



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 submit to you the Proposed Fiscal Year (FY) 2018/19 – 2022/23 Five-Year Capital Improvement Program (CIP) for the Town of Los Gatos. The CIP is a comprehensive five-year capital improvement plan designed to identify projects to develop and maintain the Town's infrastructure, consistent with the Town Council Core Goal of maintaining the condition and availability of public facilities. Guidance for developing priorities for capital improvement projects is also derived from key plans, including the General Plan and the Council's Strategic Priorities.

This CIP budget message contains:

- Town's Core Goals and Strategic Priorities
- CIP Financial Summary - Funding Sources
- Proposed FY 2018/19 – 2022/23 CIP Overview
- Proposed FY 2018/19 CIP Overview
- FY 2017/18 Completed Projects

In February 2018, the Town Council established the 2018-20 Strategic Priorities (see page A-2). The Core Goals and Strategic Priorities guide the preparation of both the Capital and Operating Budgets. In terms of capital projects, the Town Council affirmed its interest in completing the Phase II of the Almond Grove streets, investing in bicycle and pedestrian improvements, addressing cut-through traffic, enhancing community vitality through events and other efforts, fostering emergency preparedness, and improving the condition of the Town's streets. The council also identified new projects, including a Comprehensive Parking Study, One-Way Downtown Streets Pilot, and Transportation Demand Management/Community Shuttle. These projects are all included in the Proposed CIP.

All proposed capital projects are described in this document. The reserves and operating expenditures are discussed in more detail in the Proposed FY 2018/19 Operating Budget.

**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

CAPITAL IMPROVEMENT PROGRAM

Introduction Section

CIP FINANCIAL SUMMARY – FUNDING SOURCES

As in the past, the Town continues to be challenged in its attempts to secure a reliable ongoing source of revenue for the Capital Improvements Program. The proposed five-year CIP reflects \$7.2 million in ongoing Gas Tax dedicated sources to help fund the proposed \$48 million of planned capital improvements. The balance of CIP funding of \$40.8 million is expected to be funded by one-time appropriations from the General Fund Appropriated Reserves (GFAR), Utility Undergrounds Funds, Traffic Mitigation Funds, Grant Funds, Storm Drain Funds as follows:

Funding Sources for the FY 2018/19 - 2022/23 CIP		
Ongoing	Gas Tax	\$ 7,174,510
One-Time	GFAR	28,593,859
	Utility Undeground Funds	6,766,000
	Traffic Mitigation Funds	1,978,973
	Grant Funds	2,637,319
	Storm Drain Funds	880,408
Total Funding Available		\$ 48,031,069

GAS TAX

State Gasoline Tax revenue, the only ongoing revenue source for capital improvements, is distributed to the Town from the State of California and recorded in the Gas Tax Fund. This tax is also known as the “Highway Users Tax” or the “Motor Vehicle Fuel License Tax.” The gasoline tax is an 18-cent per gallon tax on fuel used to propel a motor vehicle or aircraft. Gas Tax revenue is allocated to the Town based on a per gallon of gas purchased within the Town limits and based on population. 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.

GFAR

The primary source of funding for the Town’s capital program is the Town’s General Fund Appropriated Reserves (GFAR). By Council direction, this fund receives transfers from the General Fund’s designated Reserve for Future and Special Projects, which receives most of the Town’s annual revenues above operating expenditures after funding all legally restricted reserves at their required levels, including receipt of one-time funds from grants, property, and other reserves. Because of the availability of General Fund “one-time” funding sources in recent years, the Council approved a General Fund transfer to the GFAR fund in the amount of \$2.7 million for FY 2013/14, an additional “one-time” source allocation of \$6.6 million for FY 2014/15, and additional funding of \$6.9 million for the Almond Grove Street Rehabilitation project in FY 2016/17, \$2.8 million funding in FY 2017/18 and \$2.4 million transfer in FY 2018/19.

After these allocations, the Reserve for Future Capital and Special Projects forecasted June 30, 2019 balance is \$5 million. Sufficient balances are anticipated for the following five years of the Plan to allocate approximately \$550,000 from the General Fund Reserve for Capital and Special Projects for FY 2018/19 through FY 2022/23.

