



TOWN OF LOS GATOS

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

May 4, 2018

Honorable Mayor and Town Council:

I am pleased to present to you a balanced Fiscal Year (FY) 2018/19 Proposed Operating Budget for the Town of Los Gatos. The proposed budget addresses Council identified Strategic Priorities and considers other areas of importance to our community, the Council, and the Town organization. The FY 2018/19 Budget programs total revenues and reserve transfers of \$48.3 million and expenditures and allocations of \$47.6 million. The budget anticipates a surplus of \$700,000 and maintains existing service levels while recommending modest additions in strategically important areas. This budget incorporates investments toward future equipment replacement, additional annual discretionary pension payments, and increased capacity for the Town's burgeoning technology infrastructure.

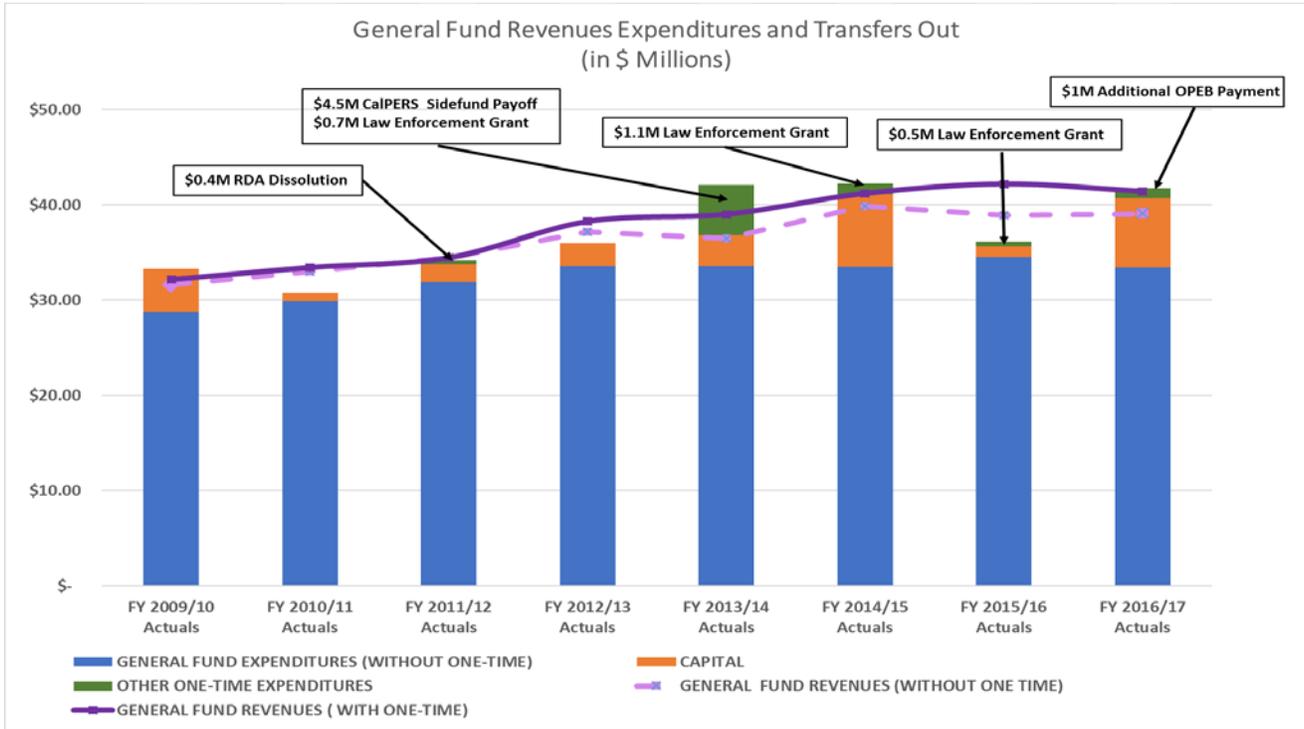
CONTEXT

An important aspect of our budget development process is taking a multi-year approach. Serving as the foundation of the budget planning process, the Town updates the Five-Year Financial Plan beginning in the fall of each year. The Plan includes developing assumptions for Town revenues and expenditures with the goal of defining the expenditure limitations for the forthcoming budget year and forecast period. While we are fortunate to have surpluses projected for this year and next, the remainder of the five year forecast shows very little room for growth in service delivery. In addition as the table below illustrates, the Town organization is vulnerable to any changes in forecasted economic conditions.

