Partnerships for Crime Prevention and Response (60%)

### COMPLETED PRIORITIES

- ✓ Library Strategic Plan
- ✓ Use of Social Media to enhance Civic Engagement and Communication
- ✓ Electric Vehicle Charging Stations
- ✓ Traffic Speed Monitoring Signs
- ✓ Leaf Blower and Polystyrene Regulation
- ✓ North 40 Specific Plan
- ✓ Housing Element
- ✓ Community Benefit
- ✓ Consulting Architect Role
- ✓ Update Town Website
- ✓ Public CUP Database
- ✓ Home Business Ordinance
- ✓ Technology Priorities Plan & Digital Council Packets
- ✓ Employee Benefit Cost Containment
- ✓ Update Tree Ordinance
- ✓ Regulate On-Street Vehicle Sales & Advertising
- ✓ Senior Services Needs Assessment

Town of Los Gatos



# FUND DESCRIPTIONS

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

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

## MAJOR AND NON-MAJOR GOVERNMENTAL FUNDS

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

### General Fund

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

### Special Revenue Funds

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

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

## ∞ FUND DESCRIPTIONS ∞

### **Capital Project Funds**

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

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

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

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

### **NON-MAJOR PROPRIETARY FUNDS**

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

### **Internal Service Funds**

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

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

## ∞ FUND DESCRIPTIONS ∞

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

### FIDUCIARY FUNDS

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

#### Trust Funds

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

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

∞ FUND DESCRIPTIONS ∞

**Agency Funds**

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

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

# FINANCIAL POLICIES

## REVENUE

- The Town will encourage a diversified growing revenue base that is locally generated to shelter the community from fluctuations in any one revenue source.
- The Town will follow an aggressive policy of auditing and collecting all locally generated taxes.
- The Town will establish and maintain all user charges and fees based on the cost of providing services.

## BUDGETING and EXPENDITURE

- The Town Council will adopt an annual balanced budget effective from July 1<sup>st</sup> to June 30<sup>th</sup> of the following calendar year. A balanced budget requires current year operating expenses to be fully funded by current year revenues and identified undesignated/unreserved fund balance.
- Fund Balance Reserves will be used only for non-recurring “one-time” and capital projects and not for on-going operations.
- Long-term debt will be confined to capital improvements or special projects that cannot be financed from current revenues.
- The Town Manager is authorized to implement the programs as approved in the adopted budget. Within a specific fund the Town Manager may transfer appropriations between categories, Departments, projects, and programs as needed to implement the adopted budget.
- With the approval of the Town Manager, unexpected appropriations may be carried forward to the next fiscal year provided funds have been previously encumbered for a specific purpose.
- The annual budget will include a \$89,000 Designated Contingency for non-recurring, unanticipated expenditures. The Town Manager may approve expenditures from this contingency if needed during the fiscal year.
- A capital outlay (fixed asset) purchase will be any single item or piece of equipment which costs more than \$10,000 and has an expected useful life exceeding one year.
- Quarterly budget reports will be submitted to the Town Council to provide information on the status of the Town’s financial condition.

## ∞ FINANCIAL POLICIES ∞

### FUND BALANCE RESERVES

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

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

- A reserve will be maintained for the depreciation and replacement of equipment.
- A reserve will be maintained for the maintenance of buildings.
- California Retirement System (CalPERS) Reserve will be maintained to use as a supplemental funding source to pay down unfunded pension liabilities.