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As part of a voter-approved measure from 2010, the Santa Clara Valley Transportation Agency (VTA) assesses a \$10 per vehicle registration surcharge to repair and rehabilitate streets. This funding source is expected to generate approximately \$190,000 annually for Los Gatos, which will be used for street rehabilitation Town-wide. In November 2016, voters passed Countywide Measure B. This Measure increased the sales tax by ½ cent for 30 years to fund transportation related projects. One part of 2016 Measure B is a formulaic distribution of funds for roadway maintenance. The Los Gatos annual allocation is \$580,633. However, Measure B funds have been delayed due to a legal challenge to the ballot measure. Staff anticipates that the funds should become available in FY 2018/19.

The other revenue source for GFAR is the Construction Impact Fee and a Refuse Vehicle Road Impact Fee. This Construction impact fee is assessed on construction projects based on the square foot size of the project at a rate of \$1.14 per square foot. These fees are intended to recover the damage caused to Town streets by construction traffic. Construction Impact fees generate at least \$110,000 annually. Refuse Vehicle Road impact Fee estimated to generate \$490,000 for FY 2018/19.

The funding from this reserve greatly enhances the Town's ability to implement the CIP; however, it is not enough to support future annual infrastructure maintenance or construct new facilities. Establishing a reliable, dedicated source of funding for basic capital improvements beyond the use of accumulated reserves remains a long-term need and important goal for the Town.

UTILITY UNDERGROUND FUNDS

The Utility Undergrounding Fund serves as a funding source for activities generally undertaken in conjunction with street improvement projects. The Town receives approximately \$30,000 annually in Utility Undergrounding funding which is derived from a Town construction tax of 18 cents charged for each square foot of building addition or alteration within the Town. Total cash balances currently on hand from the utility undergrounding construction tax are approximately \$2.9 million at FY 2017/18 year-end. In addition, the Town may have access to over \$3.8 million in Rule 20A funds allocated from a percentage of electric bills. PG&E retains and tracks these monies. The Town has identified a project to underground utilities along Los Gatos Boulevard south of Lark Avenue. These projects rely on PG&E for scheduling and have long lead times. Staff expects a six year project design timeline, and is expecting project construction in FY 2018/19.

TRAFFIC MITIGATION FUNDS

The traffic impact mitigation fee assures that each new development or expansion of use pays its fair share of the transportation improvements needed to accommodate the cumulative traffic impacts. The fee is paid in full prior to issuance of the building permit for new development or expansion of use. In FY 2013/14, the Town Council approved an increased Traffic Impact Fee, expected to generate \$2 million over five years for local transportation improvements. Traffic Mitigation Funds should be used solely for construction of identified traffic and transportation improvement projects.

GRANT FUNDS

The Town receives grant funds from various sources that help address some of the maintenance and improvement costs associated with Town infrastructure. Grants include federally funded Surface Transportation Program (STP) funds which pay for general roadway capital improvements, and a combination of Federal Innovative Deployment to Enhance Arterials (IDEA) grant funds and State Vehicle Registration Fee (VRF) grant funds are contributing to the Traffic Signal Modernization project. In addition, the Town has programmed Community Development Block Grant funds for Bachman Park.

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Total grant funding for FY 2018/19 is estimated at \$950,000. The addition of the Transportation and Mobility Manager in last year's budget has allowed for staff to dedicate more attention to grant funding opportunities.

STORM DRAIN FUNDS

The Town also receives funding from its Storm Drain Fund, which relies on an established charge of \$0.75 per square foot of impervious surface created by new development. Depending on development activity, this fee produces approximately \$100,000 in revenue annually. This fee has not been adjusted for several years and should be evaluated in the future as part of the NPDES storm water permit process and as part of a continuous review of development related fees.

The remaining sources are primarily one-time funds from State or Federal government or from special revenue funds that have often fluctuated in tandem with the economy and the state budget. Examples of one-time funds include Valley Transportation Authority/Transportation Fund for Clean Air (VTA/TFCA) funds and State Proposition 42 Gas Tax funds.