	2018/19 Budget	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/2024 Forecast
Total Revenues & Transfers	\$46.8	\$42.6	\$42.9	\$43.7	\$44.7	\$45.8
Total Expenses & Allocations	\$46.2	\$41.8	\$42.9	\$43.6	\$44.4	\$45.6
Net Revenues Less Expenses	\$0.7	\$0.8	\$0.0	\$0.1	\$0.3	\$0.2

To better understand investment strategies for the Town organization's future, it is important to understand the strategic investments made to date. As the data below from the Town's

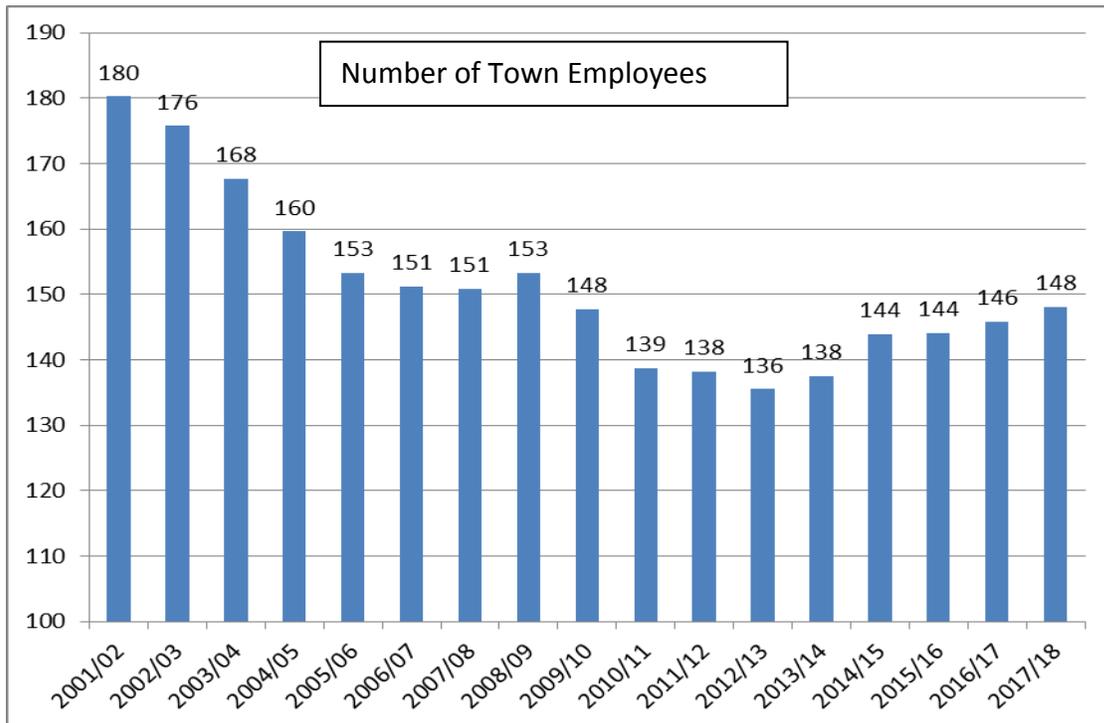
Comprehensive Annual Financial Reports (CAFR) illustrates, the Town’s conservative budgeting practices has historically yielded ongoing and one-time revenues sufficient to cover ongoing and one-time expenditures. The Town has consistently used excess revenues over the years to enhance our infrastructure through capital projects and address other targeted priorities, such as addressing increases in pension obligations.



In addition to the aforementioned conservative budgeting practices, the Town has also taken significant action to address increases in our pension obligations. The Town of Los Gatos provides a defined benefit pension plan for all full-time employees as part of their total compensation package. The defined benefit pension has been a standard part of compensation in governmental organizations and in Los Gatos is in lieu of participating in Social Security. The Town’s plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns, changes in actuarial assumptions, and demographic changes which have outweighed any positive plan experiences. As illustrated in the table below, the Town has provided \$23.2 million to date in additional discretionary payments towards its pension obligations.

Council Action	Additional Discretionary Funding
The Town authorized payment of the entire approximate \$4.5 million side fund liability associated with the Safety Plan (June 2014).	\$4,500,000.
The Town Council established a General Fund reserve for CalPERS/Other Post-Employment Benefits (OPEB) (May 2016).	Additional minimum of \$300,000 funding annually
The Town authorized the creation of an irrevocable Internal Revenue Code (IRS) Section 115 Trust for the Town's pension obligations (December 2017). The Town Council to date has set aside \$3.4 million towards additional Pension funding (115 Trust) and authorized an additional \$1.0 million to be placed into the CalPERS/OPEB Reserve in the adopted FY 17/18 budget.	\$4,300,000 (accumulated to date)
The Town Council initiated systematic OPEB funding since 2009 for future benefits rather than remaining a pay as you go system.	\$14,500,000 (accumulated to date)
Additional discretionary pension/OPEB funding to date - \$23,200,000	

As noted above, the increase in pension obligations was due to factors beyond the Town's control and not the result of an organizational expansion. To address the projected budget deficits resulting from the 2001 recession and the Great Recession of 2008, the Town had to make significant expenditure reductions and lowered the number of employees providing services by 20%. As the chart below illustrates, staffing levels continue to remain below those of 2009/2010.



As we turn our sights towards the future, it will be essential to maintain the base level of organizational capacity that we have today; however, to maintain and grow the high quality service levels that the Los Gatos community deserves and has come to expect, additional revenue sources must be identified. The Town Council is expected to place a Sales Tax measure on the November 2018 ballot for voter consideration. If approved by a 50 percent plus one majority of voters, this one-eight cent sales tax measure would provide an estimated \$800,000 annually of revenue dedicated exclusively to Los Gatos priorities.

STRATEGIC GOALS AND PRIORITIES

In February 2018, the Town Council determined the Strategic Priorities for 2018-2020, providing guidance to Town staff on workload prioritization. The Town Council reaffirmed its Core Goals, including: Community Character, Good Governance, Fiscal Stability, Quality Public Infrastructure, Civic Enrichment, and Public Safety.

