



**TOWN OF LOS GATOS
FINANCE COMMISSION AGENDA
MARCH 10, 2025
110 EAST MAIN STREET
TOWN COUNCIL CHAMBERS
5:30 PM**

*Linda Reiners, Chair
Ashby Monk, Vice Chair
Adam Fischer, Commissioner
Phil Koen, Commissioner
Joseph Rodgers, Commissioner
Matthew Hudes, Mayor
Rob Moore, Vice Mayor*

IMPORTANT NOTICE

This is a hybrid meeting and will be held in-person at the Town Council Chambers at 110 E. Main Street and virtually through Zoom Webinar (log-in information provided below). Members of the public may provide public comments for agenda items in-person or virtually through the Zoom Webinar by following the instructions listed below.

HOW TO PARTICIPATE

The public is welcome to provide oral comments in real-time during the meeting in three ways:

Zoom Webinar (Online): Join from a PC, Mac, iPad, iPhone or Android device. Please click this

URL to join: [https://losgatosca-](https://losgatosca.gov.zoom.us/j/83324739120?pwd=ROVSrj37YUwahyFb4dlq2e3DLEo4W0.1)

[gov.zoom.us/j/83324739120?pwd=ROVSrj37YUwahyFb4dlq2e3DLEo4W0.1](https://losgatosca.gov.zoom.us/j/83324739120?pwd=ROVSrj37YUwahyFb4dlq2e3DLEo4W0.1)

Passcode: 136033 You can also type in 833 2473 9120 in the “Join a Meeting” page on the Zoom website at and use passcode 136033.

When the Mayor announces the item for which you wish to speak, click the “raise hand” feature in Zoom. If you are participating by phone on the Zoom app, press *9 on your telephone keypad to raise your hand.

Telephone: Please dial (877) 3361839 for US Toll-free or (636) 651-0008 for US Toll. (Conference code: 686100)

If you are participating by calling in, press #2 on your telephone keypad to raise your hand.

In-Person: Please complete a “speaker’s card” located on the back of the chamber benches and return it to the Town Clerk before the meeting or when the Chair announces the item for which you wish to speak.

NOTES: (1) Comments will be limited to three (3) minutes or less at the Chair’s discretion.

(2) If you are unable to participate in real-time, you may email to Clerk@losgatosca.gov the subject line “Public Comment Item #__” (insert the item number relevant to your comment). All comments received will become part of the record.

(3) Deadlines to submit written comments are:

- 11:00 a.m. the Thursday before the Commission meeting for inclusion in the agenda packet.
- 11:00 a.m. the Friday before the Commission meeting for inclusion in an addendum.
- 11:00 a.m. on the day of the Commission meeting for inclusion in a desk item.

(4) Persons wishing to make a visual presentation on an item listed under Other Business, must submit the presentation electronically to Clerk@losgatosca.gov no later than 3:00 p.m. on the day of the Commission meeting.

CALL MEETING TO ORDER

ROLL CALL

APPROVE REMOTE PARTICIPATION *(This item is listed on the agenda in the event there is an emergency circumstance requiring a Commissioner to participate remotely under AB 2449 (Government Code 54953)).*

CONSENT ITEMS *(Items appearing on the Consent are considered routine Town business and may be approved by one motion. Members of the public may provide input on any Consent Item(s) when the Chair asks for public comment on the Consent Items.)*

- [1.](#) Approve the Minutes of the February 10, 2025, Finance Commission Regular Meeting
- [2.](#) Receive the Monthly Financial and Investment Report for January 2025
- [3.](#) Receive the California Employer's Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending December 31, 2024 and the Performance Report as of January 31, 2025.
- [4.](#) Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy Market Value Summary Report for the Period Ending December 31, 2024, and Performance as of January 31, 2025
- [5.](#) Receive FY 2023-24 Federal Single Audit Report
- [6.](#) Recommend that the Town Council Receive the Independent Accountants' Report on Agreed-Upon Procedures on Measure G Revenues and Expenditures for the Period July 1, 2023 to June 30, 2024

VERBAL COMMUNICATIONS *(Members of the public are welcome to address the Commission on any matter that is not listed on the agenda and is within the subject matter jurisdiction of the Finance Commission. To ensure all agenda items are heard, this portion of the agenda is limited to 30 minutes. In the event additional speakers were not able to be heard during the initial Verbal Communications portion of the agenda, an additional Verbal Communications will be opened prior to adjournment. Each speaker is limited to no more than three (3) minutes or such time as authorized by the Chair.)*

OTHER BUSINESS *(Up to three minutes may be allotted to each speaker on any of the following items.)*

- [7.](#) Review and Recommend to the Town Council Changes to the Town's Investment Policy
- [8.](#) Review and Recommend to the Town Council Changes to the Town's General Fund Reserve Policy
9. Discussion of Topics for Budget and Financial Statement Discussion

ADJOURNMENT

ADA NOTICE In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Clerk's Office at (408) 354-6834. Notification at least two (2) business days prior to the meeting date will enable the Town to make reasonable arrangements to ensure accessibility to this meeting [28 CFR §35.102-35.104].

NOTE: The ADA access ramp to the Town Council Chambers is under construction and will be inaccessible through June 2025. Persons who require the use of that ramp to attend meetings are requested to contact the Clerk's Office at least two (2) business days prior to the meeting date.

Materials related to an item on this agenda submitted to the Commission after initial distribution of the agenda packets are available for public inspection in the Clerk's Office at Town Hall, 110 E. Main Street, Los Gatos and on Town's website at www.losgatosca.gov. Commission agendas and related materials can be viewed online at <https://losgatos-ca.municodemeetings.com/>.



**TOWN OF LOS GATOS
FINANCE COMMISSION
MINUTES**

MEETING DATE: 3/10/2025

Item 1.

ITEM NO: 1

**Minutes of the Finance Commission Regular Meeting
February 10, 2025**

The Finance Commission of the Town of Los Gatos conducted a regular meeting in person and utilizing teleconferencing means on Monday, February 10, 2025, at 5:30 p.m.

THE MEETING WAS CALLED TO ORDER AT 5:33 P.M.

ROLL CALL

Present: Chair Linda Reiners, Vice Chair Ashby Monk, Commissioner Adam Fischer, Commissioner Joe Rodgers, Mayor Matthew Hudes, and Vice Mayor Rob Moore

Absent: Commissioner Phil Koen

Town Staff Present: Town Manager Chris Constantin, Finance Director Gitta Ungvari, Town Clerk Wendy Wood, and Finance and Accounting Manager Eric Lemon.

CONSENT ITEMS

1. Approve the Minutes of the January 9, 2025, Finance Commission Special Meeting
2. Receive the Monthly Financial and Investment Report for December 2024

There was no public comment.

MOTION: Motion by Vice Chair Monk to approve the consent items. **Seconded** by Commissioner Fischer.

VOTE: Motion passed unanimously.

VERBAL COMMUNICATIONS

There was no public comment.

OTHER BUSINESS

3. Receive the FY 2024-25 Mid-Year Budget Report

Gitta Ungvari, Finance Director, presented the item.

The Commission discussed the item and asked staff questions
Staff addressed the Commissioners' questions.

There was no public comment.

No action taken.

- 4. Review and Make a Recommendation to the Town Council on the FY 2025-26 Five-Year Forecast and Supporting Work Product

Gitta Ungvari, Finance Director, presented the item.

The Commission discussed the item and asked questions.

Staff addressed the Commissioners’ questions.

There was no public comment.

MOTION: Motion by Chair Rieners to recommend the five-year forecast with the updates on some of the pension numbers to reflect the accurate compounded returns over time [removing the terms “Greater” and “Base” from the UAL Town Contribution Table (Page 13 of Staff Report) and identified typographical errors in the CalPERS Compound Annual Rates of Return Table (Page 14 of Staff Report)] and to encourage staff to complete a more detailed fiscal analysis and integrate the results into future five-year forecasts. **Seconded by Vice Chair Monk.**

VOTE: Motion passed unanimously.

STAFF LIAISON REPORT

Gitta Ungvari, Director of Finance, reported on the State Controller Report Submission and noted that the Town Council approved the Finance Commission Workplan. The Finance Commission Workplan is available on the Town website.

ADJOURNMENT:

The meeting adjourned at 7:26 p.m.

This is to certify that the foregoing is a true and correct copy of the minutes of the February 10, 2025, special meeting as approved by the Finance Commission.

Eric Lemon, Finance and Accounting Manager



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 03/10/2025

ITEM NO: 2

Item 2.

DATE: March 3, 2025
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Receive the Monthly Financial and Investment Report for January 2025

RECOMMENDATION:

Receive the monthly Financial and Investment Report for January 2025.

BACKGROUND:

California Government Code Section 41004 requires that the Town Treasurer submit to the Town Clerk and the legislative body a written report and accounting of all receipts, disbursements, and fund balances. The Finance Director assumes the Town Treasurer role. Attachment 1 contains the January 2025 monthly Financial and Investment Report which fulfills this requirement.

The January 2025 Monthly Financial and Investment Report will be presented to the Town Council at its March 18, 2025, regular meeting.

DISCUSSION:

The January 2025 Monthly Financial and Investment Report includes a Fund Balance Schedule, representing estimated funding available for all funds at the beginning of the fiscal year and at the end of the respective month.

As operations fluctuate month to month, there are differences between balances in one month to balances in another. Such differences may be significant due to the type of activity in those months and the timing of any estimates used in the presentation based on the information available. This is demonstrated by the attached January 31, 2025, fund balance report.

PREPARED BY: Eric Lemon
Finance and Accounting Manager

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

In the case that the differences are extraordinary and unanticipated, we will ensure we present more information to explain the differences.

The January 31, 2025, estimated fund balances differ from the December 31, 2024, estimated fund balances due to the normal day-to-day activity where revenue and expenditure activity in one month have a larger shift in one month from the other.

Please note that the amount in the Fund Schedule differs from the Portfolio Allocation and Treasurer’s Cash Fund Balances Summary schedule because assets and liabilities are components of the Fund Balance.

As illustrated in the summary below, Total Cash is adjusted by adding Total Assets less the amount of Total Liabilities to arrive at the Ending Fund Balance – which represents the actual amount of funds available.

Reconciling Cash to Fund Balance - January 31, 2025		
Total Cash	\$	71,009,516
Plus: Assets	\$	14,112,067
Less: Liabilities	\$	(26,868,347)
Estimated Fund Balance	\$	58,253,236

As of January 31, 2025, the Town’s financial position (Cash Plus Other Assets \$85.12M, Liabilities \$26.87M, and Fund Equity \$58.25M) remains strong and the Town has sufficient funds to meet the cash demands for the next six months.

As of January 31, 2025, the Town’s weighted portfolio yield for investments under management was 4.44% which was 7 basis points above the Local Agency Investment Fund (LAIF) yield of 4.37% for the same reporting period. As of December 31, 2024, the LAIF portfolio’s weighted average maturity (WAM) is 252 days versus the Town’s longer WAM of 651 days on January 31, 2025. The Town assets under management reflect the Town’s selection of the 1-3 year benchmark investment strategy through the Town’s investment advisor to lock in higher yields at the top of the interest rate cycle. The longer maturities are balanced with shorter-term yields available on investments held with the State’s LAIF. The Town’s weighted average rate of return on investments under management of 4.44% at the close of January was flat when compared to the December 31, 2024, investment report.

Since January 2024, LAIF yields climbed from 401 basis points (4.01%) to 437 basis points (4.37%) through the end of January 2025. The State LAIF pool typically lags the market when current market yields are either increasing or decreasing.

PAGE 3 OF 3

SUBJECT: Monthly Financial and Investment Report for January 2025

DATE: February 3, 2025

After the rate change back in July of 2023, the Federal Open Market Committee (FOMC) did not change rates again until their September 18, 2024, meeting when they approved a 1/2 percentage basis point decrease from 5.5% to 5.0%. Furthermore, on November 7, 2024, the Federal Reserve voted to approve an additional 1/4 basis point decrease from 5.0% to 4.75%. The most recent change was at their December 2024 meeting when the Federal Reserve voted to approve another 1/4 basis point decrease from 4.75% to 4.50%. These changes support the Federal Open Market Committee's goal to support maximum employment and bring year-to-year inflation to its targeted level of 2%.

