

**TOWN OF LOS GATOS
FINANCE COMMISSION AGENDA
DECEMBER 12, 2022
TELECONFERENCE
5:00 PM**

*Ron Dickel, Chair
Kyle Park, Vice Chair
Stacey Dell, Commissioner
Vacant, Commissioner
Rick Tinsley, Commissioner
Rob Rennie, Mayor
Matthew Hudes, Council Member*

IMPORTANT NOTICE

This meeting is being conducted utilizing teleconferencing and electronic means consistent with Government Code Section 54953, as Amended by Assembly Bill 361, in response to the state of emergency relating to COVID-19 and enabling teleconferencing accommodations by suspending or waiving specified provisions in the Ralph M. Brown Act (Government Code § 54950 et seq.). Consistent with AB 361 and Town of Los Gatos Resolution 2021-044, this meeting will not be physically open to the public and the Council will be teleconferencing from remote locations. Members of the public can only participate in the meeting by joining the Zoom webinar (log in information provided below).

PARTICIPATION

To provide oral comments in real-time during the meeting:

During the meeting:

- **Zoom webinar:** Join from a PC, Mac, iPad, iPhone or Android device: Please click this URL to join: <https://losgatosca.gov.zoom.us/j/85203694748?pwd=VGFCtnNKRmkxa0ZGNdGVKR3QrUElYQT09>
Passcode: 977802
- **Join by Telephone:** Dial: USA 877-336-1839 US Toll-free or 636-651-0008 US Toll.
Conference code: 686100.

During the meeting:

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

When called to speak, you will be asked to provide your full name and your town/city of residence. This identifying information is optional and not a requirement for participation. Please limit your comments to three (3) minutes, or such other time as the Chair may decide, consistent with the time limit for speakers at a Council meeting.

If you are unable to participate in real-time, you may email to Manager@losgatosca.gov and in the subject line "Finance Commission Public Comment Item #___" (insert the item number relevant to your comment) or "Finance Commission Verbal Communications – Non-Agenda Item." Comments received by 11:00 a.m. the day of the meeting will be reviewed and distributed before the meeting. All comments received will become part of the record.

RULES OF DECORUM AND CIVILITY

To conduct the business of the community in an effective and efficient manner, please follow the meeting guidelines set forth in the Town Code and State law.

The Town does not tolerate disruptive conduct, which includes but is not limited to:

- Addressing the Finance Commission without first being recognized;
- Interrupting speakers, Finance Commissioners, or Town staff;
- Continuing to speak after the allotted time has expired;
- Failing to relinquish the microphone when directed to do so;
- Repetitiously addressing the same subject.

Town Policy does not allow speakers to cede their commenting time to another speaker. Disruption of the meeting may result in a violation of Penal Code Section 403.

MEETING CALL TO ORDER

ROLL CALL

CONSENT ITEMS *(Items appearing on the Consent Items are considered routine Town business and may be approved by one motion. Any member of the Commission may request to have an item removed from the Consent Items for comment and action. Members of the public may provide input on any or multiple Consent Item(s) when the Chair asks for public comments on the Consent Items. If you wish to comment, please follow the Participation Instructions contained on Page 2 of this agenda. If an item is removed, the Chair has the sole discretion to determine when the item will be heard.)*

1. Approve Draft Minutes of the November 17, 2022 Finance Commission Meeting.
2. Receive California Employer's Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending September 30, 2022.
3. Receive California Employer's Pension Prefunding Trust (CEPPT) Strategy Market Value Summary Report for the Period Ending September 30, 2022
4. Receive CalPERS 2022 Annual Review of Funding Levels and Risks.

VERBAL COMMUNICATIONS *(Members of the public are welcome to address the Commission on any matter that is not listed on the agenda. To ensure all agenda items are heard and unless additional time is authorized by the Chair, this portion of the agenda is limited to 30 minutes and no more than three (3) minutes per speaker. 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.)*

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

- [5.](#) Review the Draft Annual Comprehensive Financial Report (ACFR) for the Preceding Fiscal Year and Provide Written Comments and Recommendations Prior to Presenting to the Town Council.
- [6.](#) Receive Update on Internal Service Funds.
- [7.](#) Receive Budget Information for Highway 17 Bicycle and Pedestrian Overcrossing and Roadside Vegetation Management Capital Projects.

ADJOURNMENT *(Council policy is to adjourn no later than midnight unless a majority of Council votes for an extension of time)*



**TOWN OF LOS GATOS
FINANCE COMMISSION
AGENDA REPORT**

MEETING DATE: 12/12/2022

ITEM NO: 1

Item 1.

**DRAFT
Minutes of the Finance Commission Special Meeting
November 17, 2022**

The Finance Commission of the Town of Los Gatos conducted a regular meeting utilizing teleconference and electronic means consistent with Government Code Section 54953, as Amended by Assembly Bill 361, in response to the state of emergency relating to COVID-19 and enabling teleconferencing accommodations by suspending or waiving specified provisions in the Ralph M. Brown Act (Government Code § 54950 et seq.) and Town of Los Gatos Resolution 2021-044 on Thursday, November 17, 2022, at 4:00 p.m.