Several Strategic Priorities are not one time projects, but rather are ongoing commitments. These commitments include addressing the Town's unfunded pension and other post-employment benefits (OPEB) obligations; developing Measure B transportation projects so the Town is positioned to receive its fair share of the funds; addressing cut-through traffic; fostering emergency preparedness; and participating in regional communications infrastructure that will be critical in the time of an emergency. Specifically for pension and OPEB obligations, the Council expressed interest in the Council Finance Committee continuing to find approaches to reduce the unfunded portion of the obligations.

In terms of capital projects, the Town Council affirmed its interest in completing the remaining reconstruction of Almond Grove streets, investing in bicycle and pedestrian improvements, and improving the condition of the Town's streets. In addition, the Council identified new projects which include preparing a comprehensive parking plan, exploring transportation demand management (TDM) ideas (such as the prospect of a community shuttle), and piloting one-way streets in downtown to help alleviate congestion.

Other Strategic Priorities position the Town for its future. The Council has launched the General Plan Update to engage the community in land use planning and policies to guide development for the next couple of decades. Other Priorities address legal mandates and enhance community vitality.

The following illustrates the Strategic Priorities adopted for FY 2018-2020. Some of these priorities were acted upon during FY 2017/18 and the remaining items are included in the Proposed Operating and Capital Budget and Proposed Capital Improvement Program.

STRATEGIC PRIORITIES FY 2018-2020



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

ONGOING COMMITMENTS

Address Pension and OPEB Obligations
Develop Measure B Transportation Projects
Install Bicycle and Pedestrian Improvements
Participate in Regional Communications and Interoperability
Enhance Community Vitality through Events and Other Efforts
Address Summer Cut Through Traffic
Foster Emergency Preparedness

NEW

*Comprehensive Parking Study
One-Way Downtown Street Pilot
TDM/Community Shuttle
Annexations*

IN PROGRESS AND RECENTLY COMPLETED

Reconstruct remaining Almond Grove Streets (Funded; completion expected in 2019)
Finish North 40 Specific Plan Amendments (90%)
Complete Ordinances as Prioritized by the Town Attorney (Varies; for example, Wireless 10% and Wildlife Fences 80%)
Modify Planned Development Policies (100%)
Sell or Lease Certain Town Properties (40%)
Streamline Land Use Policies (20%)
Address Downtown Parking (10%)
Create a Complete Streets Policy Implementation Plan (10%)
Update the General Plan (1%)
Identify General Plan Amendments for Objective Standards (1%)

SMALL TOWN SERVICE, COMMUNITY STEWARDSHIP, FUTURE FOCUS

UNDERSTANDING THE BUDGET DOCUMENT

The Operating Budget document includes Town-wide information as well as information specific to each fund and each Department. The Town receives revenue from different sources, many of which have restrictions on how they can be used. Separate funds are established to account for the different types of revenues and allowable uses of those revenues.

The budget is prepared in accordance with Generally Accepted Accounting Principles. The budget for governmental funds has been prepared on a modified accrual basis. The modified accrual basis recognizes expenditures when the related fund liability is incurred. Revenues are recognized when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

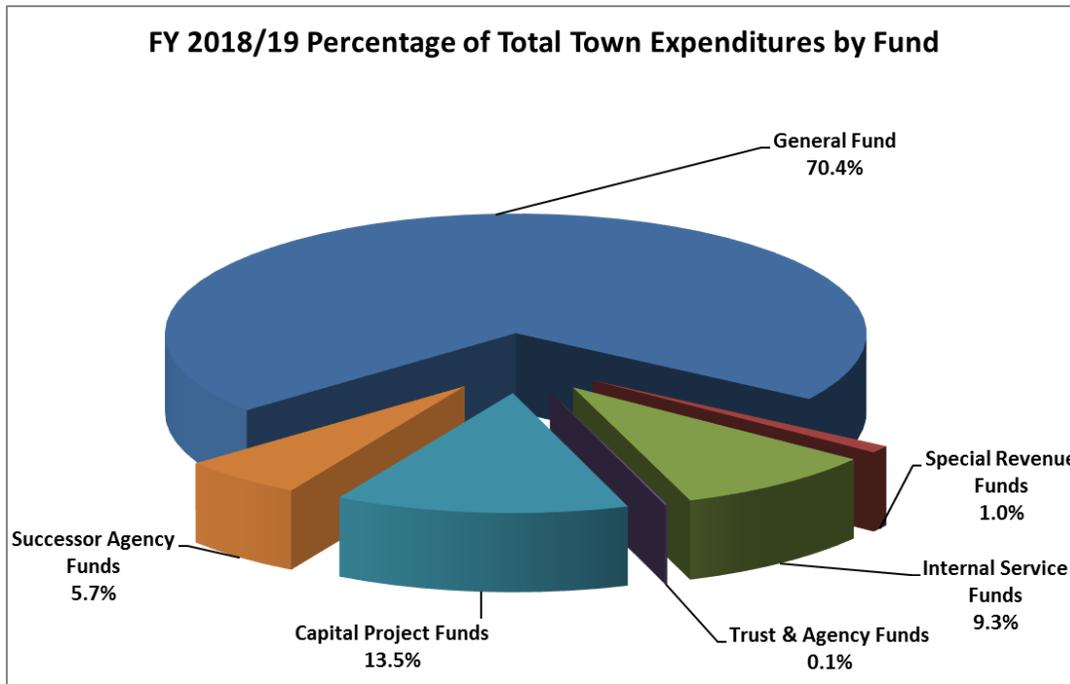
FY 2018/19 FISCAL OUTLOOK

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 (70.4%).