The labor market remained solid, with payrolls growth stronger than expected at 256,000. The unemployment rate ticked down from 4.2% to 4.1%, while the participation rate remained stable. The November Job Openings and Labor Turnover Survey showed the job openings rate rising to 4.8%, with the layoff rate remaining low at 1.1%. The ratio of job openings to unemployed remained at approximately 1.1, in line with pre-pandemic levels.

The Town's investments are in compliance with the Town's Investment Policy dated February 21, 2023, and are also in compliance with the requirements of Section 53600 at seq. of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

CONCLUSION:

Receive the Monthly Financial and Investment Report for January 2025.

Attachments:

1. Financial and Investment Report (January 2025)

**Town of Los Gatos
Summary Investment Information
January 31, 2025**

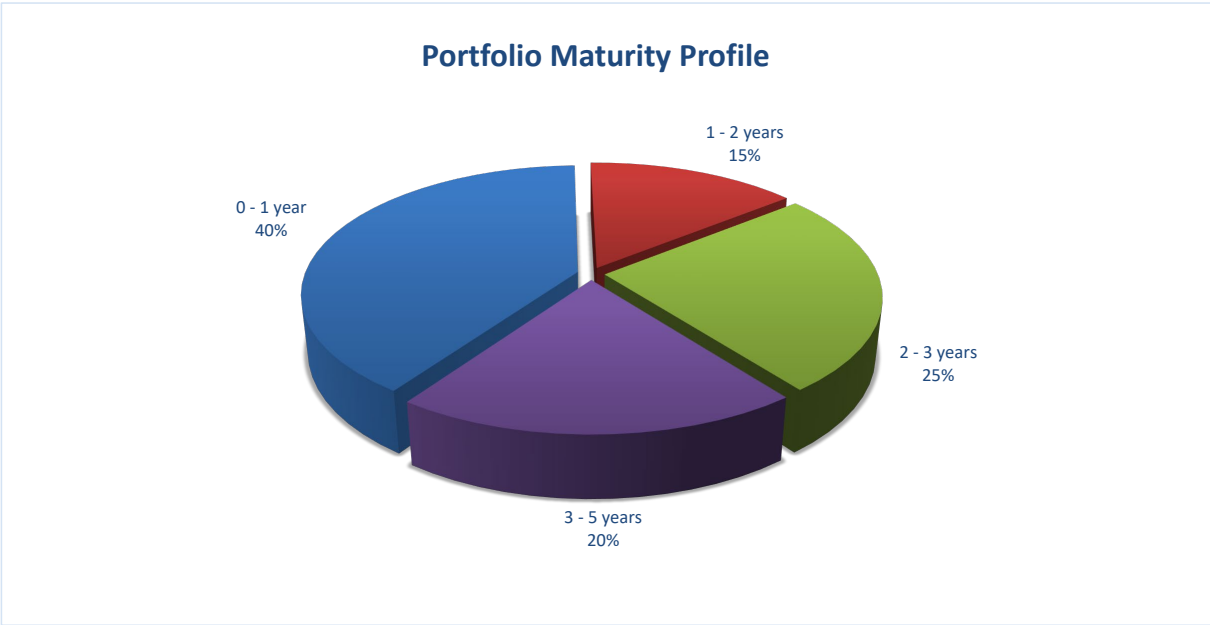
Weighted Average YTM Portfolio Yield on Investments under Management **4.44%**

Weighted Average Maturity (days) **651**

	This Month	Last Month	One year ago
Portfolio Allocation & Treasurer's Cash Balances	\$71,009,516	\$66,720,922	\$72,393,065
Managed Investments	\$50,710,061		
Local Agency Investment Fund	\$12,012,090		
Reconciled Demand Deposit Balances	\$8,287,365		
Portfolio Allocation & Treasurer's Cash Balances	\$71,009,516		

Benchmarks/ References:

Town's Average Yield	4.44%	4.44%	4.23%
LAIF Yield for month	4.37%	4.43%	4.01%
3 mo. Treasury	4.28%	4.31%	5.38%
6 mo. Treasury	4.30%	4.27%	5.20%
2 yr. Treasury	4.20%	4.24%	4.21%
5 yr. Treasury	4.33%	4.38%	3.84%
10 Yr. Treasury	4.54%	4.57%	3.91%

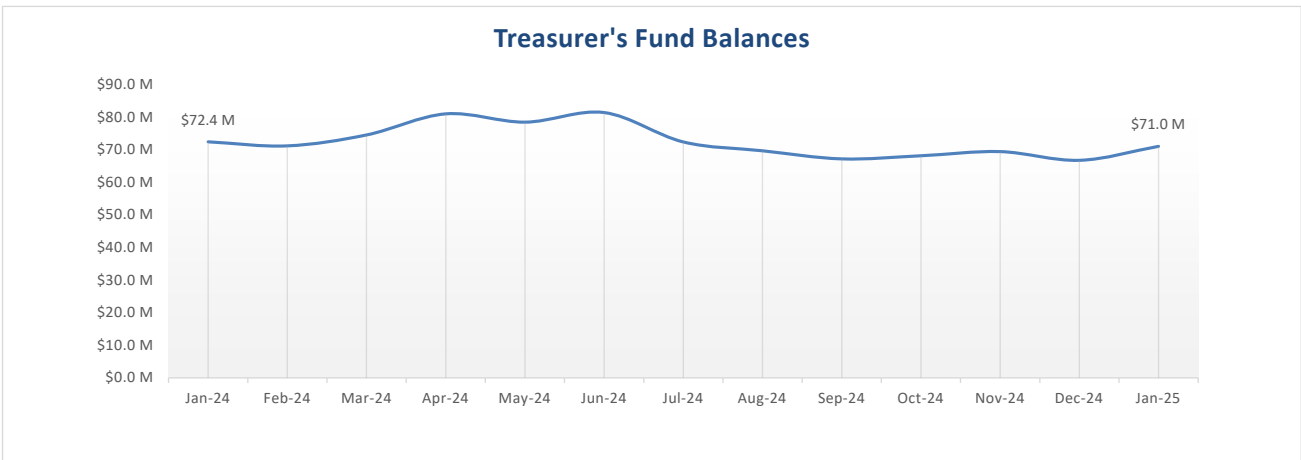
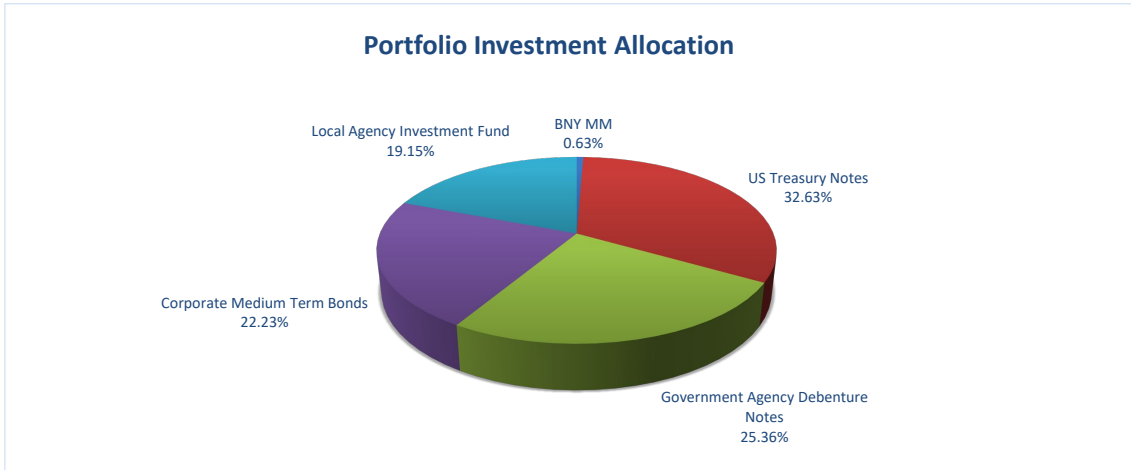


Compliance: The Town's investments are in compliance with the Town's investment policy dated February 21, 2023, and also in compliance with the requirements of Section 53600 at seq. of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

**Town of Los Gatos
Portfolio Allocation & Treasurer's Cash Balances
January 31, 2025**

	<u>Month</u>	<u>YTD</u>
Cash & Investment Balances - Beginning of Month/Period	\$ 66,720,921.77	\$ 81,368,409.88
Receipts	9,305,112.07	41,929,808.18
Disbursements	<u>(5,016,517.64)</u>	<u>(52,288,701.86)</u>
Cash & Investment Balances - End of Month/Period	<u>\$71,009,516.20</u>	<u>\$71,009,516.20</u>

Portfolio Allocation	Amount	% of Portfolio	Max. % or \$ Allowed per State Law or Policy
BNY MM	\$396,550.74	0.63%	20% of Town Portfolio
US Treasury Notes	\$20,469,190.11	32.63%	No Max. on US Treasuries
Government Agency Debenture Notes	\$15,904,019.60	25.36%	No Max. on Non-Mortgage Backed
Corporate Medium Term Bonds	\$13,940,300.50	22.23%	30% of Town Portfolio
Local Agency Investment Fund	\$12,012,090.08	19.15%	\$75 M per State Law
Subtotal - Investments	<u>62,722,151.03</u>	100.00%	
Reconciled Demand Deposit Balances	<u>8,287,365.17</u>		
Total Portfolio Allocation & Treasurer's Cash Balances	<u><u>\$71,009,516.20</u></u>		



**Town of Los Gatos
Non-Treasury Restricted Fund Balances
January 31, 2025**

	Beginning Balance	January 2025 Deposits Realized Gain/Adj.	January 2025 Interest/ Earnings	January 2025 Withdrawals	Ending Balance	
Non-Treasury Funds:						
Cert. of Participation 2002 Ser A Reserve Fund	\$ 699,575.91	\$ -	\$ 2,392.18	\$ -	\$ 701,968.09	Note 1
Cert. of Participation 2010 Ser Lease Payment Fund	980.51	92,781.99	3.69	-	93,766.19	Note 2
Cert. of Participation 2002 Ser A Lease Payment Fund	17,579.84	81,295.16	60.12	-	98,935.12	Note 1
Cert. of Participation 2010 Ser Reserve Fund	1,423,827.91	-	5,317.13	-	1,429,145.04	Note 2
Total Restricted Funds:	<u>\$ 2,141,964.17</u>	<u>\$ 174,077.15</u>	<u>\$ 7,773.12</u>	<u>\$ -</u>	<u>\$ 2,323,814.44</u>	
CEPPT IRS Section 115 Trust	2,253,077.65	-	28,337.18	-	\$ 2,281,414.83	Note 3
Grand Total COP's and CEPPT Trust	<u>\$ 4,395,041.82</u>	<u>\$ 174,077.15</u>	<u>\$ 36,110.30</u>	<u>\$ -</u>	<u>\$ 4,605,229.27</u>	

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

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

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

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

Town of Los Gatos
Statement of Interest Earned
January 31, 2025

July 2024	\$	247,221.75
August 2024	\$	212,684.25
September 2024	\$	265,151.31
October 2024	\$	234,237.63
November 2024	\$	227,312.31
December 2024	\$	239,396.54
January 2025	\$	234,030.33
February 2025	\$	-
March 2025	\$	-
April 2025	\$	-
May 2025	\$	-
June 2025	\$	-
	\$	<u>1,660,034.12</u>