PROPOSED FY 2018/19 – 2022/23 CIP OVERVIEW

The Capital Improvement Program is broadly grouped into the following categories:

- Streets Program, which maintains and ensures functional streets, pedestrian, and bike systems.
- Parks Program, which repairs or improves parks, park buildings, trails, and urban forestry.
- Public Facilities Program, which constructs and repairs public buildings, and purchases equipment.

The proposed CIP projects include both new and carry-forward projects from the prior year as part of the multi-year programming of \$48 million. Approximately \$44.3 million (92%) is allocated to the streets, retaining walls, sidewalks, and curbs category; \$2.1 million (4%) is allocated to parks and trails projects; and \$1.6 million (3%) is allocated to public facility projects. Allocations are summarized below by type of major improvements within the program categories.

FY 2018/19 - 2022/23 CIP by Program									
Five Year CIP Summary	Carry-forward from 2017/18	2018/19	Carry-forward and New FY 2018/19	2019/20	2020/21	2021/22	2022/23	Total By Category	Total By Program
Streets									
Reconstruct/Resurfacing	\$ 11,900,852	\$ 2,528,767	\$ 14,429,619	\$ 2,592,226	\$ 2,676,447	\$ 2,796,447	\$ 2,796,447	\$ 25,291,186	
Maintenance & Safety	1,043,624	435,000	1,478,624	435,000	435,000	435,000	435,000	3,218,624	
Street Improvements	4,999,335	4,201,782	9,201,116	5,132,149	906,907	150,000	215,000	15,605,172	
Bridges	235,087	-	235,087	-	-	-	-	235,087	\$ 44,350,069
Parks									
Park Improvements	565,659	338,000	903,659	-	25,000	-	25,000	\$ 953,659	
Trail Improvements	226,510	550,491	777,001	350,000	-	-	-	1,127,001	\$ 2,080,660
Public Facilities									
Infrastructure Projects	536,374	144,100	680,474	40,000	40,000	40,000	65,000	\$ 865,474	
Equipment Projects	334,865	400,000	734,865	-	-	-	-	734,865	\$ 1,600,339
TOTALS	\$ 19,842,307	\$ 8,598,140	\$ 28,440,446	\$ 8,549,375	\$ 4,083,354	\$ 3,421,447	\$ 3,536,447		\$ 48,031,069

Total funding for street reconstruction and resurfacing for the next five years is planned at \$25.3 million with approximately \$14.4 million allocated in FY 2018/19 including carryovers. Over the five-year period, the CIP proposes \$19 million for various other street-related infrastructure improvements including street maintenance and resurfacing; curb, gutter and sidewalk maintenance; street intersection improvements; retaining wall reconstruction; crosswalk ramps and safety devices; and storm drain improvements.

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Total funding for parks and trail improvements for the next five years is planned at \$2.1 million with approximately \$1.7 million allocated in FY 2018/19 including carryovers.

Total funding for public facilities infrastructure improvements and equipment projects for the next five years is planned at \$1.6 million with approximately \$1.4 million allocated in FY 2018/19 including carryovers.

Although the Proposed FY 2018/19-2022/23 CIP is a five-year plan, only the first year of the plan is formally adopted with funds appropriated by the Town Council as part of the budget process. Future year projects are funded with designated cash reserves on hand, supplemented by estimated annual revenues for capital funding purposes such as Gas Tax funds and state transportation funds. The scope and funding estimates may change based on the Town's fiscal situation and evolving priorities.

PROPOSED FY 2018/19 OVERVIEW

\$28.4 million is being proposed in the first year of the CIP and is comprised of approximately \$19.8 million in carryover funds from FY 2017/18 and approximately \$8.7million in new funding.

The first year of the five year plan, FY 2018/19 continues funding for the Town Council Strategic Priorities, including basic infrastructure needs. The first phase of the Almond Grove project, the reconstruction of Broadway and Bachman Avenues, was completed in the fall of 2016. The Almond Grove Phase 2 project includes the remaining eight streets. Construction began in the summer of 2017 and continues over the next two summer seasons.