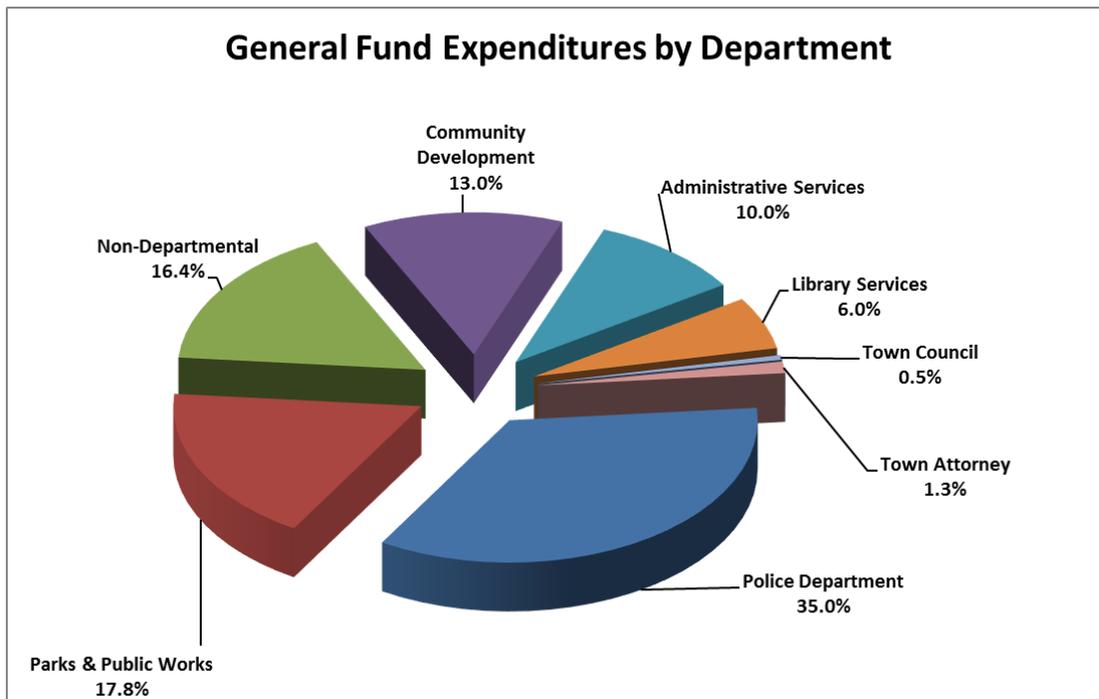


A capital projects amount of \$2,335,220 would be transferred to the General Fund Appropriated Reserves (GFAR) to provide funding for the capital projects identified by the Town Council as well as additional capital needs. For Council’s consideration, staff is recommending the following allocations:

- Allocating \$134,792 to the Budget Stabilization and Catastrophic Reserves to maintain the required 25% funding level of the proposed operating budget.
- Replenishing the Equipment Replacement Fund by transferring \$450,000 to the fund.

General Fund

The General Fund pays for core services such as public safety, community development, parks and public works, library, and other services. The revenue used to pay for these services comes primarily from local taxes such as property tax, sales tax, transient occupancy tax, franchise fees, licenses and permits, Town services, fines and forfeitures, and a variety of other sources. As illustrated in the chart below, the majority of General Fund revenue supports the services provided by Police, Parks and Public Works, Community Development, and Library.



General Fund revenue is estimated at \$38.7 million in the FY 2018/19 Proposed Budget, excluding debt service, fund transfers in, and \$1.3 million General Plan Update deferred revenue. This is an increase of \$1.8 million (4.8%) when compared to the FY 2017/18 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 2018/19 have increased by \$0.5 million or 1.4% compared to the prior year’s Adopted Budget (excluding fund transfers, debt service, \$3.2 million payment to the IRS 115 Pension Trust, and the \$1.3 million General Plan

Update expenses). 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 57.2% of budgeted General Fund expenditures for FY 2018/19. The FY 2018/19 proposed budget does not include any increases in salaries since negotiations with the Town's unions are pending

Internal Service Funds

Internal Service Funds are used for areas where goods or services are provided to other Town Departments. Internal Service Funds include funds and programs for Information Technology, Liability Insurance, Workers' Compensation, Facilities Maintenance, Equipment Replacement and Vehicle Maintenance. Staff recommends transferring \$450,000 to the Equipment Replacement fund to gradually replenish the funding previously transferred to the General Fund Almond Grove Reserve. The total Town-wide proposed expenditures for Internal Service charges are \$6.3 million, which is \$27,425 or 0.4% higher than budgeted FY 2017/18 amounts. All personnel that were previously funded in Internal Service Fund Programs are programmed in the General Fund beginning in FY 2018/19, increasing total General Fund FTE counts and decreasing the Internal Service Fund FTE Counts by the same amount.