Town of Los Gatos
 Investment Transaction Detail
 January 31, 2025

Date	Cusip/Id	Description	Transaction Type	Trade Date	Settlement Date	Par	Coupon	Maturity Date	Price	Principal	Interest	Transaction Total
1/3/2025	Cash-USD	Cash-USD	SHORT TERM INVESTMENT FUND INCOME	1/3/2025	1/3/2025	675.11	0.000%		100.00	-	-	675.11
1/6/2025	3133EN5N6	FEDERAL FARM CREDIT BANK 4% 06JAN2028	BOND INTEREST	1/6/2025	1/6/2025	1,700,000.00	4.000%	1/6/2028	-	-	34,000.00	34,000.00
1/9/2025	02665WEY3	AMERICAN HONDA FINANCE 4.95% 09JAN2026	BOND INTEREST	1/9/2025	1/9/2025	1,000,000.00	4.950%	1/9/2026	-	-	24,750.00	24,750.00
1/13/2025	3133EN5V8	FEDERAL FARM CREDIT BANK 4.125% 11JAN2027	BOND INTEREST	1/11/2025	1/11/2025	236,000.00	4.125%	1/11/2027	-	-	4,867.50	4,867.50
1/13/2025	02665WED9	AMERICAN HONDA FINANCE 4.7% 12JAN2028	BOND INTEREST	1/12/2025	1/13/2025	600,000.00	4.700%	1/12/2028	-	-	14,100.00	14,100.00
1/17/2025	3133EPQC2	FEDERAL FARM CREDIT BANK 4.625% 17JUL2026	BOND INTEREST	1/17/2025	1/17/2025	500,000.00	4.625%	7/17/2026	-	-	11,562.50	11,562.50
1/22/2025	69353RFJ2	PNC BANK NA 3.25% 22JAN2028 (CALLABLE 23DEC27)	BOND INTEREST	1/22/2025	1/22/2025	1,000,000.00	3.250%	1/22/2028	-	-	16,250.00	16,250.00
1/22/2025	91159HJF8	US BANCORP 4.548% 22JUL2028 (CALLABLE 22JUL27)	BOND INTEREST	1/22/2025	1/22/2025	1,000,000.00	4.548%	7/22/2028	-	-	22,740.00	22,740.00
1/27/2025	46647PDG8	JPMORGAN CHASE & CO 4.851% 25JUL2028 (CALLABLE 25JUL27)	BOND INTEREST	1/25/2025	1/25/2025	1,400,000.00	4.851%	7/25/2028	-	-	33,957.00	33,957.00
1/31/2025	91282CFB2	USA TREASURY 2.75% 31JUL2027	BOND INTEREST	1/31/2025	1/31/2025	1,000,000.00	2.750%	7/31/2027	-	-	13,750.00	13,750.00
1/31/2025	91282CAB7	USA TREASURY 0.25% 31JUL2025	BOND INTEREST	1/31/2025	1/31/2025	675,000.00	0.250%	7/31/2025	-	-	843.75	843.75

Town of Los Gatos
Insight ESG Ratings as of January 31, 2025

Security Description	Maturity Date	Par/Shares	S&P Rating	Moody Rating	Insight ESG Rating	Environment	Social	Governance
AMERICAN HONDA FINANCE 4.95% 09JAN2026	1/9/2026	\$ 1,000,000	A-	A3	3	3	3	3
PEPSICO INC 2.85% 24FEB2026 (CALLABLE 24NOV25)	2/24/2026	\$ 1,000,000	A+	A1	2	2	3	3
HOME DEPOT INC. 3% 01APR2026 (CALLABLE 01JAN2026)	46113	\$ 1,000,000	A	A2	3	3	3	3
JPMORGAN CHASE & CO 3.2 15JUN2026 (CALLABLE 15MAR26)	46188	\$ 500,000	A	A1	3	2	3	4
APPLE INC. 2.9% 12SEP2027 (CALLABLE 12JUN27)	9/12/2027	\$ 1,300,000	AA+	Aaa	5	1	4	5
TOYOTA MOTOR CREDIT CORP 5.45% 10NOV2027	11/10/2027	\$ 1,600,000	A+	A1	3	2	3	4
AMERICAN HONDA FINANCE 4.7% 12JAN2028	1/12/2028	\$ 600,000	A-	A3	3	3	3	3
PNC BANK NA 3.25% 22JAN2028 (CALLABLE 01 FEB28)	1/22/2028	\$ 1,000,000	A	A2	3	2	3	3
COLGATE-PALMOLIVE CO 4.6% 01MAR2028 (CALLABLE 01FEB28)	3/1/2028	\$ 500,000	A+	Aa3	3	2	3	3
US BANCORP 4.548% 22JUL2028 (CALLABLE 22JUL27)	7/22/2028	\$ 1,000,000	A	A3	4	3	4	4
JPMORGAN CHASE & CO 4.851% 25JUL2028 (CALLABLE 25JUL28)	7/25/2028	\$ 1,400,000	A	A1	3	2	3	4
CISCO INC. 4.85% 26FEB2029 (CALLABLE 26JAN2029)	2/26/2029	\$ 1,000,000	AA-	A1	3	1	4	3
HOME DEPOT INC. 4.9% 15APR2029 (CALLABLE 15MAR2029)	47223	\$ 1,000,000	A	A2	3	3	3	3
CITIBANK 4.838% 06AUG2029 (CALLABLE 06JUL2029)	8/6/2029	\$ 1,250,000	A+	Aa3	3	1	3	3
Total/Average		\$ 14,150,000			3.1	2.1	3.2	3.4

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

Fund Schedule

Item 2.

Fund Number	Fund Description	Prior Year Carryforward 7/1/2024*	Increase/ (Decrease) July - December	January 2025				Estimated Fund Balance 1/31/2025*
				Current Revenue	Current Expenditure	Transfer In	Transfer Out	
	GENERAL FUND							
	Non-Spendable:							
	Loans Receivable	159,000	-	-	-	-	-	159,000
	Restricted Fund Balances:							
	Pension	2,188,659	-	-	-	-	-	2,188,659
	Land Held for Resale	344,338	-	-	-	-	-	344,338
	Committed Fund Balances:							
	Budget Stabilization	6,736,781	-	-	-	-	-	6,736,781
	Catastrophic	6,736,781	-	-	-	-	-	6,736,781
	Pension/OPEB	300,000	-	-	-	-	-	300,000
	Measure G District Sales Tax	590,581	-	-	-	-	-	590,581
	Assigned Fund Balances:							
	Open Space	410,000	-	-	-	-	-	410,000
	Sustainability	140,553	-	-	-	-	-	140,553
	Capital/Special Projects	8,651,059	-	-	-	-	-	8,651,059
	Carryover Encumbrances	85,861	-	-	-	-	-	85,861
	Compensated Absences	1,555,478	-	-	-	-	-	1,555,478
	ERAF Risk Reserve	1,430,054	-	-	-	-	-	1,430,054
	Market Fluctuations	1,712,246	-	-	-	-	-	1,712,246
	Council Priorities - Economic Recovery	20,684	-	-	-	-	-	20,684
	Unassigned Fund Balances:							
111	Other Unassigned Fund Balance Reserve (Pre YE distribution)	-	(5,008,780)	8,372,683	(3,622,899)	-	-	(258,996)
	General Fund Total	31,062,075	(5,008,780)	8,372,683	(3,622,899)	-	-	30,803,079

* Interfund transfers and Council Priorities/Economic Recovery funding allocation to be performed as part of the fiscal year end closing entries.

Fund Schedule

Item 2.

Fund Number	Fund Description	Prior Year Carryforward 7/1/2024*	Increase/ (Decrease) July - December	January 2025				Estimated Fund Balance 1/31/2025*
				Current Revenue	Current Expenditure	Transfer In	Transfer Out	
SPECIAL REVENUE								
211/212	CDBG	166,653	-	-	-	-	-	166,653
222	Urban Runoff (NPDES)	754,134	(69,272)	13,641	(26,640)	-	-	671,863
231-236	Landscape & Lighting Districts	182,625	(11,793)	20,835	(4,362)	-	-	187,305
251	Los Gatos Theatre	171,035	121,990	14,975	(11,554)	-	-	296,446
711-716	Library Trusts	556,849	40,297	50	(1,636)	-	-	595,560
Special Revenue Total		1,831,296	81,222	49,501	(44,192)	-	-	1,917,827
CAPITAL PROJECTS								
411	GFAR - General Fund Appropriated Reserve	20,253,300	(1,953,681)	244,728	(265,597)	-	-	18,278,750
412	Community Center Development	866,281	-	-	-	-	-	866,281
421	Grant Funded Projects	(2,563,503)	672,589	15,428	(857,425)	-	-	(2,732,911)
461-463	Storm Basin Projects	3,531,248	(24,642)	-	(89,976)	-	-	3,416,630
471	Traffic Mitigation Projects	509,491	-	530	(530)	-	-	509,491
472	Utility Undergrounding Projects	3,584,251	8,667	-	-	-	-	3,592,918
481	Gas Tax Projects	1,928,167	(885,070)	165,293	-	-	-	1,208,390
Capital Projects Total		28,109,235	(2,182,137)	425,979	(1,213,528)	-	-	25,139,549
INTERNAL SERVICE FUNDS								
611	Town General Liability	177,876	(695,333)	-	-	-	-	(517,457)
612	Workers Compensation	586,246	(132,071)	124,034	(53,101)	-	-	525,108
621	Information Technology	2,523,347	(167,166)	4,204	(80,151)	-	-	2,280,234
631	Vehicle & Equipment Replacement	3,286,552	189,450	39,453	(66,174)	-	-	3,449,281
633	Facility Maintenance	960,526	144,085	24,836	(133,267)	-	-	996,180
Internal Service Funds Total		7,534,547	(661,035)	192,527	(332,693)	-	-	6,733,346
Trust/Agency								
942	RDA Successor Agency	(4,632,040)	(1,715,878)	200,097	(192,744)	-	-	(6,340,565)
Trust/Agency Fund Total		(4,632,040)	(1,715,878)	200,097	(192,744)	-	-	(6,340,565)
Total Town		63,905,113	(9,486,608)	9,240,787	(5,406,056)	-	-	58,253,236

* Interfund transfers and Council Priorities/Economic Recovery funding allocation to be performed as part of the fiscal year end closing entries.

Deposit Accounts of Interest:

- 111-23541 General Plan Update deposit account balance \$458,167.35
- 111-23521 BMP Housing deposit account balance \$4,039,055.78



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 03/10/2025

ITEM NO: 3

Item 3.

DATE: March 3, 2025
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Receive the California Employer's Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending December 31, 2024 and the Performance Report as of January 31, 2025.

RECOMMENDATION:

Receive California Employer's Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending December 31, 2024 and the Performance Report as of January 31, 2025.

BACKGROUND:

In 2009, the Council approved participating in the CERBT Fund. The CERBT Fund is an IRS Section 115 trust fund dedicated to the prefunding of other post-employment benefits ("OPEB"). The CERBT Strategy 1 is the single investment vehicle for the Town's OPEB Plan ("OPEB Plan").

DISCUSSION:

The ending OPEB 115 Trust account balance as of December 31, 2024, was \$28,131,070.95 compared to \$29,169,416.85 as of September 30, 2024 (Attachment 1). As of January 31, 2025, the CERBT Strategy 1 fund had a net return of 2.27% for the month and 6.75% as of Fiscal Year to Date (Attachment 2).

The Town Pension and OPEB Trusts Oversight Committee will receive this information at its March 18, 2025 meeting.

PREPARED BY: Gitta Ungvari
Finance Director

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

PAGE 2 OF 2

SUBJECT: CERBT

DATE: March 3, 2025

Attachments:

1. OPEB 115 Trust Market Value Summary Report as of December 31, 2024
2. CERBT Strategy 1 Performance Report January 31, 2025

Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$29,169,416.85	\$26,976,205.35
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	(1,033,278.53)	1,165,914.61
Administrative Expenses	(1,954.56)	(5,399.13)
Investment Expense	(3,112.81)	(5,649.88)
Other	0.00	0.00
Ending Balance	\$28,131,070.95	\$28,131,070.95
FY End Contrib per GASB 74 Para 22	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$28,131,070.95	\$28,131,070.95

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	1,188,552.988	1,188,552.988
Unit Purchases from Contributions	0.000	0.000
Unit Sales for Withdrawals	0.000	0.000
Unit Transfer In	0.000	0.000
Unit Transfer Out	0.000	0.000
Ending Units	1,188,552.988	1,188,552.988
Period Beginning Unit Value	24.541958	22.696679
Period Ending Unit Value	23.668336	23.668336

Please note the Grand Total is your actual fund account balance at the end of the period, including all contributions per GASB 74 paragraph 22 and accrued disbursements. Please review your statement promptly. All information contained in your statement will be considered true and accurate unless you contact us within 30 days of receipt of this statement. If you have questions about the validity of this information, please contact CERBT4U@calpers.ca.gov.

