

BUDGET PROCESS OVERVIEW

The Town Council 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

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 core 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
- Pavement Maintenance Program
- Bicycle and Pedestrian Master Plan
- Stormwater Needs Assessment
- Facilities Condition Assessment
- Americans with Disabilities Act (ADA) Transition Plan
- Local Road Safety Plan

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, equity considerations, and balancing these 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 system for all modes of travel, including bicycles, pedestrians, wheelchairs, strollers, scooters, and vehicles. Proposed projects are consistent with the General Plan, provide connectivity across Los Gatos, facilitate safe and efficient

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movement through intersections for all modes, minimizing unnecessary traffic movement and noise through residential neighborhoods, and providing street lighting for safety.

The Public Facilities Program includes projects for constructing and repairing public buildings and purchasing equipment. Town buildings include the Civic Center, the Library, Police Operations Building, the Corporation Yard, Adult Recreation Center, Los Gatos Theatre, and other assets. Although the Town owns the three fire stations within Town limits, the Santa Clara County Fire District maintains them under contract. In addition, although the Town owns the Tait Avenue and Forbes Mill properties their maintenance has been contracted to the master tenant management.

The Parks Program includes projects for parks, park buildings, open spaces, urban forestry, trails, 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 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 and other assets. 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 five trust funds. Trust funds are subject to trust agreement guidelines.

Summary of Budget Development

The Town develops its budgets with a team-based 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 identifies and analyzes line-item program revenue and expenditure projections in coordination with Finance/Budget staff and Town Management. Town staff also consults 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 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. Beginning in 2021, per a recent voter initiative, the draft Budget documents are provided to the Town Finance Commission for its review and comment at least 20 days before the Council's first consideration of the Budgets.

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, except in the case of certain annual ongoing funds that are funded in smaller amounts due to project need. 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 2023 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 2023/24 – 2027/28 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 the program sections 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 2023/24 Operating Budget. The Proposed CIP is then presented by the Town Manager to the Town Council. Both Budgets are provided to the Finance Commission for its review and comment at least 20 business days before the first Council consideration. The Commission is advisory 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 as required by State law (Government Code Section 65401).

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

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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

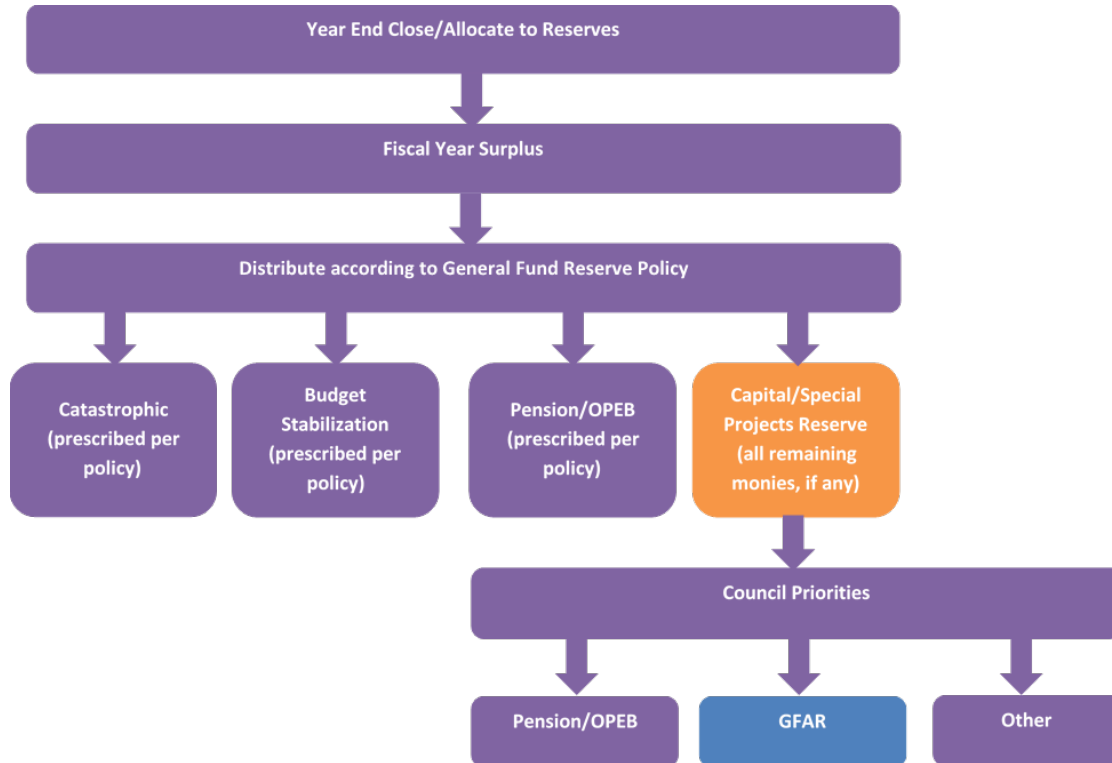
During the month of May, the Town Council reviews the proposed Operating and Capital Summary Budget, and the Capital Improvement Program for the five-year period at a public hearing. Notice of the hearing is published in a local newspaper at least ten days prior to the Council's public hearing date. The public is invited to participate and copies of the proposed budgets are primarily available for review on the Town website.

Final Council-directed revisions to the proposed budget are made and the budget documents are resubmitted to the Town Council for final adoption consistent with Los Gatos Town Code Section 2.30.295(b), which requires the Town Manager to annually prepare and submit a budget to the Town Council. This is accomplished in June at a noticed 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 that may be approved at any Town Council meeting.

FISCAL YEAR SURPLUS FLOW OF FUNDS



CAPITAL IMPROVEMENT PROGRAM