Capital Projects Fund

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

The proposed FY 2018/19 Town-wide expenditures from the Capital Projects Funds is \$8.6 million (excluding transfers out) which is inclusive of \$3.8 million in General Fund Appropriated Reserves for the Town's CIP program.

Special Revenue Funds

Special Revenue Funds are a fund type used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Special Revenue Funds account for 1.0% of the Town-wide expenditure budget. The Town's largest Special Revenue Fund is the Urban Run-Off Source Fund. The Total proposed Budget for Special Revenue Funds for FY 2018/19 is \$672,312.

Trust and 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 a comprised of four trusts established to provide for the servicing of donations and bequests to the Town's Library program. The FY 2018/19 budgeted expenditures in this trust fund total \$73,500.

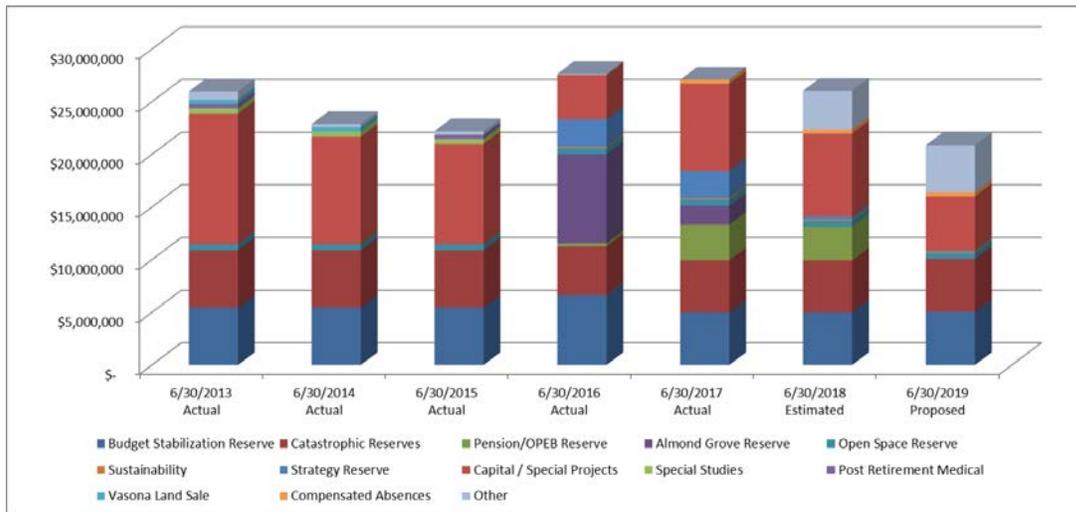
Successor Agency to the Los Gatos RDA Funds

The Successor Agency to the Los Gatos Redevelopment Agency (RDA) is a private purpose trust fund that accounts for the assets, liabilities, and operations transferred from the dissolution of the Town's RDA. These funds include Certificates of Participation issued to finance several capital improvement projects throughout the Town and repayment of obligations incurred by

the Town's RDA prior to its dissolution. The FY 2018/19 budgeted expenditures in this trust fund total \$3.8 million.

GENERAL FUND RESERVES

The total General Fund Reserves are forecasted at a balance of approximately \$20.8 million as of June 30, 2019. As indicated in the next chart, the General Fund reserves are decreasing due to programmed payments to the Town's California Public Employees Retirement System (CalPERS) side-fund payoff in June 2014 of \$4.5 million dollars, transfers to the CIP program in FY 2016/17 (\$7.0 million), FY 2017/18 (\$2.4 million), and FY 2018/19 (\$2.4 million), and the \$4.3 million scheduled payment to the IRS 115 Pension Trust Fund.



General Fund Reserve	6/30/2013 Actual	6/30/2014 Actual	6/30/2015 Actual	6/30/2016 Actual	6/30/2017 Actual	6/30/2018 Estimated	6/30/2019 Proposed
Committed to:							
Budget Stabilization Reserve	\$ 5,450,000	\$ 5,450,000	\$ 5,450,000	\$ 6,621,808	\$ 4,969,847	\$ 4,969,847	\$ 5,037,243
Catastrophic Reserves	5,450,000	5,450,000	5,450,000	4,637,406	4,969,847	4,969,847	5,037,243
Pension/OPEB Reserve	-	-	-	300,000	3,388,913	3,188,913	-
Almond Grove Reserve	-	-	-	8,459,973	1,801,318	-	-
Assigned to:							
Open Space Reserve	562,000	562,000	562,000	562,000	562,000	562,000	562,000
Sustainability				140,553	140,553	140,553	140,553
Strategy Reserve				2,600,000	2,600,000	263,882	129,090
Capital / Special Projects	12,427,161	10,218,579	9,511,527	4,222,405	8,273,124	7,881,738	5,096,518
Special Studies	490,000	490,000	490,000	-	34,852	34,852	34,852
Post Retirement Medical	400,000	-	400,000	-	-	-	-
Vasona Land Sale	410,599	411,245	-	-	-	-	-
Compensated Absences					350,329	350,329	350,329
Other	787,294	297,294	339,837	99,284		3,670,447	4,486,166
Total General Fund Reserve	\$ 25,977,054	\$ 22,879,118	\$ 22,203,364	\$ 27,643,429	\$ 27,090,783	\$ 26,032,408	\$ 20,873,994

Catastrophic and Budget Stabilization Reserves

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. Staff recommends transferring \$134,792 from available prior year-end saving to meet the required 25% funding level, or \$10.1 million total for FY 2018/19.