Statement of Transaction Detail for the Quarter Ending 12/31/2024

Town of Los Gatos

Entity #: SKB0-4589482285



Date	Description	Amount	Unit Value	Units	Check/Wire	Notes
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CERBT Strategy 1



January 31, 2025

Objective

The CERBT Strategy 1 portfolio seeks to provide capital appreciation and income consistent with its strategic asset allocation. There is no guarantee that the portfolio will achieve its investment objective.

Strategy

The CERBT Strategy 1 portfolio is invested in various asset classes. CalPERS periodically adjusts the composition of the portfolio in order to match the target allocations. Generally, equities are intended to help build the value of the employer's portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

Compared with CERBT Strategy 2 and Strategy 3, this portfolio has a higher allocation to equities than bonds and other assets. Historically, equities have displayed greater price volatility and, therefore, this portfolio may experience greater fluctuation of value. Employers that seek higher investment returns, and are able to accept greater risk and tolerate more fluctuation in returns, may wish to consider this portfolio.

CalPERS Board may change the list of approved asset classes in composition as well as targeted allocation percentages and ranges at any time.

Assets Under Management

As of the specified reporting month-end:

CERBT Strategy 1	Annual Operating Ratio
\$20,291,433,941	0.085%

Composition

Asset Class Allocations and Benchmarks

The CERBT Strategy 1 portfolio consists of the following asset classes and corresponding benchmarks:

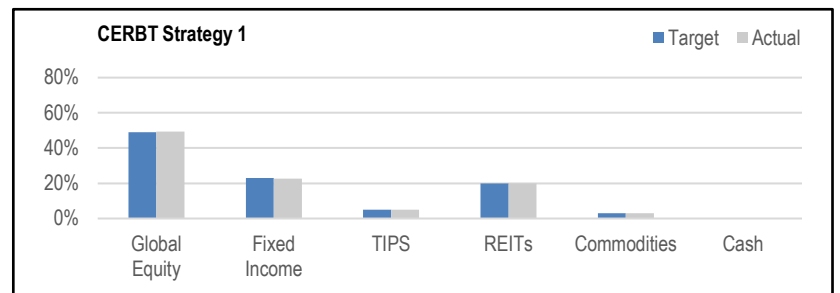
Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	49%	± 5%	MSCI All Country World Index IMI (Net)
Fixed Income	23%	± 5%	Bloomberg Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	20%	± 5%	FTSE EPRA/NAREIT Developed Index (Net)
Commodities	3%	± 3%	S&P GSCI Total Return Index
Cash	-	+ 2%	ICE BofA US 3-Month Treasury Bill Index

Portfolio Benchmark

The CERBT Strategy 1 benchmark is a composite of underlying asset class market indices, each assigned the target weight for the asset class it represents.

Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of the specified reporting month-end. CalPERS may temporarily deviate from the target allocation to a particular asset class based on market, economic, or other considerations.



CERBT Strategy 1 Performance as of January 31, 2025

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (June 1, 2007)
Gross Return ^{1,3}	2.28%	1.65%	6.69%	12.19%	2.93%	6.19%	6.46%	5.51%
Net Return ^{2,3}	2.27%	1.63%	6.65%	12.10%	2.85%	6.10%	6.37%	5.43%
Benchmark Returns	2.28%	1.61%	6.56%	11.93%	2.71%	5.94%	6.13%	5.13%
Standard Deviation ⁴	-	-	-	-	14.25%	14.32%	11.49%	12.90%

* Returns for periods greater than one year are annualized.

¹ Gross returns are net of SSGA operating expenses.

² Net returns are net of SSGA operating expenses, investment management, administrative and recordkeeping fees.

³ Expenses are described in more detail on page 2 of this document.

⁴ Standard deviation is based on gross returns and is reported for periods greater than 3 years.

CERBT Strategy 1



January 31, 2025

General Information

Information Accessibility

The CERBT Strategy 1 portfolio consists of assets managed internally by CalPERS and/or by external advisors. Since it is not a mutual fund, a prospectus is not available and daily holdings are not published. CalPERS provides a quarterly statement of the employer's account and other information about the CERBT. For total market value, detailed asset allocation, investment policy and current performance information, please visit our website at: www.calpers.ca.gov.

Portfolio Manager Information

The CalPERS Board, through its Investment Committee, directs the CERBT investment strategy based on policies approved by the Board of Administration. State Street Global Advisors (SSGA) manages all underlying investments for CERBT, which include: Global Equity, Fixed Income, Real Estate Investment Trusts, Treasury Inflation-Protected Securities, and Commodities.¹

Custodian and Record Keeper

State Street Bank serves as custodian for the CERBT. Northeast Retirement Services serves as recordkeeper.

Expenses

CERBT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the expenses, the greater the reduction of investment return. Currently, CERBT expenses are 0.085% which consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to SSGA to manage all asset classes, and recordkeeping fees paid to Northeast Retirement Services to administer individual employer accounts. The expenses described herein are reflected in the net asset value per unit. The expense ratio is subject to change at any time and without prior notification due to factors such as changes to average fund assets or market conditions. CalPERS reviews the operating expenses annually and changes may be made as appropriate. Even if the portfolio loses money during a period, the expenses will still be charged.

What Employers Own

Each employer invested in CERBT Strategy 1 owns units of this portfolio, which invests in pooled asset classes managed by CalPERS and/or external advisors. Employers do not have direct ownership of the securities in the portfolio.

Price

The value of the portfolio changes daily based upon the market value of the underlying securities. Just as prices of individual securities fluctuate, the portfolio's value also changes with market conditions.

Principal Risks of the Portfolio

The CalPERS CERBT Fund provides California government employers with a trust through which they may prefund retiree medical costs and other post-employment benefits (OPEB). CERBT is not, however, a defined benefit plan. There is no guarantee that the portfolio will achieve its investment objectives or provide sufficient funding to meet employer obligations. Further, CalPERS will not make up the difference between an employer's CERBT assets and the actual cost of OPEB provided to an employer's plan members.

An investment in the portfolio is not a bank deposit, nor is it insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC), CalPERS, the State of California or any other government agency.

There are risks associated with investing, including possible loss of principal. The portfolio's risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. For more information about investment risks, please see the document entitled "CERBT Principal Investment Risks" located at www.calpers.ca.gov.

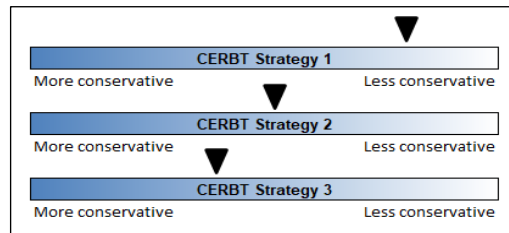
Fund Performance

Performance data shown on page 1 represents past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an employer's units, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than historical performance data shown. For current performance information, please visit www.calpers.ca.gov and follow the links to California Employers' Retiree Benefit Trust.

CERBT Strategy Risk Levels

CalPERS offers employers the choice of one of three investment strategies. Projected risk levels among strategies vary, depending upon the target asset class allocations. Generally, equities carry more risk than fixed income securities.

Asset Class Target Allocations ¹	Strategy 1	Strategy 2	Strategy 3
Global Equity	49%	34%	23%
Fixed Income	23%	41%	51%
Treasury Inflation-Protected Securities	5%	5%	9%
Real Estate Investment Trusts	20%	17%	14%
Commodities	3%	3%	3%



¹ Since June 2018, SSGA has passively managed all CERBT asset classes. Previously, Fixed Income, TIPS and Commodity asset classes were managed internally by CalPERS.



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 03/10/2025

ITEM NO: 4

Item 4.

DATE: March 3, 2025
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy Market Value Summary Report for the Period Ending December 31, 2024, and Performance as of January 31, 2025

RECOMMENDATION:

Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy 2 Market Value Summary Report for the period ending December 31, 2024, and performance as of January 31, 2025.

BACKGROUND:

On November 5, 2019, the Town Council authorized the Town Manager to enter into an agreement with CalPERS for participation in the California Employers' Pension Prefunding Trust (CEPPT) program.

The CEPPT Fund is a Section 115 trust fund dedicated to prefunding employer contributions to defined benefit pension systems for eligible California public agencies. On March 3, 2020, the Town Pension and OPEB Trusts Oversight Committee adopted CEPPT Strategy 2 as the asset allocation for the Town's Section 115 Trust pension assets.

DISCUSSION:

Effective Fiscal Year (FY) 2015/16, Council determined that if sufficient General Fund year-end savings are available and targeted reserve levels for the Catastrophic Reserve and Budget Stabilization Reserve have been met, upon the final close of the fiscal year, a minimum of \$300,000 annually shall be deposited into the Pension/OPEB Reserve Fund. In 2018, the Council updated the General Fund Reserve Policy to provide for additional discretionary payments

PREPARED BY: Gitta Ungvari
Finance Director

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

PAGE 2 OF 2
SUBJECT: CEPPT Update
DATE: March 3, 2025

Item 4.

Strategy 2 (ADPs) of \$390,000 per year to address the unfunded pension liability. Under the updated Policy, a 20-year amortization equivalence will be achieved.

The ending CEPPT 115 Trust account balance as of December 31, 2024, was \$2,353,077.65 (Attachment 1). As of January 31, 2025, the CEPPT Strategy 2 fund had a net return of 1.26% for the month and 4.24% for the Fiscal Year to Date (FYTD) (Attachment 2). Staff expects to transfer an additional \$690,000 to the CEPPT Trust during FY 2024/25. According to the March 2024 Pension/OPEB Oversight Committee action, the Town will keep the funds in the CEPPT Trust. It will continuously monitor and evaluate whether an additional discretionary payment should be made directly to CalPERS.

This report will be presented to the Town Pension and OPEB Trusts Oversight Committee at its regular meeting on March 18, 2025.

Attachments:

1. CEPPT Market Value Summary Report as of December 31, 2024
2. CEPPT Strategy 2 Performance as of January 31, 2025

Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$2,328,305.36	\$2,188,658.95
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	(73,904.01)	67,053.61
Administrative Expenses	(873.05)	(1,737.90)
Investment Expense	(450.65)	(897.01)
Other	0.00	0.00
Ending Balance	\$2,253,077.65	\$2,253,077.65
FY End Contribution Accrual	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$2,253,077.65	\$2,253,077.65

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	204,653.336	204,653.336
Unit Purchases from Contributions	0.000	0.000
Unit Sales for Withdrawals	0.000	0.000
Unit Transfer In	0.000	0.000
Unit Transfer Out	0.000	0.000
Ending Units	204,653.336	204,653.336
Period Beginning Unit Value	11.376825	10.694469
Period Ending Unit Value	11.009239	11.009239

Please note the Grand Total is your actual fund account balance at the end of the period, including accrued contribution and disbursements. Please review your statement promptly. All information contained in your statement will be considered true and accurate unless you contact us within 30 days of receipt of this statement. If you have questions about the validity of this information, please contact CEPPT4U@calpers.ca.gov.

Statement of Transaction Detail for the Quarter Ending 12/31/2024

Town of Los Gatos

Entity #: SKHE-4589482285-501P



Date	Description	Amount	Unit Value	Units	Check/Wire	Notes
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CEPPT Strategy 2



January 31, 2025

Objective

The CEPPT Strategy 2 portfolio seeks to provide capital appreciation and income consistent with its strategic asset allocation. There is no guarantee that the portfolio will achieve its investment objective.