The CIP also continues ongoing funding in areas that require consistent investments to ensure the stability of existing infrastructure, such as retaining walls, sidewalk repair, and street maintenance. The latter item, street maintenance, warrants particular attention as the Town Pavement Condition Index (PCI), a standard rating of street conditions, has fallen in recent years. The PCI reached a recent high rating of 74 in 2008 due to concentrated investments and is now at the level of 65 (2017 data). With the new State Transportation Funds, other funding, and combining this project with the Town's Maintenance Crack Sealing Project, the investment in street maintenance will rise from \$1,075,000 to \$2,450,000 per year. This new investment level will allow the Town's PCI to increase to a 67 or 68 within the next five years.

In FY 2015/16, the Council placed several CIP projects on hold and transferred the funding of these projects to the Almond Grove Project. The following projects have been moved to an unfunded needs list:

- Parking Lot 4 Repair and Resurfacing
- Downtown Parking Sign Enhancements
- Montebello Way Island Removal
- Oak Meadow Park Upgrades
- Los Gatos Creek Trail Improvements – Charter Oaks
- Worcester Park Improvements
- Civic Center Improvements
- Plaza Park Improvements

CAPITAL IMPROVEMENT PROGRAM Introduction Section

The complete list of the proposed FY 2018/19 carry-forward and proposed projects (categorized by funds and programs) can be found on page A-8. Projects are listed in the Financial Summary section and further described in the project detail pages by category. Below is a summary by category. The total FY 2018/19 CIP is \$28.4 million.

Carry-forward & New FY 2018/19 CIP Projects					
	GFAR	Grant and Awards	Gas Tax	Other *	Total Estimated
Street Projects	\$ 17,309,000	\$ 1,841,731	\$ 2,409,311	\$ 3,784,405	\$ 25,344,447
Park Projects	975,072	705,588	-	-	1,680,660
Public Facilities Projects	1,415,339	-	-	-	1,415,339
TOTAL OF CARRY-FORWARD & NEW PROJECTS	\$ 19,699,411	\$ 2,547,319	\$ 2,409,311	\$ 3,784,405	\$ 28,440,446