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

### CAPITAL IMPROVEMENT

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

## ∞ FINANCIAL POLICIES ∞

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

# LONG TERM DEBT POLICY

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

## **General Practices:**

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

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

1. The Town will use debt financing only for one-time capital improvement projects and unusual equipment purchases, and only under the following circumstances:
  - a. When the project is included in the Town's five-year capital improvement program and is in conformance with the Town's General Plan.
  - b. When the project is not included in the Town five-year capital improvement plan, but it is an emerging critical need whose timing was not anticipated in the five-year capital improvement program, or it is a project mandated immediately by State or Federal requirements.
  - c. When the project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing.
  - d. When there are designated revenues sufficient to service the debt, whether from project revenues, other specified and reserved resources, or infrastructure cost-sharing revenues.
  - e. Debt financing (other than tax and revenue anticipation notes) is not considered appropriate for any recurring purpose such as current operating and maintenance expenditures.
2. The costs of developing and maintaining the Successor Agency to the Town of Los Gatos Redevelopment Agency (Agency) long term debt policy will be borne by the Agency and will be developed in conjunction with amendments to existing redevelopment project area plans and/or new proposals to issue debt by the Successor Agency to the Town of Los Gatos Redevelopment Agency.
3. The Town will follow all State and Federal regulations and requirements regarding bond provisions, issuance, taxation and disclosure.
4. Costs incurred by the Town, such as bond counsel and financial advisor fees, printing, underwriters' discount, and project design and construction costs, will be charged to the bond issue to the extent allowable by law.
5. The Town will monitor compliance with bond covenants and adhere to federal arbitrage and disclosure regulations.

# INVESTMENT POLICY

## I. SCOPE

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

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

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

## II. INVESTMENT OBJECTIVES

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

## ∞ INVESTMENT POLICY ∞

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

### III. STANDARDS OF CARE

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

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

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

#### IV. SAFEKEEPING AND CUSTODY

##### 1. Authorized Financial Dealers and Institutions

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

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

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

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

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

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

**∞ INVESTMENT POLICY ∞**

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

**V. SUITABLE AND AUTHORIZED INVESTMENTS**

- 1. Investment Types** - California Government Code Sections 16429.1, 53600-53609 and 53630-53686, except that pursuant to California Government Code Section 5903(e) place limitations on allowable investments by local governments. This Investment Policy further restricts allowable investments. The following investments will be permitted by this Policy:

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum % of Portfolio</u>	<u>Quality Requirements</u>
US Treasury Obligations	5 years	None	N/A
Federal Agency Obligations	5 years	None	See Below (1)
Federal Instrumentality	5 years	None	See Below (2)
Prime Commercial Paper	270 days	25%	See Below (3)
Eligible Bankers Acceptances	180 days	30%	See Below (4)
Medium Term Notes	5 years	30%	See Below (5)
Municipal & State Obligations	5 years	30%	See Below (6)
Certificates of Deposit	5 years	30%	See Below (7)
CA Local Agency Investment Fund (LAIF)	N/A	N/A	See Below (9)
Money Market Funds	N/A	20%	See Below (8)

- (1) There is no limit on the percentage of the portfolio that can be invested in Federal Agency Obligations; however, no more than 20% of the town’s total portfolio shall be invested in the combination of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) mortgage-backed securities.
- (2) There is no limit on the percentage of the portfolio that can be invested in Federal Instrumentality; however, no more than 20% of the town’s total portfolio shall be invested in the combination of GNMA, FNMA, and FHLMC mortgage-backed securities.
- (3) There is no limit on the percentage of the portfolio that can be invested in Prime Commercial Paper; however, no more than 20% of the town’s total portfolio shall be invested in the combination of GNMA, FNMA, and FHLMC mortgage-backed securities. The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph A. or sub-paragraph B. below:
- A. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of five hundred million dollars (\$500,000,000) and (3) Have debt other than commercial paper, if any, that is rated “A” or higher by a nationally recognized statistical-rating organization (NRSRO).