Strategy

The CEPPT Strategy 2 portfolio is invested in various asset classes that are passively managed to an index. CalPERS periodically adjusts the composition of the portfolio in order to help build the value of the employer's portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

Compared with CEPPT Strategy 1, this portfolio has a lower allocation to equities and a higher allocation to bonds. Historically, funds with a lower percentage of equities have displayed less price volatility and, therefore, this portfolio may experience comparatively less fluctuation of value. Employers that seek greater stability of value, in exchange for possible lower investment returns, may wish to consider this portfolio.

CalPERS Board may change the list of approved asset classes in composition as well as targeted allocation percentages and ranges at any time.

Composition

Asset Class Allocations and Benchmarks

The CEPPT Strategy 2 portfolio consists of the following asset classes and corresponding benchmarks:

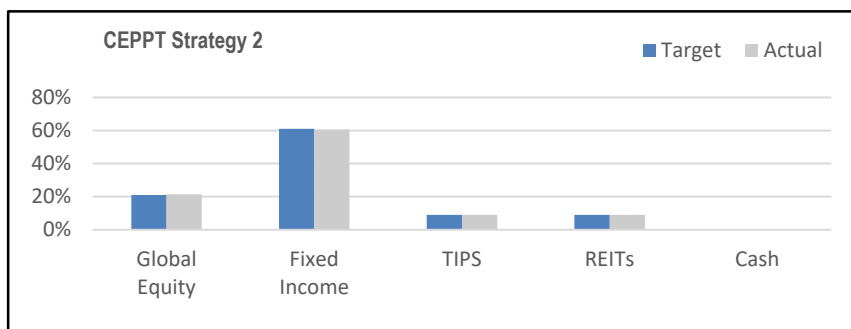
Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	21%	± 5%	MSCI All Country World Index IMI (Net)
Fixed Income	61%	± 5%	Bloomberg US Aggregate Bond Index
Treasury Inflation-Protected Securities ("TIPS")	9%	± 3%	Bloomberg US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	9%	± 5%	FTSE EPRA/NAREIT Developed Index (Net)
Cash	-	+ 2%	ICE BofA US 3-Month Treasury Bill Index

Portfolio Benchmark

The CEPPT Strategy 2 benchmark is a composite of underlying asset class market indices, each assigned the target weight for the asset class it represents.

Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of the specified reporting month-end. CalPERS may temporarily deviate from the target allocation for a particular asset class based on market, economic, or other considerations.



Assets Under Management

As of the specified reporting month-end:

CEPPT Strategy 2	Annual Expense Ratio
\$72,200,718	0.25%

CEPPT Strategy 2 Performance as of January 31, 2025

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (January 1, 2020)
Gross Return ^{1,3}	1.28%	0.67%	4.38%	6.35%	0.75%	2.03%	-	2.28%
Net Return ^{2,3}	1.26%	0.61%	4.24%	6.11%	0.53%	1.80%	-	2.04%
Benchmark Return	1.28%	0.62%	4.28%	6.25%	0.66%	1.92%	-	2.17%
Standard Deviation ⁴	-	-	-	-	9.66%	8.34%	-	8.29%

* Returns for periods greater than one year are annualized.

¹ Gross returns are net of SSGA operating expenses.

² Net returns are net of SSGA operating expenses, investment management, administrative and recordkeeping fees.

³ Expenses are described in more detail on page 2 of this document.

⁴ Standard deviation is based on gross returns and is reported for periods greater than 3 years.

CEPPT Strategy 2



January 31, 2025

General Information

Information Accessibility

The CEPPT Strategy 2 portfolio consists of assets managed internally by CalPERS and/or by external managers. Since it is not a mutual fund, a prospectus is not available and daily holdings are not published. CalPERS provides a quarterly statement of the employer's account and other information about the CEPPT. For total market value, detailed asset allocation, investment policy and performance information, please visit our website at www.calpers.ca.gov.

Portfolio Manager Information

The CalPERS Board, through its Investment Committee, directs the CEPPT investment strategy based on policies approved by the Board of Administration. State Street Global Advisors (SSGA) manages all underlying investments for CEPPT, which include: Global Equity, Fixed Income, Real Estate Investment Trusts, and Treasury Inflation-Protected Securities.

Custodian and Record Keeper

State Street Bank serves as custodian for the CEPPT. Northeast Retirement Services serves as recordkeeper.

Expenses

CEPPT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the expenses, the greater reduction of investment return. Currently, CEPPT expense ratios are 0.25%. This equates to \$2.50 per \$1,000 invested. The expenses consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to SSGA to manage all asset classes, and recordkeeping fees paid to Northeast Retirement Services to administer individual employer accounts. The expenses described herein are reflected in the net asset value per unit. The expense ratio is subject to change at any time and without prior notification due to factors such as changes to average fund assets or market conditions. CalPERS reviews the operating expenses annually and changes may be made as appropriate. Even if the portfolio loses money during a period, the expenses will still be charged.

What Employers Own

Each employer invested in CEPPT Strategy 2 owns units of this portfolio, which invests in pooled asset classes managed by CalPERS and/or external advisors. Employers do not have direct ownership of the securities in the portfolio.

Price

The value of the portfolio changes daily based upon the market value of the underlying securities. Just as prices of individual securities fluctuate, the portfolio's value also changes with market conditions.

Principal Risks of the Portfolio

The CEPPT fund is a trust fund dedicated to prefunding employer contributions to defined benefit pension plans for eligible state and local agencies. CEPPT is not, however, a defined benefit plan. There is no guarantee that the portfolio will achieve its investment objectives or provide sufficient funding to meet employer obligations.

An investment in the portfolio is not a bank deposit, nor is it insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC), CalPERS, the State of California or any other government agency.

There are risks associated with investing, including possible loss of principal. The portfolio's risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. For more information about investment risks, please see the document entitled "CEPPT Principal Investment Risks" located at www.calpers.ca.gov.

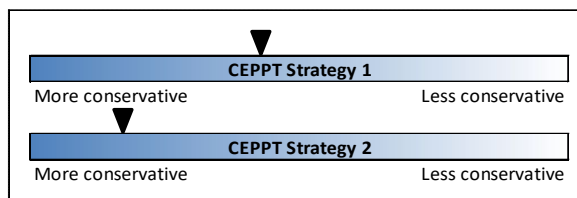
Fund Performance

Performance data shown on page 1 represents past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an employer's units, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than historical performance data shown. For current performance information, please visit www.calpers.ca.gov and follow the links to California Employers' Pension Prefunding Trust.

CEPPT Strategy Risk Levels

CalPERS offers employers the choice of one of two investment strategies. Projected risk levels among risk strategies vary, depending upon the target asset class allocations. Generally, equities carry more risk than fixed income securities.

Asset Class Target Allocations	Strategy 1	Strategy 2
Global Equity	37%	21%
Fixed Income	44%	61%
Treasury-Inflation Protected Securities	5%	9%
Real Estate Investment Trusts	14%	9%





**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 03/10/2025

ITEM NO: 5

Item 5.

DATE: March 5, 2025
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Receive FY 2023-24 Federal Single Audit Report

RECOMMENDATION:

Staff recommends that the Finance Commission receive the Federal Single Audit Report for the fiscal year ending June 30, 2024, as prepared by Chavan & Associates, LLP.

DISCUSSION:

In performing the Single Audit for FY 2023-24, the Town's independent auditor Chavan & Associates, LLP concluded that the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Attachment:

1. FY 2023-24 Single Audit

PREPARED BY: Eric Lemon
Finance & Accounting Manager

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

**TOWN OF LOS GATOS
CALIFORNIA**

SINGLE AUDIT REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2024



Chavan & Associates, LLP
Certified Public Accountants
16450 Monterey Road, Ste. 5
Morgan Hill, CA 95037

**TOWN OF LOS GATOS
CALIFORNIA
SINGLE AUDIT REPORT
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INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Los Gatos (the “Town”) as of and for the fiscal year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated November 11, 2024.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not



Chavan and Associates, LLP
Certified Public Accountants

express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

Morgan Hill, California
November 11, 2024



Chavan and Associates, llp
Certified Public Accountants

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Town of Los Gatos (the Town)'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town’s major federal programs for the fiscal year ended June 30, 2024. The Town’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Town’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Town’s federal programs.



Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Town's compliance with the requirements of each major federal program.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Town's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



Chavan and Associates, LLP
Certified Public Accountants

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Town as of and for the fiscal year ended June 30, 2024, and have issued our report thereon dated November 11, 2024, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

C & A LLP

November 11, 2024
Morgan Hill, California

TOWN OF LOS GATOS, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing	Pass-through Identifying Number	Expenditures to Subrecipients	Federal Expenditures
U.S. Department of Transportation				
Pass-through programs from the California Dept of Transportation:				
<i>Highway Safety Cluster</i>				
National Priority Safety Programs	20.616	None	\$ -	\$ 40,797
<i>Highway Planning and Construction Cluster</i>				
Highway Planning and Construction (1)	20.205	HSIPL-5067(022)	-	2,113,026
Total U.S. Department of Transportation			-	2,153,823
U.S. Department of Justice				
Direct program:				
Bulletproof Vest Partnership Program	16.607	N/A	-	5,360
Total U.S. Department of Justice			-	5,360
U.S. Department of Homeland Security				
Pass-through program from the State of California:				
Presidentially Declared Disasters	97.036	DR-4683-CA	-	3,207
Presidentially Declared Disasters	97.036	DR-4482-CA	-	106,979
Total U.S. Department of Treasury			-	110,186
Total Federal Programs			\$ -	\$ 2,269,369

(1) Audited as major program

See accompanying Notes to Schedule of Expenditures of Federal Awards.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the Town of Los Gatos (the Town) under programs of the federal government for the fiscal year ended June 30, 2024. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town and some amounts in this schedule may differ from amounts presented in the Town's financial statements.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. The Town has elected not to use the 10 percent de-minimus indirect cost rate as allowed under Uniform Guidance.

Note 3. Relationship to the Basic Financial Statements

The amounts reported in the accompanying schedule agree, in all material respects, to amounts reported within the Town's financial statements. Federal award revenues are reported principally in the Town's financial statements as intergovernmental revenues.

Note 4. Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule agree or can be reconciled with the amounts reported or to be reported in the federal financial reports.

Note 5. Pass-Through Entities' Identifying Number

When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the Town has determined that no identifying number is assigned for the program, or the Town was unable to obtain an identifying number from the pass-through entity.

TOWN OF LOS GATOS, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:
 Material weaknesses? Yes x No
 Significant deficiencies identified not
 considered to be material weaknesses? Yes x None Reported

Non-compliance material to financial statements noted? Yes x No

Federal Awards

Internal control over major programs:
 Material weaknesses? Yes x No
 Significant deficiencies identified not
 considered to be material weaknesses? Yes x None Reported

Type of auditor's report issued on compliance over major programs Unmodified

Any audit findings disclosed that are required to be reported in
 accordance with 2 CFR 200.516(a) Yes x No

Identification of Major Programs:

<u>Assistance Listing</u>	<u>Name of Federal Program</u>
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between
 type A and type B programs: \$ 750,000

Auditee qualified as low risk auditee? Yes x No

TOWN OF LOS GATOS, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

Section II - Financial Statement Findings

No findings noted.

Section III - Federal Award Findings and Questioned Costs

No findings noted.

TOWN OF LOS GATOS, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

Section II - Financial Statement Findings

No findings noted.

Section III - Federal Award Findings and Questioned Costs

No findings noted.



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 3/10/2025

ITEM NO: 6

Item 6.

DATE: March 5, 2025
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Recommend that the Town Council Receive the Independent Accountants' Report on Agreed-Up On Procedures on Measure G Revenues and Expenditures for the Period July 1, 2023 to June 30, 2024

RECOMMENDATION:

Staff recommends that the Finance Commission recommend that the Town Council receive the Independent Accountants' Report on Agreed-Up On Procedures (AUP) on Measure G Revenues and Expenditures for the period July 1, 2023 to June 30, 2024.