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Carry-forward & FY 2018/19 CIP Projects							
CARRY-FORWARD PROJECTS		GFAR	Grants and Awards	Gas Tax	Other	Total	
<i>Streets</i>	Street Repair & Resurfacing	\$ 2,967,147	\$ -	\$ 2,409,311	\$ -	\$ 5,376,457 *	
	Annual Street Restriping	119,772	-	-	-	119,772 *	
	Almond Grove Street Rehabilitation	9,053,161	-	-	-	9,053,161 *	
	Traffic Calming Projects	78,286	-	-	-	78,286 *	
	Curb, Gutter & Sidewalk Maintenance	598,733	-	-	-	598,733 *	
	Retaining Wall Repairs	391,526	-	-	-	391,526 *	
	Quito Road - Bridge Replacement	235,087	-	-	-	235,087 *	
	Guardrail Replacement Projects	93,043	-	-	-	93,043 *	
	224 W. Main Street Property Acquisition (Parking Lot 6)	1,214,913	-	-	-	1,214,913 *	
	Downtown Parking Lots Seal Coat & Restriping	75,085	-	-	-	75,085 *	
	Hernandez Avenue Storm Drain Improvements	-	-	-	-	-	
	Jones Road Storm Drain Improvements	-	-	-	2,300	2,300 *	
	Blossom Hill Rd/Cherry Blossom Ln Intersection Improvements	-	-	-	500,000	500,000 *	
	Los Gatos Blvd/Shannon Improvements	-	-	-	20,000	20,000 *	
	Monument Control Network Update	20,000	-	-	10,000	30,000 *	
	Hwy 9/University Intersection	-	199,211	-	-	199,211 *	
	Sidewalk Improvements Shannon/LGB/Cherry Blossom	129,896	-	-	-	129,896 *	
	Stonybrook & Kennedy Sidewalk Improvements	516,132	-	-	-	516,132 *	
	Sidewalk Improvements - Multiple Locations	60,000	-	-	-	60,000 *	
	Crosswalk Improvements - Santa Cruz/Blossom Hill	58,992	-	-	49,906	108,898 *	
	Crosswalk Lighting Upgrade	53,739	-	-	34,629	88,368 *	
	LED Streetlights	108,470	-	-	-	108,470 *	
	Utility Underground Improvements	-	-	-	2,330,000	2,330,000 *	
	Traffic Signal Modernization	-	1,559,525	-	355,738	1,915,263 *	
	Bicycle & Pedestrian Improvements	536,300	-	-	75,000	611,300 *	
	Cut-Through Traffic Mitigation	63,118	-	-	46,721	109,839 *	
	Bicknell Road Storm Drain Improvements	-	-	-	63,108	63,108 *	
	Stormwater Master Plan	200,000	-	-	-	200,000 *	
	Stormwater System - Pollution Prevention Compliance	300,000	-	-	-	300,000 *	
	Public Art Gateway	25,000	-	-	-	25,000 *	
	<i>Parks</i>	Trailhead Connector	152,000	-	-	-	152,000 *
		Parks Playground Fibar Project	36,540	-	-	-	36,540 *
Park Rehabilitation - Bachman Park		314,582	214,537	-	-	529,119 *	
Forbes Mill Footbridge Improvements		74,510	-	-	-	74,510 *	
Belgatos Park Restroom Improvements		25,000	-	-	-	25,000 *	
<i>Public Facilities</i>	Audio/Video System Upgrade	42,552	-	-	-	42,552 *	
	Information System Upgrade	172,785	-	-	-	172,785 *	
	Town-wide Document Imaging Project	16,990	-	-	-	16,990 *	
	Building Replacement at Corporation Yard	149,083	-	-	-	149,083 *	
	Fuel System Enhancements	37,420	-	-	-	37,420 *	
	Police & PPW Interoperability Radio Project	87,221	-	-	-	87,221 *	
	Engineering Document Archiving	51,716	-	-	-	51,716 *	
	Civic Center Building Energy Efficiency Measures	25,000	-	-	-	25,000 *	
	Mechanic Bay Heater	25,000	-	-	-	25,000 *	
	Facilities Assessment	80,000	-	-	-	80,000 *	
	Town Beautification	15,000	-	-	-	15,000 *	
	Silicon Valley Regional Interoperability Project (SVRIP) Service	63,601	-	-	-	63,601 *	
	Energy Efficiency Upgrade - Town-wide	75,000	-	-	-	75,000 *	
	Library Teen Door Installation	51,000	-	-	-	51,000 *	
	Exterior Lighting Replacement - Civic Center	17,216	-	-	-	17,216 *	
	Civic Center Fountain Modification	33,135	-	-	-	33,135 *	
HVAC - Chiller Repair	93,520	-	-	-	93,520 *		
TOTAL OF CARRY-FORWARD PROJECTS (INCLUDES NEW ALLOCATIONS)		\$ 18,537,271	\$ 1,973,273	\$ 2,409,311	\$ 3,487,400	\$ 26,407,255	
* These carry-forward projects include new money for FY 2018/19 in the amount of \$6,387,080.							
NEW PROJECTS							
<i>Streets</i>	Annual Storm Drain Improvement Prj	\$ -	\$ -	\$ -	\$ 150,000	\$ 150,000	
	Downtown Parking Study	200,000	-	-	-	200,000	
	One-Way Downtown Street Pilot	130,000	-	-	-	130,000	
	Pilot School Busing Program	80,600	30,000	-	-	110,600	
	Highway 17 Bicycle & Ped Bridge	-	52,995	-	147,005	200,000	
<i>Parks</i>	Town Plaza Turf Repairs	28,000	-	-	-	28,000	
	Oak Meadow Park Exercise Equipment	60,000	-	-	-	60,000	
	Creek Trail & Parks Path & Parking Lot Seal & Striping	225,000	-	-	-	225,000	
	Charter Oaks Trail Repair Project	15,000	148,051	-	-	163,051	
Trailhead Connector	44,440	343,000	-	-	387,440		
<i>Public Facilities</i>	Neighborhood Emergency Preparedness	50,000	-	-	-	50,000	
	Library Carpet Replacement	56,500	-	-	-	56,500	
	EOC Communications Upgrade	50,000	-	-	-	50,000	
	Youth Recreation Center HVAC Replacement	22,600	-	-	-	22,600	
	IT Disaster Recovery Improvements	200,000	-	-	-	200,000	
TOTAL OF NEW PROJECTS		\$ 1,162,140	\$ 574,046	\$ -	\$ 297,005	\$ 2,033,191	
TOTAL OF CARRY-FORWARD & NEW PROJECTS		\$ 19,699,411	\$ 2,547,319	\$ 2,409,311	\$ 3,784,405	\$ 28,440,446	