Pension/OPEB Reserve

Committed fund balance in this reserve will be used to aid in funding pension and Other Post-Employment Benefits (OPEB) unfunded liabilities. This reserve is primarily used to house additional discretionary payments budgeted for deposit into the Town's With Council direction, upon the close of the fiscal year, the CalPERS/OPEB Reserve receives \$300,000 of the available year-end savings. For FY 2018/19 the Council has approved development of an additional reserve policy programming \$400,000 in additional annual discretionary payments to the IRS 115 Pension Trust Fund. The Council Finance Committee makes recommendations for the use of these funds for future Town Council/Oversight Committee consideration.

Almond Grove Reserve

A reserve for Almond Grove Street Rehabilitation project was established in October 2015 to provide funding for the ten streets identified in the project. The Town Council affirmed its interest in completing the Phase II of the Almond Grove streets. Due to a favorable construction bid to complete the project, there are \$2.9 million in excess funds. The excess fund balance was fully programmed at the FY 2018/19 budget.

Strategy Reserve

In early 2017, the Town Council established a General Fund Strategy Reserve in the amount of \$2.6 million from available FY 2015/16 operational savings. The portion of the General Fund Strategy Reserve was programmed in the FY 2018/19 budget for capital projects and additional pension funding.

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. It is anticipated the reserve will have approximately \$5.0 million as of June 30, 2019.

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 and a sustainability reserve which will be used to fund projects that enhance the community environment. Please refer to the Financial Summaries section (C-1) for additional information.

KEY BUDGET ASSUMPTIONS

Revenues

The FY 2018/19 Budget assumes continued economic growth, with the General Fund revenues (excluding debt payments and fund transfers in) expecting to increase by 3.6% to \$36.8 million. Revenue projections for each category were based upon estimates provided to the Town by Santa Clara County, the Town's sales tax consultant, and careful examination of revenue trends

and patterns. The economy remains generally positive which has resulted in staff proposing an increase in operating revenues of \$0.5 million. This is mostly due to forecasted increases in revenues such as property tax, transient occupancy tax and business license tax. Sales tax revenue is projected to decrease slightly from the prior year.

Staffing

All personnel that were previously funded in Internal Service Fund Programs are programmed in the General Fund beginning in FY 2018/19, increasing total General Fund FTE counts and decreasing the Internal Service Fund FTE Counts by the same amount.

Departments	FY 17/18	FY 18/19
	Authorized/Funded Town Staff Positions	Authorized/Funded Town Staff Positions
Town Council	0.50	0.50
Town Attorney	1.63	1.88
Administrative Services	20.59	20.53
Community Development	19.63	20.08
Police Department	59.00	59.00
Parks & Public Works	34.50	34.50
Library	12.25	12.50
Total Positions	148.10	148.99
All Departments Hourly Employee Staff converted to FTES	12.32	10.21
Total Positions	160.42	159.19

The FY 2018/19 Operating Budget has 159.19 budgeted FTEs, including temporary staff. This reflects a decrease of 1.23 FTEs compared to the prior year. The recommended FY 2018/19 staffing levels also reflect the following changes from the prior year’s adopted budget:

- Administrative Services and Town Offices –The FY 2018/19 budget includes a deletion of 0.5 FTE one time Administrative Analyst in the Human Resources program. The budget also includes an increase of 0.125 FTE to the Deputy Town Attorney position to assist with the workload in the Town Attorney’s Office. In addition, the budget reflects the addition of a newly created IT Analyst position to provide critical support to the burgeoning technology infrastructure necessary to support modern governance throughout out the Town.

- Police –A recent retirement at the Lieutenant rank and senior leadership transition in the Police Department during FY 2017/18 allowed an opportunity to re-evaluate the Department’s organizational effectiveness. As a result of these assessments, the Police Department’s FY 2018/19 budget includes the elimination of the Lieutenant rank (2.0 FTE positions). Defunding the Lieutenant rank position allows the Department to return to the two Captain organizational model. The command re-structure also provides for the addition of an Administrative Sergeant position (6.0 FTE Sergeants to 7.0 FTE Sergeants) ensuring an equitable distribution of the Lieutenant’s responsibilities. In addition, the FY 2018/19 budget reflects a reclassification of 1.00 FTE from Administrative Analyst to Senior Administrative Analyst.

- Community Development Department (CDD) – The FY 2018/19 budget reflects a reclassification of 1.00 FTE from Building Inspector to Senior Building Inspector. In addition, the nighttime Code Compliance Community Service Officer is funded completely in CDD with this budget.