## ∞ INVESTMENT POLICY ∞

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

Purchases of eligible commercial paper shall not exceed:

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

- (4) Eligible Bankers Acceptances must be issued by a state or national bank with combined capital and surplus of at least \$250 million, whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC), and whose senior long-term debt is rated at least A or the equivalent by a NRSRO at the time of purchase.
- (5) Medium Term Notes should be rated at least “A” or the equivalent by a NRSRO. No more than 5% of the Town’s total portfolio shall be invested in the medium-term notes of any one issuer.
- (6) Municipal bonds must be rated at least “A” or the equivalent by a NRSRO. No more than 5% of the Town’s total portfolio shall be invested in “A” rated bonds or in the bonds of any one municipality.
- (7) Certificates of Deposit shall be issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank or by a federally licensed branch of a foreign bank provided that the senior debt obligations of the issuing institution are rated at least “A” or the equivalent by a NRSRO, and no more than 5% of the portfolio shall be held in any one deposit or allocated to any one issuer.
- (8) State of California’s Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1. The aggregate amount invested in LAIF shall not exceed the maximum allowed by the fund.
- (9) Money Market Funds registered under the Investment Company Act of 1940 that (1) are “no-load” (meaning no commission or fee shall be charged on purchases or sales of shares); (2) have a constant net asset value per share of \$1.00; (3) invest only in the securities and obligations authorized by applicable California Statute and (4) have a rating of at least AAA or the equivalent by at least two NRSROs. No more than 10% of the Town’s total portfolio shall be invested in money market funds of any one issuer.

## ∞ INVESTMENT POLICY ∞

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

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

### VI. REPORTING

**1. Methods** - The Town Treasurer shall prepare a quarterly investment report, including a management summary that provides an analysis of the status of the current investment portfolio. This management summary will be prepared in a manner that will allow the Town to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report should be submitted to the Town Clerk within 45 days after the end of each quarter for inclusion as an agenda item at the next scheduled Town Council meeting. The report shall include the following:

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

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

## ∞ INVESTMENT POLICY ∞

### VII. Policy Considerations

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

# BUDGET PROCESS OVERVIEW

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

## ***Budget Purpose***

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

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

## ***Basis of Budgeting and Accounting***

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

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

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

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

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

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

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

## ***Summary of Budget Development***

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

functions to be accomplished in the next budget year.

### ***The Development Process***

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

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

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

### ***Budget Adoption***

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During the month of May, the Town Council reviews the proposed Operating and Capital Summary Budget, and the Capital Improvement

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

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

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

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

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

### ***Budget Amendments***

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

# BUDGET CALENDAR

**September/  
October/  
November /  
December**

Council Strategic Priorities Established

CIP work plan proposals and development

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

Determine and refine initiatives and directives for upcoming budget year

Update User Fee Schedule

**January**

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

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

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

1<sup>st</sup> Draft revenue projections due to Budget Office

Analyze budget projections and review with Town Manager

**February**

1<sup>st</sup> Draft staffing requests due to Budget Office

Review and finalize staffing positions and requests

1<sup>st</sup> Draft asset, internal service requests, and expenditure requests due

1<sup>st</sup> Draft CIP Budget due to Budget Office

Review Internal Service requests with responsible Program Managers

1<sup>st</sup> Draft Internal Service budgets due to Budget Office

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

**March**

Review and analyze 1<sup>st</sup> Draft budget, briefing with Town Manager

1<sup>st</sup> Draft CIP budget briefing – determine program revisions

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

2<sup>nd</sup> Draft budget revisions and work plans due to Budget Office

2<sup>nd</sup> Draft briefing and revisions with Town Manager, Departments

**April**

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

Grant distribution finalized

Budget revisions finalized and proposed budgets assembled

Public Hearings for proposed User Fee Schedule

Proposed budget briefing with Town Manager

**May**

Distribute Proposed Operating and CIP budgets to Town Council

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

Town Council revisions incorporated into budget documents

**May/  
June**

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

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

**July/  
August/  
September**

Adopted Operating and CIP Budget documents finalized, printed and distributed

# GANN APPROPRIATION LIMIT

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

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

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

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

## APPROPRIATION LIMIT CALCULATION

The following schedule reflects historical appropriation factors for the prior ten years, and the calculation for FY 2016/17:

<b>For YE June 30</b>	<b>Beginning Appropriation Limit</b>	<b>County Population Factor</b>	<b>Town Population Factor</b>	<b>Per Capita Income</b>	<b>Ending Appropriation Limit</b>	<b>% Limit Increase</b>
2008	24,919,990	1.0152	1.0100	1.0442	26,416,980	6.01%
2009	26,416,980	1.0172	1.0318	1.0429	28,426,367	7.61%
2010	28,426,367	1.0156	1.0108	1.0062	29,048,811	2.19%
2011	29,048,811	1.0126	1.0101	0.9746	28,667,689	-1.31%
2012	28,667,689	1.0089	1.0096	1.0251	29,669,366	3.49%
2013	29,669,366	1.0124	1.0081	1.0377	31,169,671	5.06%
2014	31,169,671	1.0157	1.0147	1.0512	33,279,977	6.77%
2015	33,279,977	1.0150	1.0102	0.9977	33,701,485	1.27%
2016	33,701,485	1.0113	1.0020	1.0382	35,384,256	4.99%
2017	35,384,256	1.0126	1.0070	1.0537	37,754,174	6.70%

## ∞ GANN APPROPRIATION LIMIT ∞

The Town of Los Gatos' appropriation limit for fiscal year 2016/17 is calculated as follows:

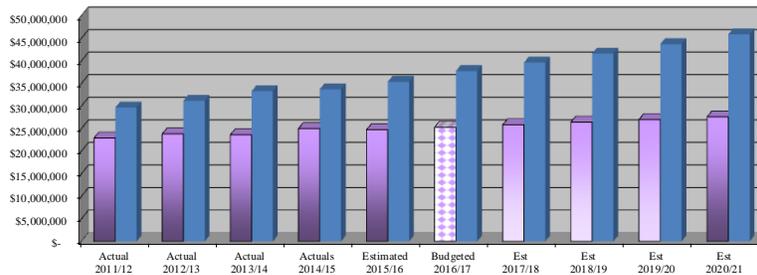
<b>FY 2016/17 Calculation</b>					
<b>% Increase in County Population</b>	<b>Change in Per Capita Income</b>	<b>Appropriation Factor</b>	<b>2015/16 Appropriation Limit</b>	<b>2016/17 Appropriation Limit</b>	
1.0126	X	1.0537	=	1.06697662	X \$ 35,384,256 = \$ 37,754,174

As illustrated above, the total amount of tax revenues appropriated to the Town in FY 2016/17 is not to exceed \$37,754,174. The FY 2016/17 budget anticipates \$25,294,026 in tax revenues which equates to \$12,460,148 less than, or approximately 67% of, the appropriation limit for FY 2016/17. Therefore, the Town's tax revenues fall substantially below the appropriation limit.

### APPROPRIATION TREND

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

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



	Actual 2011/12	Actual 2012/13	Actual 2013/14	Actuals 2014/15	Estimated 2015/16	Budgeted 2016/17	Est 2017/18	Est 2018/19	Est 2019/20	Est 2020/21
<b>Tax Revenues</b>	\$ 22,908,718	\$ 23,812,566	\$ 23,603,489	\$ 25,007,677	\$ 24,745,244	\$ 25,294,026	\$ 25,850,495	\$ 26,419,205	\$ 27,000,428	\$ 27,594,437
<b>Appropriation Limit</b>	\$ 29,669,366	\$ 31,169,671	\$ 33,279,977	\$ 33,701,485	\$ 35,384,256	\$ 37,754,174	\$ 39,641,882	\$ 41,623,976	\$ 43,705,175	\$ 45,890,434
<b>Revenue to Limit %</b>	77%	76%	71%	74%	70%	67%	65%	63%	62%	60%

### APPROPRIATION LIMIT ADOPTION

The resolution to adopt the appropriation limit of \$37,754,174 was adopted by the Council on June 7, 2016.