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FY 2017/18 COMPLETED PROJECTS

Several projects are expected to be completed by the end of FY 2017/18. The table below outlines the projects, funding source, and total expense of the completed projects, which is estimated to be \$0.6 million. More details about the completed projects can be found beginning on page A-15.

Projects Completed in FY 2017/18					
	GFAR	Grant & Awards	Traffic Mitigation	Other *	Total Estimated
Street Program					
Pageant Way Parking Lot Reconstruction	214,671	-	-	-	214,671
Bicycle & Pedestrian Master Plan	111,173	39,640	-	-	150,814
Park Program					
Tennis Courts Resurfacing - Various Town Parks	47,785	-	-	-	47,785
Blossom Hill Park Little League Backstop	101,344	-	-	-	101,344
Public Facilities Program					
Tiburon CAD/RMS Update	70,000	-	-	-	70,000
TOTAL OF COMPLETED PROJECTS	\$ 544,972	\$ 39,640	\$ -	\$ -	\$ 584,613

CONCLUSION

The challenge of finding a reliable ongoing revenue stream available for capital projects continues to be a Town priority. Recognizing the realities of funding challenges and uncertain local economic trends, the Town's FY 2018/19 – 2022/23 Capital Improvement Plan continues a strategy of funding the Town's most urgent capital needs.

I wish to thank all of the Departments, in particular Department Directors and members of their management and support staff, for their many hours of work and tireless efforts to present this Capital Improvement Program to the Town Council, as well as the following staff members:

- Stephen Conway, Finance Director
- Gitta Ungvari, Finance and Budget Manager
- Matt Morley, Parks and Public Works Director
- Lisa Petersen, Assistant Parks and Public Works Director/Town Engineer
- Mark Gaeta, Accountant
- Bobby Gonzalez, Senior Administrative Analyst
- Melissa Ynegas, Administrative Analyst
- Kenneth Stiles, Administrative Technician

Respectfully submitted,



Laurel Prevetti
Town Manager

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 Program (CIP) for the Town of Los Gatos. The budgets contain summary level information for revenue and expenditure appropriations for the fiscal year beginning July 1st and ending June 30th. The budget documents are prepared in accordance with generally accepted accounting principles (GAAP).

Budget Purpose

The Operating and Capital Summary Budget and the Capital Improvement Program 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.

CIP Purpose

In particular, the CIP is designed to identify projects and funds required to adequately develop and maintain the Town's infrastructure, which is consistent with the Town Council strategic goal of maintaining the condition and availability of public facilities. The following plans provide additional guidance in developing priorities for capital improvement projects:

- General Plan
- Street Improvement Program

In addition, project prioritization criteria such as health and safety issues, infrastructure or system condition, short term versus long term impacts and availability of external funding sources are assessed as part of the process that staff uses to rank projects from high to low in

preparing the proposed CIP. As it develops and matures in its application, the Town's Infrastructure Assessment Program will further support the Town's long range Capital Improvement Program, focusing attention on the current and future infrastructure needs of the community and balancing the community's needs with funding requirements and financial resources. Other technology tools used in CIP development include the use of the geographic information system, the traffic monitoring system, electronic files for tracking unfunded projects and replacement schedules, and an asset management program to track work requests.