- Parks and Public Works (PPW) – The FY 18/19 budget includes multiple personnel adjustments that partially affect the Administration Program. The 0.5 FTE Office Assistant increased to 0.75 FTE overall, and was reclassified as an Administrative Assistant due to the actual duties of this position. In addition, the 1.0 FTE Administrative Assistant was reduced to 0.75 FTE to align the position with the allocated budget. Also, the Administrative Analyst was upgraded to a Senior Administrative Analyst to provide a career ladder for the Administrative job series in a management role and to reflect the complexity of the duties assigned to the position. The FY 18/19 budget reflects several personnel changes that partially affect the Engineering Program. The Town Engineer classification was upgraded to Assistant Parks and Public Works Director/Town Engineer as approved by the Town Council. Also, an Assistant Engineer is being added for increased capital program support. The Senior Public Works Inspector will be reallocated to another Program to reflect the actual job duties, and a vacant Public Works Inspector position will be deleted to offset the addition of an Assistant Engineer
- Library - The FY 2018/19 Library budget includes some changes in personnel which overall represent no net change in FTE staffing from FY 17/18. These changes defund a Customer Service Supervisor position (1.00 FTE) and a Library Assistant position (1.00 FTE) allowing the creation of a Library Technician position (1.00 FTE) and Library Technology Specialist position (1.00 FTE) which better represent changing workloads and job duties of the organization. In addition, the budget modifies one already fully-benefited Customer Service Specialist position from a 0.75 FTE to a 1.00 FTE which is offset by reducing part-time staffing hours, discontinuing the need for one-time funding to cover on-call part-time staffing, and budgeting a significant portion of on-call part-time staffing to a lower paying classification that better aligns with actual job duties.

Non-Personnel Operating Expenditures

Non-Personnel expenditure budgets were developed based on actual expenditures in prior years, adjusted for FY 2018/19 funding needs. In light of limited available resources, the FY 2018/19 proposed budgeted non-personnel expenditures are conservative, with additions primarily limited to non-discretionary, contractually obligated, or mandated increases.

FIVE-YEAR FINANCIAL PLAN

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

Indicative of the continued improvement in the local economy, the Five-Year forecast provides some limited opportunities to fund non-discretionary increases related to various costs such as contractually obligated increases and unavoidable increases in certain employee benefit costs

such as pension and health care. The forecast includes General Fund one time uses for both salaries and benefits for temporary employees to provide help with special projects, temporary workload relief, and mandated costs.

The table below summarizes the most recent Five-Year Financial Plan prepared in early May 2018. The updated Five-Year Financial Plan spans FY 2018/19 – 2023/24.

**Town of Los Gatos General Fund
(in \$ millions)**

Account	Revenue Category	2018/19 Budget	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast
4100	Property Tax	\$ 12.5	\$ 12.7	\$ 13.0	\$ 13.4	\$ 13.8	\$ 14.2
4110	VLF Backfill Property Tax	3.5	3.5	3.6	3.6	3.6	3.7
4200	Sales & Use Tax	7.7	7.8	8.0	8.2	8.4	8.4
4250	Franchise Fees	2.4	2.5	2.5	2.6	2.7	2.8
4251	Transient Occupancy Tax	2.3	2.3	2.3	2.3	2.4	2.4
4400	Business License Tax	1.7	1.7	1.7	1.7	1.7	1.8
4400	Licenses & Permits	3.3	3.4	3.0	3.1	3.2	3.3
4500	Intergovernmental	0.6	0.7	0.7	0.7	0.7	0.7
4600	Charge for Services	4.5	3.3	3.4	3.4	3.5	3.6
4700	Fines & Forfeitures	0.6	0.7	0.7	0.7	0.7	0.7
4800	Interest	0.3	0.3	0.3	0.3	0.3	0.3
4850	Other Sources	2.5	2.3	2.4	2.4	2.4	2.5
4900	Fund Transfers In	0.5	0.5	0.5	0.5	0.5	0.5
TOTAL REVENUES		\$ 42.4	\$ 41.7	\$ 42.1	\$ 42.9	\$ 43.9	\$ 44.9
	Use of Capital Reserve	2.3	0.6	0.6	0.6	0.6	0.6
	Use of Pension/OPEB Reserve	3.1	0	0	0	0	0
	Use of Reserve	0.5	0.4	0.4	0.4	0.4	0.5
TOTAL REVENUES & RESERVE TRANSFERS		\$ 48.3	\$ 42.7	\$ 43.1	\$ 43.9	\$ 44.9	\$ 46.0