BACKGROUND:

On June 19, 2018, the Los Gatos Town Council adopted Ordinance No. 2274 establishing a General Transaction and Use Tax ("Ordinance 2274") for a period of twenty years and put forth the required ballot measure for voter consideration. On November 6, 2018, the voters of the Town approved the 1/8 cent sales tax dedicated to Los Gatos (Measure G). Among other items, Ordinance 2274 and Measure G required Citizens Oversight to ensure funds are spent according to the Measure's stated intent.

On November 3, 2020, voters of Los Gatos approved the Measure A ballot initiative establishing a new Finance Commission and disbanding both the Finance Committee and Sales Tax Oversight Committee. Among other responsibilities, the Finance Commission is charged with:

- (7) Issue an annual public report of the expenditures and appropriations of sales tax revenues approved by the Town Council during each fiscal year.

PREPARED BY: Eric Lemon
Finance & Accounting Manager

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

PAGE 2 OF 2
SUBJECT: Receive Measure G AUP Report
DATE: March 5, 2025

DISCUSSION:

On March 5, 2025, Chavan & Associates, LLP finished the review process and provided the Independent Accountants’ Report on Agreed-Upon Procedures on Measure G Revenues and Expenditures for the Period July 1, 2023 to June 30, 2024 (Attachment 1). During this period, there were collection fees, and police safety and capital transfers that utilized Measure G funds consistent with the Town Council’s adopted FY 2023/24 Budgets:

FY 2023/24 Expenditures and Transfers

State Admin Fees Withheld	July - Sept 2023	\$ 10,570
State Admin Fees Withheld	Oct - Dec 2023	\$ 10,570
State Admin Fees Withheld	Jan - March 2024	\$ 7,180
State Admin Fees Withheld	April - June 2024	\$ 8,290
Total Collection Fees		\$ 36,610
50% to Police Safety		620,044
Total Expenditures		\$ 656,654
Transfer to Capital Improvement Program (50% of prior years and current year collections)		620,044
Total Transfers and Expenditures		\$ 1,276,698

“State Admin Fees Withheld” is the administration fee imposed by the State Department of Tax Fee Administration to Los Gatos that is deducted from collected Measure G sales tax. Chavan & Associates, LLP found that the expenditures were consistent with the voter approved Measure G.

CONCLUSION AND NEXT STEPS:

The Finance Commission should forward a recommendation to the Town Council to receive the Independent Accountants’ Report. During the budget process, the Council approves the expenditures and appropriations of the sales tax revenues with consideration of the Finance Commission’s recommendation(s).

Attachment:

1. Independent Accountants’ Report on Agreed-Upon Procedures for Measure G Revenues and Expenditures For the period July 1, 2023 to June 30, 2024.

TOWN OF LOS GATOS
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING
AGREED-UPON PROCEDURES ON MEASURE G REVENUES
AND EXPENDITURES

JUNE 30, 2024

* * *



Chavan & Associates, LLP
Certified Public Accountants
16450 Monterey Road, Suite 5
Morgan Hill, CA 95037

**TOWN OF LOS GATOS
INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING
AGREED-UPON PROCEDURES**

**MEASURE G
JUNE 30, 2024**

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INDEPENDENT ACCOUNTANT'S REPORT

To the City Council and Management of the
Town of Los Gatos
Los Gatos, California

We have performed the procedures enumerated below on the accompanying Schedule of Measure G Revenues, Expenditures and Changes in Fund Balance of the Town of Los Gatos (the Town) for the fiscal year ended June 30, 2024. Town management is responsible for the Schedule of Measure G Revenues, Expenditures and Changes in Fund Balance for the fiscal year ended June 30, 2024.

The Town has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of determining whether Measure G sales taxes were used and accounted for in accordance with specified laws, regulations, and recommendations of the Finance Commission for the fiscal year ended June 30, 2024. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and the associated findings are as follows:

1. We obtained and reviewed Town Ordinance 2274, Amending Chapter 2.60 of the Town's Municipal Code, "'Transactions and Use Tax' to Extend the One-Eighth Cent Transactions and Use Tax Term for Twenty Years."

Finding: No exceptions were noted as a result of our procedures.

2. We obtained and reviewed Town Ordinance 2314, adding Article 5 to Chapter Two and amending Chapter 25.60.140 of the Town's Municipal Code.

Finding: No exceptions were noted as a result of our procedures.

3. We obtained a schedule of Measure G revenues and expenditures for the fiscal year ended June 30, 2024 and agreed totals reported on the schedule to the Town's audited trial balance.

Finding: No exceptions were noted as a result of our procedures.

4. We compared Measure G revenues reported to monthly sales tax reports from the California Department of Tax and Fee Administration (CDTFA).

Finding: No exceptions were noted as a result of our procedures.



5. We inquired as to whether or not the Finance Commission reviewed and recommended usage of Measure G revenues to the Town Council, to meet the following objectives.
- a. Maintaining and enhancing neighborhood police patrols and local crime prevention programs;
 - b. Improving traffic flow to reduce congestion;
 - c. Repairing potholes and maintaining the Town's streets, roads, and sidewalks; and
 - d. Maintaining the Town's long-term financial stability.

Finding: No exceptions were noted as a result of our procedures.

6. We inquired as to whether the Town Council received the Finance Commission's recommendation and adopted a Council authorized expenditure plan directing the use of Measure G revenues for the fiscal year ended June 30, 2024.

Finding: No exceptions were noted as a result of our procedures.

7. We selected 14 Measure G expenditures from 28 transactions, which was 83% coverage in terms of dollars, to verify if they were for allowable purposes. We also verified that the 4 administrative fee charges were accurate and appropriate within the measure by vouching those charges to the statement of tax distribution from the California Department of Tax and Fee Administration. Per Measure G Ordinance 2314, eligible expenditures include:
- a. Maintaining and enhancing neighborhood police patrols and local crime prevention programs;
 - b. Improving traffic flow to reduce congestion;
 - c. Repairing potholes and maintaining the Town's streets, roads, and sidewalks; and
 - d. Maintaining the Town's long-term financial stability.

Finding: No exceptions were noted as a result of our procedures.

8. We agreed amounts held in the General Fund Reserve sub-fund for Measure G to the Measure G sales tax collections for the fiscal year ended June 30, 2024, less any amounts reduced for Town Council authorized uses.

Finding: No exceptions were noted as a result of our procedures.

We were engaged by the Town of Los Gatos to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the AICPA. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the accompanying Schedule of Measure G Revenues, Expenditures and Changes in Fund Balance. Accordingly, we do not express such an opinion or conclusion. Had we performed additional



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procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the Town Council and management of the Town and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

C & A LLP

December 13, 2024
Morgan Hill, California

**TOWN OF LOS GATOS
MEASURE G**

**SCHEDULE OF MEASURE G
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

FOR THE FISCAL YEAR ENDED JUNE 30, 2024

REVENUES

Sales Taxes - Measure G	\$ 1,276,698
Total Revenues	<u>1,276,698</u>

EXPENDITURES

Public Safety	620,044
Collection Fees	<u>36,610</u>
Total Expenditures	<u>656,654</u>

**EXCESS (DEFICIENCY) OF REVENUES
OVER EXPENDITURES**

620,044

Transfers out to the Appropriated Reserves Fund (620,044)

Change in Fund Balance -

Beginning Fund Balance 590,581

Ending Fund Balance \$ 590,581

**TOWN OF LOS GATOS
MEASURE G**

**NOTES TO SCHEDULE OF MEASURE G
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

FOR THE FISCAL YEAR ENDED JUNE 30, 2024

1. MEASURE G

Measure G is a 1/8 percent transaction and use tax approved by voters in November 2018 for a twenty-year period. The Town of Los Gatos (Town) received the first taxes in May 2019 which represented sales in March 2019. In November 2020, voters approved a second measure which codified Measure G's objectives:

- a. Maintaining and enhancing neighborhood police patrols and local crime prevention programs;
- b. Improve traffic flow to reduce traffic congestion;
- c. Repairing potholes and maintaining the Town's streets, roads, and sidewalks;
- d. Maintaining the Town's long-term financial stability.

2. COLLECTION FEES

Collection fees are fees imposed by the State for collecting the Measure G sales tax and distributing it to the Town. Cash received by the Town is net of these fees. The Town has elected to record the gross sales taxes as revenue and the collection fees as expenditures.



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 3/10/2025

ITEM NO: 7

Item 7.

DATE: March 3, 2025
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Review and Recommend to the Town Council Changes to the Town's Investment Policy

RECOMMENDATION:

Review and Recommend to the Town Council Changes to the Town's Investment Policy

DISCUSSION:

The Town's Investment Policy for its operating portfolio was last reviewed by the Finance Commission in February 2023 and adopted by the Council in February of 2023, changing the frequency of the reporting from quarterly to monthly to comply with California Government Code Section 41004 and adding references to Government Code Sections 53607 and 53646(b). The Finance Commission and the Council reviewed the policy in March 2024 with no recommended changes.

The Investment Policy establishes the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, State mandated eligible investments, transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the operating funds of the Town. All Town funds are invested and/or will be invested in accordance with the Investment Policy and with applicable sections of the California Government Code.

The Investment Policy requires an annual review. Staff is recommending adding language to medium term notes (page 6 of the Investment Policy) that allows the Town to hold the investment until maturity in the case the rating is dropping after the purchase. The proposed revisions are listed below:

PREPARED BY: Gitta Ungvari
Finance Director

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

PAGE 2 OF 2

SUBJECT: Investment Policy Review and Recommendation to Town Council

DATE: March 3, 2025

Medium Term Notes (Corporate Notes) issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a final maturity not exceeding five years from the date of trade settlement and rated at least "A" or the equivalent by a NRSRO **at the time of purchase**. No more than 5% of the Town's total portfolio shall be invested in the medium-term notes of any one issuer and the aggregate investment in medium-term notes shall not exceed 30% of the Town's total portfolio.

The recommended change is redlined in Attachment 1.

The Finance Commission should review the recommendation and forward it to the Town Council for its consideration.

FISCAL IMPACT:

There is no fiscal impact of reviewing and modifying the Investment Policy.

Attachment:

1. Town Investment Policy-Redlined



TITLE: Investment Policy		POLICY NUMBER: 4-02
EFFECTIVE DATE: 11/1/16		PAGES: 8
ENABLING ACTIONS: 2016-063	REVISED DATES: 5/16/17;5/15/2018; 9/3/2019; 11/03/2020, 1/17/2023, 2/21/2023	

APPROVED:

PURPOSE

The Town of Los Gatos (the “Town”), incorporated in 1887, is located approximately 60 miles south of San Francisco, in the southwestern portion of Santa Clara County. The Town operates under the Council/Manager form of government. The Town Council is the legislative body for the Town. It has five members elected to serve staggered four year terms. The Town Manager is appointed by the Town Council.

The Town Council has adopted this Investment Policy in order to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the Town. All Town funds will be invested in accordance with this Investment Policy and with applicable sections of the California Government Code 53607 and 53646(b).

This Investment Policy was originally adopted by the Town Council of the Town of Los Gatos on November 1, 2016. Town Council adopted revisions replace any previous investment policy or investment procedures of the Town.

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

TITLE: Investment Policy	PAGE: 2 of 10	POLICY NUMBER: 4-02
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Specifically excluded from this Investment 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.

POLICY

OBJECTIVES

The Town’s funds shall be invested in accordance with all applicable Town policies and codes, State statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

1. Preservation of capital and protection of investment principal.
2. Maintenance of sufficient liquidity to meet anticipated cash flows.
3. Attainment of a market value rate of return.
4. Diversification to avoid incurring unreasonable market risks.