The Town's capital projects are categorized as follows:

The Streets Program provides funding for maintaining a functional street and pedestrian system. Proposed projects are consistent with the General Plan, provide for a safe and efficient traffic flow through intersections while minimizing unnecessary traffic movement and noise through residential neighborhoods, and provide street lighting for traffic safety at intersections and on public streets. Also included are sidewalk improvements.

The Public Facilities Program includes projects for constructing and repairing public buildings and purchasing equipment. Town buildings include the Civic Center, the Library, Adult Recreation Center, Tait Avenue and Forbes Mill properties, and other assets. Although the Town owns the three fire stations within Town limits, the Santa Clara County Fire District maintains them under contract.

The Parks Program includes projects for parks, park buildings, urban forestry, and urban beautification.

Basis of Budgeting and Accounting

Developed on a program basis with fund level authority, the Operating and Capital Budgets represent services and functions provided by

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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 of the Town of Los Gatos Redevelopment Agency (RDA). RDA debt is continuing to be paid for the Certificate of Participation (COPs) used to finance the Library. 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 and Successor Agency Fund budgets are developed using the modified accrual basis of accounting. Under this basis, revenues are estimated for the period if they are susceptible to accrual, e.g. amounts can be determined and will be collected within the current period. Principal and interest on general long-term debt are budgeted as expenditures when due, whereas other expenditures are budgeted for liabilities expected to be incurred during the current period.

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

The Town's Fiduciary Funds are also budgeted under the modified accrual basis. The Town

administers four trust funds and one agency fund. Trust funds are subject to trust agreement guidelines, and the Agency Fund is held in a purely custodial capacity involving only the receipt, temporary investment, and remittance of resources.

Summary of Budget Development

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

The Development Process

Typically both the Operating and Capital Budget and Capital Improvement Program processes begin early in the calendar year with the Town Council and Town Manager's collaborative development and refinement of initiatives and directives for the upcoming budget year as reflected in the Council adopted strategic priorities.

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 goals. Department staff identify and analyze program revenue and expenditure projections in coordination with Finance/Budget staff and Town Management. Town staff also consult with Town Commissions for their input on specific investments. Capital improvement projects are assessed and refined, and CIP funding and appropriation requirements are finalized.

Through rounds of budget briefings and revisions, final proposed program budget and

CAPITAL IMPROVEMENT PROGRAM

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work plans are developed by the end of April. Operational and capital workplans 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.

CIP Development Process

The long term Capital Improvement Program includes projects that have a value of \$25,000 or more with a minimum useful life of 5 years at a fixed location. Equipment, operating, and maintenance costs associated with the CIP projects are identified where feasible, and will be included in future operating budgets. Cost estimates for new projects are based on 2017 dollars; however, engineering estimates for carryover projects from the prior year are updated to reflect current industry costs.

Under direction from the Town Manager's Office, the Parks and Public Works Department took the lead in the preparation of the proposed projects for consideration in the FY 2018/19 – 2022/23 Capital Improvement Program. In coordination with other Town Departments, projects were reviewed to ensure that the Town's priorities are addressed within available resources. In some cases, previously approved projects have been deferred due to reallocation of funding to other priorities and thus have been noted as unfunded projects in each program section of the CIP.

The Town Manager's Office reviews the prioritized list of proposed capital improvement projects and funding sources in conjunction with the preparation of the FY 2018/19 Operating Budget. The Proposed CIP is then presented by the Town Manager to the Town Council. The Proposed CIP is also submitted to the Planning Commission for review to ensure that the proposed projects are consistent with the Town's General Plan. The Planning Commission reviewed the CIP and found it consistent with the General Plan on April 25, 2018.

The CIP is reviewed during this time to determine funding capabilities and 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.

Budget Adoption

During the month of May, the Town Council reviews the proposed Operating and Capital Summary Budget, and the Capital Improvement Program for the five-year period at 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 Clerk Department, 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 Program 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 final adoption, again in a publicized public hearing in June prior to the beginning of the fiscal year (July 1st).

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.

Budget Amendments

During the course of the fiscal year, workplan 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.

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