Account	Expenditure Category	2018/19 Budget	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast
5110	Salary	\$ 17.6	\$ 17.9	\$ 18.0	\$ 18.0	\$ 18.1	\$ 18.1
5200	Benefits	9.5	10.3	11.0	11.4	11.8	12.1
6000	Operating Expenditures	7.9	6.3	6.5	6.7	6.9	7.1
7200	Grants & Awards	0.2	0.2	0.2	0.2	0.2	0.3
7400	Utilities	0.6	0.6	0.6	0.6	0.6	0.7
8060	Internal Service Charges	2.5	2.6	2.7	2.8	2.9	3.1
8900	Debt Service	1.9	1.9	1.9	1.9	1.9	2.0
TOTAL EXPENDITURES		\$ 40.2	\$ 39.8	\$ 40.9	\$ 41.6	\$ 42.4	\$ 43.4
9900	Capital Transfers Out to GFAR	2.3	0.6	0.6	0.6	0.6	0.6
9900	Reserve to Internal Service Funds	0.5	0	0	0	0	0
9900	GASB 45 Retiree Medical Actuarial	1.1	1.1	1.2	1.2	1.2	1.3
9900	Pension/OPEB Transfer to PARS	3.1	0	0	0	0	0
9900	Pension Pre-funding to PARS	0.4	0.4	0.4	0.4	0.4	0.5
TOTAL BUDGETED EXPENDITURES		\$ 47.6	\$ 41.9	\$ 43.1	\$ 43.8	\$ 44.6	\$ 45.8
TOTAL EXPENDITURES & ALLOCATIONS		\$ 47.6	\$ 41.9	\$ 43.1	\$ 43.8	\$ 44.6	\$ 45.8
NET REVENUES & RESERVE TRANSFERS LESS EXPENDITURES & ALLOCATIONS		\$ 0.7	\$ 0.8	\$ -	\$ 0.1	\$ 0.3	\$ 0.2

STATE BUDGET IMPACTS

Details on the State of California FY 2018/19 Proposed Budget will be available as part of the Governor's May Revised Budget and it is not expected to be materially different from the Governor's FY 2018/19 Proposed Budget released in January 2018.

Regarding transportation revenues, the Governor allocated about \$206 million for local road maintenance and repairs, \$485 million for transit, \$358 million to improve trade corridors, and \$120 million for State highway maintenance. The estimated Gas Tax revenue totals approximately \$1,2 million for FY 2018/19 due to the recently enacted Road Recovery and Repair Act of 2017 (SB1). These funds can only be used for new construction and reconstruction of Town streets.

ONGOING BUDGET 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 2017/18 and remitted to the Santa Clara County Central Fire Protection District for fire protection services is estimated to be approximately \$14.3 million.

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

The Town's pension unfunded actuarial liability (UAL) as of June 30, 2016 (the "date of value" for our most up to date actuarial valuation from the California Public Employees Retirement System or "PERS") is approximately \$51.8 million. The Town's unfunded actuarial OPEB liabilities are projected to total approximately \$11.2 million. In December 2016, the CalPERS Board approved a gradual reduction in the assumed earnings of its pension fund referred to the "discount rate" which is expected to add stability to the pension trust fund and will also impact the Town's employer contribution rates and increase the unfunded liability calculation.

In addition to prior efforts by the Town to annually appropriate and pre-fund OPEB liabilities and to pay off the pension plan side fund (\$4.5 million in 2014), the Town Council recently approved an additional \$1 million-dollar lump sum payment to be made in FY 2016/17 to further reduce the unfunded OPEB liabilities (see the discussion regarding OPEB on the next page). In March 2017, the Town appointed three residents with financial expertise as non-voting members to the Town Council Finance Committee. The Committee is providing valuable guidance to the Town Council and staff in the development of long term strategies to pay down and manage OPEB and pension liabilities. As a result of the Committee's work on this issue, Council established an Internal Revenue Service Code Section 115 Pension Trust that is set up to be dedicated to fund future pension costs. The Trust provides opportunities to set aside dollars specifically to address the unfunded liabilities and more flexibility in terms of investment allocations and a prudent investment strategy.

Other Post-Employment Benefits (OPEB)

The FY 2018/19 Proposed Budget includes an allocation of approximately \$1,200,000 in “pay-as-you-go” payments for retiree medical employer contributions. In addition, the proposed budget also includes a \$1,100,000 payment to the Town’s California Employee Retirement Benefit Trust (CERBT). The Trust was established on June 30, 2007 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 CERBT, a multiple-employer defined benefit health care plan administered by CalPERS. The purpose of the CERBT Fund is to provide local governments with a trust through which they may pre-fund retiree medical costs and other post-employment benefits. In addition, in FY 2016/17 the Town Council dedicated an additional \$1,000,000 payment to the fund based on the Council Finance Committee recommendation. 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 \$14.5 million as of April 2018.

To help reduce costs related to post-employment benefits, the Town proactively bargained an agreement wherein effective for employees retiring after February 1, 2016 the annuitant of Medicare eligible age is reimbursed to a maximum amount of benefit matching “Kaiser 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 positive, it is likely that the economy will weaken within the next couple of years. For this reason, the FY 2018/19 budget proposes to maintain the status quo of the Town’s high service levels with minimal staffing additions, while also addressing the Town Council’s priorities.

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

Building on the progress of the past we are cautiously programming for the future. With this budget we continue to fund important priorities including; bicycle and pedestrian road improvements, allocate additional discretionary funds toward pension obligations, enhance emergency preparedness, and address aging equipment and facilities. In addition we initiate funding for Council adopted new strategic priorities including; comprehensive parking study, potential community shuttle, and downtown one-way street pilot.

I wish to thank all of the departments, in particular, Department Directors and the members of their management, analytical, 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, Finance and Budget Manager
Mark Gaeta, Accountant
Melissa Ynegas, Administrative Analyst
Diane Howard, Payroll Specialist
Kenneth Stiles, Administrative Technician
Arn Andrews, Assistant Town Manager

Respectfully submitted,

A handwritten signature in cursive script that reads "Laurel Prevetti".

Laurel Prevetti
Town Manager