DELEGATION OF AUTHORITY

Management responsibility for the Town’s investment program is delegated annually by the Town Manager to the Town Treasurer/Finance Director (the “Treasurer”) pursuant to California Government Code Section 36510. The Treasurer may delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized staff members. The Treasurer shall maintain a list of persons authorized to transact securities business for the Town. No person may engage in an investment transaction except as expressly provided under the terms of this Investment Policy.

The Treasurer shall develop written administrative procedures and internal controls, consistent with this Investment Policy, for the operation of the Town's investment program. Such procedures shall be designed to prevent losses arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees.

The Town may engage the support services of outside investment advisors in regard to its investment program, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the Town's financial resources.

PRUDENCE

The standard of prudence to be used for managing the Town's investments shall be California Government Code Section 53600.3, the prudent investor standard which states, “When

TITLE: Investment Policy	PAGE: 3 of 10	POLICY NUMBER: 4-02
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investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.”

The Town's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Town recognizes that no investment is totally without risk and that the investment activities of the Town are a matter of public record. Accordingly, the Town recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the Town.

The Treasurer and authorized investment personnel acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that the deviations from expectations are reported in a timely fashion to the Town Council and appropriate action is taken to control adverse developments.

ETHICS AND CONFLICTS OF INTEREST

Elected officials and Town employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Elected officials and Town employees shall disclose to the Town Council any business interests they have in financial institutions that conduct business with the Town and they shall subordinate their personal investment transactions to those of the Town. In addition, the Town Manager and the Treasurer shall file a Statement of Economic Interests each year pursuant to California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

SOCIALLY RESPONSIBLE INVESTING

In addition to and subordinate to the objectives set forth above, investment of funds should be guided by the following socially responsible investment goals when investing in corporate securities and depository institutions. Investments shall be made in compliance with the responsible investment goals to the extent that such investments achieve substantially equivalent safety, liquidity and yield compared to other investments permitted by state law.

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(1) Environmental, Social Responsibility and Governance Concerns
Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation. All corporate securities within the portfolio will be monitored by an independent third-party who will provide the Town with an ESG (Environmental, Social Responsibility, and Governance) rating. The Town will prefer companies when appropriate that maintain a higher ESG rating as opposed to those companies that have a lower ESG Rating.

(2) Community Investments
Investments are encouraged in entities that promote community economic development, and investments are discouraged in entities that finance high-cost check-cashing and deferred deposit (payday-lending) businesses. Investments are encouraged in entities that have a demonstrated involvement in the development or rehabilitation of low-income affordable housing and have a demonstrated commitment to reducing predatory mortgage lending and increasing the responsible servicing of mortgage loans. Securities investments are encouraged in financial institutions that have a Community Reinvestment Act (CRA) rating of either Satisfactory or Outstanding, as well as financial institutions that are designated as a Community Development Financial Institution (CDFI) by the United States Treasury Department, or otherwise demonstrate commitment to community economic development.

AUTHORIZED SECURITIES AND TRANSACTIONS

All investments and deposits of the Town shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686, except that pursuant to California Government Code Section 5903(e), proceeds of bonds and any moneys set aside or pledged to secure payment of the bonds may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of the bonds. Any revisions or extensions of these code sections will be assumed to be part of this Investment Policy immediately upon being enacted. However, in the event that amendments to these sections conflict with this Investment Policy and past Town investment practices, the Town may delay adherence to the new requirements when it is deemed in the best interest of the Town to do so. In such instances, after consultation with the Town’s attorney, the Treasurer will present a recommended course of action to the Town Council for approval. All investment limits specified in the Policy are calculated at the time of investment.

The Town has further restricted the eligible types of securities and transactions as follows:

1. United States Treasury bills, notes, bonds, or certificates with a final maturity not exceeding five years from the date of trade settlement.
2. Federal Agency Obligations for which the faith and credit of the United States are pledged for the payment of principal and interest and which have a final maturity not exceeding five years from the date of trade settlement. There is no limit on the percentage of the

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portfolio that can be invested in this category, 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.

3. Federal Instrumentality (government sponsored enterprise) debentures, discount notes, callable securities, step-up securities, and mortgage-backed securities (including FNMA and FHLMC) with a final maturity not exceeding five years from the date of trade settlement. There is no limit on the percentage of the portfolio that can be invested in this category, 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.
4. Prime Commercial Paper with a maturity not exceeding 270 days from the date of trade settlement with the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). 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 NRSRO.

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:

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

5. Eligible Bankers Acceptances with a maturity not exceeding 180 days from the date of trade settlement, issued by a state or national bank with combined capital and surplus of at least \$250 million, whose deposits are insured by the FDIC, and whose senior long-term debt is rated at least A or the equivalent by a NRSRO at the time of purchase. No more than 5% of the Town’s total portfolio shall be invested in banker’s acceptances of any one issuer, and the aggregate investment in banker’s acceptances shall not exceed 30% of the Town’s total portfolio.

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6. Medium Term Notes (Corporate Notes) issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a final maturity not exceeding five years from the date of trade settlement and rated at least “A” or the equivalent by a NRSRO **at the time of the purchase**. No more than 5% of the Town’s total portfolio shall be invested in the medium-term notes of any one issuer and the aggregate investment in medium-term notes shall not exceed 30% of the Town’s total portfolio.

7. Municipal & State Obligations:

- A. Municipal bonds including registered notes or bonds of any of the 50 states, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the 50 states.
- B. In addition, bonds, notes, warrants, or other evidences of indebtedness of any local agency in California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, operated by the local agency, or by a department, board, agency, or authority of the local agency.

Municipal bonds must be rated at least “A” or the equivalent by a NRSRO with maturities not exceeding five years from the date of the trade settlement. 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. In addition, the aggregate investment in municipal bonds may not exceed 30% of the total portfolio.

8. Certificates of Deposit with a final maturity not exceeding five years from the date of trade settlement. The aggregate investment in certificates of deposit shall not exceed 30% of the Town’s portfolio, and no more than 5% of the portfolio shall be held in any one deposit or allocated to any one issuer. 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.

Negotiable certificates of deposit issued by a nationally or state-chartered bank, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposits are subject to the limitations of Section 53601(i), shall be fully insured by the FDIC with a corresponding FDIC certification number, and shall be delivered through the Depository Trust Company.

Non-Negotiable certificates of deposit issued by a nationally or state-chartered bank, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of non-negotiable certificates of deposit are subject to the limitations of Sections 53601(n) and 53638 and shall be fully insured by the FDIC with a corresponding FDIC certification number.

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Private sector entities may be used to place certificates of deposit subject to the limitations of Section 53601.8.

9. 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.
10. 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 government securities,-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, and the aggregate investment in money market funds shall not exceed 20% of the Town’s total portfolio.

Securities that have been downgraded to a level that is below the minimum ratings described herein may be sold or held at the Town’s discretion. The portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

The foregoing list of authorized securities and transactions shall be strictly interpreted. Any deviation from it must be preapproved by resolution of the Town Council.

PORTFOLIO MATURITIES AND LIQUIDITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The Town will not invest in securities maturing more than five years from the date of trade settlement, unless the Town Council has by resolution granted authority to make such an investment at least three months prior to the date of investment.

SELECTION OF BROKER/DEALERS

The Treasurer shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the Town to purchase securities only from those authorized firms. To be eligible, a firm must meet at least one of the following criteria:

- Be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a primary dealer within their holding company structure; or
- Report voluntarily to the Federal Reserve Bank of New York; or
- Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

In addition, authorized broker/dealers must be licensed by the State of California as a broker/dealer as defined in Section 25004 of the California Corporations Code.

The Town may engage the services of investment advisory firms to assist in the management of the portfolio and investment advisors may utilize their own list of approved broker/dealers.

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Such broker/dealers will comply with the selection criteria above and the list of approved firms shall be provided to the Town on an annual basis or upon request.

In the event that an external investment advisor is not used in the process of recommending a particular transaction in the Town’s portfolio, authorized broker/dealers shall attest in writing that they have received and reviewed a copy of the this Investment Policy and shall be required to submit and annually update a Town approved Broker/Dealer Information request form, which includes the firm’s most recent financial statements.

The Town may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item 4 of the Authorized Securities and Transactions section of this Investment Policy.

COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the Town is offered a security for which there is no other readily available competitive offering, the Treasurer will document quotations for comparable or alternative securities.

SELECTION OF BANKS

The Treasurer shall maintain a list of banks and savings banks approved to provide banking services for the Town. To be eligible, a bank must be a member of the Federal Deposit Insurance Corporation, must qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5 and shall secure deposits in excess of FDIC coverage in accordance with California Government Code Section 53652.

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.

SAFEKEEPING AND CUSTODY

The Treasurer shall select one or more financial institutions to provide safekeeping and custodial services for the Town. A Safekeeping Agreement shall be executed with each custodian bank prior to utilizing that bank's safekeeping services.

Custodian banks will be selected on the basis of their ability to provide services for the Town's account and the competitive pricing of their safekeeping related services.

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The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. All securities shall be perfected in the name of the Town. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, purchased by the Town, will be delivered by book entry and will be held in third-party safekeeping by a Town approved custodian bank or its Depository Trust Company (DTC) participant account.

All Fed wireable book entry securities owned by the Town shall be held in the Federal Reserve System in a customer account for the custodian bank which will name the Town as “customer.”

All DTC eligible securities shall be held in the custodian bank’s DTC participant account and the custodian bank shall provide evidence that the securities are held for the Town as “customer.”

PORTFOLIO PERFORMANCE

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the Town’s investments shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio’s weighted average effective maturity. When comparing the performance of the Town’s portfolio, its rate of return will be computed net of all fees and expenses.

REPORTING

Every month, the Treasurer shall prepare a report that conforms to Government Code Section 41004. The report shall be submitted to the Town Clerk within 45 days after the end of each month for inclusion as an agenda item at the next scheduled Town Council meeting. The report shall include the following information:

1. Investment type, issuer, date of maturity, par value and dollar amount invested in all securities, and investments and monies held by the Town;
2. A market value as of the date of the report (or the most recent valuation as to assets not valued monthly) and the source of the valuation;
3. Realized and unrealized gains or losses calculated by amortized cost and by fair value;
4. The weighted average maturity of the portfolio and a percentage breakdown of the total portfolio by maturity;
5. A description of the funds, investments and programs that are under the management of contracted parties;
6. The Town of Los Gatos Environmental, Social and Governance (ESG) scores;
7. A statement of compliance with this Investment Policy or an explanation for non-compliance; and

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- 8. A statement of the ability to meet expenditure requirements for the next six months, and an explanation of why money will not be available if that is the case.

PROCEDURES

This Investment Policy shall be adopted by resolution of the Town Council. Annually the Town Manager shall present this Investment Policy to the Town Council and the Finance Commission for review to ensure its consistency with the Town’s investment objectives, current law and economic trends. Any amendments to this Investment Policy shall be approved by the Town Council.

APPROVED AS TO FORM:

Gabrielle Whelan, Town Attorney



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 3/10/2025

ITEM NO:

Item 8.

DATE: March 5, 2025
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Review and Recommend to the Town Council Changes to the Town's General Fund Reserve Policy

RECOMMENDATION:

Review and Recommend to the Town Council Changes to the Town's General Fund Reserve Policy

DISCUSSION:

The Town's General Fund Reserve Policy was last reviewed by the Finance Commission on September 13, 2021, and adopted by the Council on September 21, 2021. The 2021 revision added a threshold (\$10,000) for reserving unrealized gains resulting from market fluctuation gains.

Reviewing Reserve Policies

It is a good practice to periodically review the policy. While this staff report discusses some potential changes to policy, staff note that discussion of our approach to reserving, the target amounts specified for a reserve, as well as the criteria for use of such reserve may need to be an ongoing discussion. For the purpose of the Finance Commission's workplan, the current discussion would address the need to review the policy. However, there are more areas that may need consideration and so future discussions may be necessary to gather the commission's perspective as we move forward. This may include consolidation of the number of reserves into fewer reserve categories as well as determining whether certain reserves may benefit from being specified as committed as opposed to assigned fund balances.