# GANN APPROPRIATION RESOLUTION

## RESOLUTION 2016-028

### RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS ESTABLISHING THE FY 2016/17 APPROPRIATIONS LIMIT FOR THE TOWN OF LOS GATOS

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

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

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

**THEREFORE, BE IT RESOLVED**, that the Annual Appropriations Limit for the Town of Los Gatos for FY 2016/17 is \$37,754,174 as reflected in Exhibit A.

**PASSED AND ADOPTED** at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 7th day of June 2016 by the following vote:

#### COUNCIL MEMBERS:

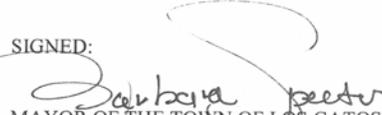
AYES: Marcia Jensen, Steve Leonardis, Rob Rennie, Marico Sayoc, Mayor Barbara Spector

NAYS: None

ABSENT: None

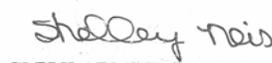
ABSTAIN: None

SIGNED:

  
MAYOR OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

DATE: 6/9/16

ATTEST:

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

DATE: 6/10/16

# TOWN OF LOS GATOS

## ANNUAL BUDGET RESOLUTION

### RESOLUTION 2016-030

#### RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS APPROVING THE FISCAL YEAR (FY) 2016/17 OPERATING BUDGET AND FY 2016/17 – FY 2020/21 CAPITAL BUDGET AND OTHER APPROVED APPROPRIATIONS

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

WHEREAS, the Town Manager submitted to the Town Council a proposed budget for the FY 2016/17 on May 17, 2016; and

WHEREAS, the Town Manager submitted to the Town Council a proposed five-year capital improvement plan for FY 2016/17 – FY 2020/21 on May 17, 2016; and

WHEREAS, the Town Council has considered and reviewed said proposed budget and capital improvement plan during public hearings on May 17, 2016 and the Town Council directed modifications to the Operating and Capital Budgets, respectively; and

WHEREAS, on June 7, 2016, Town Council considered and reviewed the revised proposed budget and capital improvement plan making final determinations; and

NOW, THEREFORE, BE IT RESOLVED, that the Town Council hereby adopts as the budget for the Town of Los Gatos for the 2016/17 fiscal year as depicted in Exhibit A entitled "Total Town Revenues By Fund and Total Town Expenditures By Fund" including the first year (FY 2016/17) of the Town's Capital Improvement Program budget as contained in the Town's FY's 2016/17 – 2020/21 Capital Improvement Plan.

Resolution 2016-030

1 of 3

June 7, 2016

BE IT FURTHER RESOLVED that the final adopted budget includes approved appropriations for unspent prior year allocations, and that they be carried forward from prior years in a Reserve for Encumbrances whereby within each fund there is an amount sufficient to cover approved outstanding encumbrances as of June 30, 2016; and

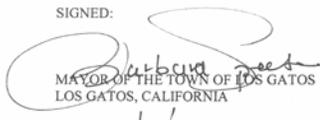
BE IT FURTHER RESOLVED, the Town Council authorizes the Town Manager to continue the one-time pilot program to fund a Community Services Officer to respond to evening/weekend noise complaints, and capital improvements identified at its June 7, 2016 meeting.

PASSED AND ADOPTED at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 7<sup>th</sup> day of June, 2016 by the following vote:

#### COUNCIL MEMBERS:

AYES: Marcia Jensen, Steve Leonardis, Rob Rennie, Marico Sayoc, Mayor Barbara Spector  
NAYS: None  
ABSENT: None  
ABSTAIN: None

SIGNED:

  
MAYOR OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

DATE: 6/9/16

ATTEST:

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

DATE: 6/10/16

Resolution 2016-030

2 of 3

June 7, 2016