PREPARED BY: Gitta Ungvari
Finance Director

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

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SUBJECT: Discussion and Consideration of General Fund Reserve Policy Changes

DATE: March 5, 2025

Initial Staff Recommendations for the Finance Commission's Consideration

Staff recommends consideration to revise the General Fund Reserve Policy by establishing the General Fund Unassigned Fund Balance Reserve for \$3,000,000. This Reserve is intended to represent available resources that are not allocated for other uses and are available for changes in current year changes in net revenue. Changes may include net revenue that falls to the bottom line or additional expenditures that are not covered by revenue or transfers into the General Fund.

Staff recommend funding for unassigned fund balance be initially established by reclassifying the ERAR Risk Reserve and a portion of the Capital/Special Project Reserve to unassigned fund balance. In addition, staff recommend removing obsolete language related to the Almond Grove Reserve, as the Almond Grove Reserve is no longer in use. The recommended change is redlined in Attachment 1.

Staff are open to more advise and perspective from the Finance Commission as well as keeping dialog going on opportunities to refine how we maintain and fund reserves.

The Finance Commission should review the recommendation and consider its recommendation for Town Council's consideration.

FISCAL IMPACT:

There is no fiscal impact of reviewing and modifying the General Fund Reserve Policy.

Attachment:

1. General Fund Reserve Policy-Redlined

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SUBJECT: Discussion and Consideration of General Fund Reserve Policy Changes

DATE: March 5, 2025

Item 8.



TITLE: General Fund Reserve Policy		POLICY NUMBER: 4-03
EFFECTIVE DATE: 05/16/2011		PAGES: 6
ENABLING ACTIONS:	REVISED DATES: 02/21/2017; 05/15/2018; 06/04/2019, 09/21/2021, 3/18/2024	
APPROVED:		

PURPOSE

The purpose of this Policy is to establish a target minimum level of designated reserves in the General Fund to:

- Reduce the financial impacts associated with a disaster or catastrophic event;
- Respond to the challenges of a changing economic environment, including prolonged downturns in the local, state, or national economy; and
- Demonstrate continued prudent fiscal management and creditworthiness.

BACKGROUND

The Town of Los Gatos has always maintained a high level of General Fund reserves, which has contributed to superior ratings by credit rating agencies; provided financial flexibility in economic downturns; contributed a source of investment income for General Fund operations; and assured financial coverage in the event of future emergencies.

GUIDING PRINCIPLES

Following sound financial practices and adhering to the Government Finance Officers of America (GFOA) recommendations, the Town’s designated reserves include reserves for known and unknown contingencies, which take into consideration the:

- Diversity of revenue base
- Volatility of revenue structure
- Changes in political environment
- Frequency of operating surpluses/deficits
- Cash flow management practices

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The General Fund Reserve Policy is to be reviewed by the Town Council as part of the annual operating budget review and adoption process.

POLICY

The fund balance is the difference between the assets and liabilities reported in a governmental fund. Under current accounting standards, there are five separate components of fund balance, each of which identifies the extent to which the Town is bound to honor constraints on the specific purposes for which amounts can be spent.

The following components are defined by Governmental Accounting Standards Board (GASB) Statement No. 54 and shall constitute the Town’s Fund Balance:

- *Nonspendable Fund Balance* (inherently nonspendable)
- *Restricted Fund Balance* (externally enforceable limitations on use)
- *Committed Fund Balance* (self-imposed limitations on use)
- *Assigned Fund Balance* (limitation resulting from intended use)
- *Unassigned Fund Balance* (residual net resources)

The first two components listed above are not specifically addressed in this Policy due to the nature of their restrictions. The example of nonspendable fund balance is inventory. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulations of other governments. This Policy is focused on financial reporting of unrestricted fund balance, or the last three components listed above. These three components are further defined below.

The accounting policies of the Town consider restricted fund balance spent first when expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts of the unrestricted classifications of fund balance could be used, the Town considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

Committed Fund Balance

The Town Council, as the Town’s highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal action taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose, unless the Town Council removes or changes the specific use through the same type of formal action taken to establish the commitment. The Town Council action to commit fund balance needs to occur within the fiscal reporting period; however, the amount can be determined subsequently at the final close of the fiscal year.

TITLE: General Fund Reserve Policy	PAGE: 3 of 6	POLICY NUMBER: 4-03
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The Town currently sets aside funds into four committed reserves to address unforeseen emergencies or disasters, significant changes in the economic environment, unfunded pension and Other Post-Employment Benefits (OPEB) obligations, and key infrastructure and capital projects. These include the Catastrophic Reserve, Budget Stabilization Reserve, and Pension (OPEB) Reserve. ~~and Almond Grove Street Projects Reserve.~~ **The Town Council can commit other reserves by resolution.**

Catastrophic Reserve

Funds reserved under this category shall be used to mitigate costs associated with unforeseen emergencies, such as a disaster or catastrophic event. Should unforeseen and unavoidable events occur that require the expenditure of Town resources beyond those provided for in the annual budget, the Town Manager or designee shall have authority to approve Catastrophic Reserve appropriations. The Town Manager or designee shall then present to the Town Council a budget amendment confirming the nature of the emergency and authorizing the appropriation of reserve funds.

The Town currently commits to maintaining this reserve at a minimum of 12.5% of General Fund ongoing operating expenditures (minus one-time expenditures).

Should a catastrophic disaster occur, the required reserve level should be adequate to meet the Town’s immediate financial needs. For example, in the event of natural disaster, the Catastrophic Reserve would provide necessary coverage for basic operating expenses, including salary and benefits for safety and non-safety Town employees, while still meeting debt service obligations for approximately 60 days. This time frame would enable the Town to explore other available cash alternatives, including the use of internal service funds.

Budget Stabilization Reserve

Funds reserved under this category shall be used to mitigate annual revenue shortfalls (actual revenues less than projected revenues) due to changes in the economic environment and/or one-time uses that will result in future efficiencies and/or budgetary savings. Examples of “economic triggers” and one-time uses include, but are not limited to:

- An unplanned, major event such as a catastrophic disaster requiring expenditures which exceed the General Fund Catastrophic Reserve;
- Drop in projected/actual revenue of more than five percent in property or sales tax, or other economically sensitive revenues;
- Budgeted revenue taken over by another entity exceeding \$100,000;
- Loss of businesses considered to be significant sales tax generators;
- Reductions in projected/actual revenue of more than five percent due to actions by the state/federal government;
- Workflow/technical system improvements to reduce ongoing, personnel costs and enhance customer service;
- One-time maintenance of service levels due to significant economic/budget constraints; and

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- One-time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.

The Town currently commits to maintaining this reserve at a minimum of 12.5% of General Fund ongoing operating expenditures (minus one-time expenditures).

Should a loss of the Town’s single highest source of sales tax revenue occur, the required reserve level should be adequate to meet the Town’s immediate financial needs. For example, the reserve level in the Budget Stabilization Fund would provide for an approximate 3-year transition period, giving the Town adequate time to realign its operating costs with available resources, while minimizing service impacts.

Pension/OPEB Reserve

Funds reserved under this category shall be used to further mitigate costs associated with pension and OPEB unfunded obligations. These funds will be used as a funding source for potential additional discretionary payments to pay down unfunded pension and other post-employment obligations, or held in the reserve account to be used as a supplemental funding source for unanticipated increases to the annual pension and other post-employment costs resulting from future actuarial assumptions and investment market volatility.

This Policy requires the Town to set aside additional annual discretionary payments (ADPs) to reduce the effective amortization period of the Town’s pension unfunded actuarial liabilities from approximately 30 years to 20 years. To facilitate the implementation of this Policy, staff shall update the estimated unfunded amortization schedules in conjunction with the Town’s and CalPERS actuaries. This process will coincide with the annual proposed budget process to determine the additional annual discretionary payment levels required to maintain the goal of lowering the amortization period from a 30-year to a 20-year amortization period for all prior year actuarial bases through FY 18~~19~~. The ADP is currently projected at \$390,000 for FY 2018~~19~~ (subject to annual updates provided by CalPERS actuaries). Per Council direction ADPs will either be allocated directly to CalPERS, the Town’s Pension IRS 115 Trust Fund, or the OPEB_IRS 115 Trust Fund.

As part of the proposed budget for each forthcoming fiscal year, staff shall annually appropriate, to the extent possible, the amount of annual discretionary payments necessary to maintain the unfunded pension liability amortization shortening from 30 to 20 years.

In the event the annual amount required for additional discretionary payments is not available from operating revenues, the ADP shall be funded by a first lien on any one-time excess revenues above expenditures once other General Fund required reserve levels have been established at the appropriate levels as per the Town’s General Fund Reserve Policy. If in any given year neither budgetary appropriations or a first lien on one-time excess revenues are

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sufficient to fund the annual ADP, that years ADP will be accrued to the following year until paid.

Additionally, effective upon the close of fiscal year 2015~~/~~16 and thereafter, if sufficient General Fund year-end savings are available and targeted reserve levels of 25% (12.5% for Catastrophic Reserve and 12.5% for Budget Stabilization Reserve) of the next fiscal year’s operating budget and the funding the following year’s proposed budget ADP have been met, upon final close of the fiscal year, a minimum of \$300,000 annually shall be deposited into the Pension/OPEB Reserve fund. In addition, Council can assign additional amount deposited to the Pension/OPEB Reserve with a formal Council action from available year end savings.

~~Almond Grove Street Project Reserve~~

~~Funds reserved under this category shall be used to reconstruct the 10 streets identified in the Almond Grove Street Rehabilitation Project specification.~~

~~The Council awarded the bid in April 2017 allowing for \$2.9 million savings within the project. The Council reappropriated the use of the savings through the FY 2017/18 budget process. The Almond Grove Reserve should be reduced by the identified \$2.9 million savings. The Almond Grove Street Reserve balance will be reduced at each fiscal year end by the funds expended on the Almond Grove Street Rehabilitation Project during the fiscal year.~~

Assigned Fund Balance

Amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. This Policy hereby delegates the authority to assign amounts to be used for specific purposes to the Town Manager for the purpose of reporting to assign amounts in the annual financial statements. A few examples of assigned fund balance follow.

- Encumbrances – material s and services on purchase order and contracts which are unperformed.
- Reappropriations – appropriated by the Council for specific projects or programs that were not completed and not encumbered by year end.
- GASB 31 Adjustments – \$10,000 or higher unrealized investment gains that have been recorded in the financial statements in accordance with GASB 31.

Capital ~~and~~ Special Projects Reserve

Funds reserved under this category are designated for key infrastructure and capital/special projects as identified in the Town 5-year Capital Improvement Plan, as there is no ongoing funding source to support the Town’s capital needs.

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Unassigned Fund Balance

At the end of each fiscal year, the Finance Department reports on the audited year-end budgetary fiscal results. Should actual General Fund revenues exceed expenditures and encumbrances, a year-end operating surplus shall be reported. Any year-end surplus which results in the General Fund balance exceeding the level required by this Reserve Policy shall be available for allocation for the following, subject to Council approval:

- Offset projected future deficits
- Anticipated intergovernmental fiscal impacts
- One-time funding, non-recurring needs

This policy allows for Unassigned fund balances and places no specific restriction on their use. The unassigned fund balance will be maintained at \$3,000,000 to cover needs and support ongoing operations during the upcoming fiscal year. Use of unassigned fund balances has to be approved by the Town Council.

Upon funding any of the above reserve levels pursuant to this General Fund Reserve Policy, any remaining surplus of fiscal year revenues above expenditures shall be placed in the Capital/~~and~~ Special Projects Reserve for appropriation within the Capital Improvement Program budget.

Replenishment of Unreserved Fund Balance

In keeping with the principles discussed in this Policy, when either fund is used, Town Council will develop a 1 to 5 year reserve replenishment plan to meet the minimum threshold of 25% of General Fund ongoing, operating expenditures, excluding one-time expenditures.

APPROVED AS TO FORM:

Gabrielle Whelan, Town Attorney