MEETING CALLED TO ORDER AT 4:02 P.M.

ROLL CALL

Present: Chair Ron Dickel, Vice Chair Kyle Park, Commissioner Stacey Dell, Commissioner Rick Tinsley, and Mayor Rob Rennie, Council Member Matthew Hudes (all participating remotely).

Staff Present: Town Manager Laurel Prevetti, Town Attorney Gabrielle Whelan, Assistant Town Manager Arn Andrews, and Finance Director Gitta Ungvari.

CONSENT ITEM (TO BE ACTED UPON BY A SINGLE MOTION)

1. Approve Draft Minutes of the October 10, 2022, Finance Commission Meeting
2. Receive the First Quarter Investment Report (July through September 2022) for Fiscal Year 2022/23

MOTION: Motion by Commissioner Tinsley to approve the consent items. **Seconded** by Commissioner Dell

VOTE: Motion passed 4-0.

VERBAL COMMUNICATIONS

None.

SUBJECT: Draft Minutes of the Finance Commission Special Meeting of November 17, 2022

DATE: December 7, 2022

OTHER BUSINESS

3. Review the Recommended Updates to the Town of Los Gatos IRS Section 115 Pension Trust and OPEB Trust Investment Policy and Forward a Recommendation of Approval to the Town Council

Arn Andrews, Assistant Town Manager, presented the staff report. Staff addressed Commissioners' questions.

Opened Public Comment.

None

Closed Public Comment

MOTION: Motion by **Commissioner Tinsley** to recommend to Council to accept the updates to the Town of Los Gatos IRS Section 115 Pension Trust and OPEB Trust Investment Policy. **Seconded** by **Vice Chair Park**

VOTE: Motion passed 4-0.

4. Receive Financial Information and Continue Review and Analysis of the Town's Five-Year Forecast

Laurel Prevetti, Town Manager, presented the staff report. Staff addressed Commissioners' questions.

Opened Public Comment.

-Catherine Somers (Chamber of Commerce) commented that the Town has to look into other revenue sources because the listed expenses represent items that provide great experiences in Los Gatos and the Town should invest properly in destination marketing.

-Ami Davis (NUMU) commented that this is the time to revisit the Town's partnership with NUMU, as the NUMU is an integral part of the Town.

-Nancy Rollett (LGS Recreation) commented on the Los Gatos-Saratoga Recreation appreciation for Town's support during the years; however they are the only Recreation Program in the State that pays rent for use of a municipal facility.

Commissioners recommended working further toward operational efficiencies and researching additional revenue options.

SUBJECT: Draft Minutes of the Finance Commission Special Meeting of November 17, 2022

DATE: December 7, 2022

5. Discuss Options for Providing Information to the Finance Commission During Labor Negotiations

Gabrielle Whelan, Town Attorney, presented the staff report. Staff addressed Commissioners' questions.

Opened Public Comment.

None

Closed Public Comment

MOTION: Motion by **Commissioner Tinsley** to recommend to Council consideration that during labor negotiation the Town should not engage in any sort of confidentiality agreements with any of the bargaining units in terms of conditions that otherwise would be disclosable under the Brown Act. **Seconded by Vice Chair Park**

VOTE: Motion passed 4-0.

MOTION: Motion by **Commissioner Tinsley** to recommend to Council consideration to adopt procedures regarding public input and outreach related to labor negotiation in similar way as Menlo Park administers its public communication regarding labor negotiations. **Seconded by Commissioner Dell**

VOTE: Motion passed 4-0.

MOTION: Motion by **Commissioner Tinsley** to recommend to Council consideration that the Town website should provide a reference to the publicly available Town employee compensation data. **Seconded by Vice Chair Park**

VOTE: Motion passed 4-0.

ADJOURNMENT:

The meeting adjourned at 5:34 p.m.

This is to certify that the foregoing is a true and correct copy of the minutes of the November 17, 2022 meeting as approved by the Finance Commission.

Gitta Ungvari, Finance Director



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 12/12/2022

ITEM NO: 2

Item 2.

DATE: December 7, 2022
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive California Employer's Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending September 30, 2022

RECOMMENDATION:

Receive California Employer's Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending September 30, 2022.

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 September 30, 2022, was \$21,197,608 compared to \$22,861,333 as of June 30, 2022 (Attachment 1). As of October 31, 2022, the CERBT Strategy 1 fund had a net return of 3.31% for the month and -4.21% for the Fiscal YTD (Attachment 2). These documents will be provided to the Finance Commission at its regular December meeting.

Attachments:

1. OPEB 115 Trust Market Value Summary
2. CERBT Performance Report October 2022

PREPARED BY: Arn Andrews
Assistant Town Manager

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

Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$22,861,333.23	\$22,861,333.23
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	(1,658,721.76)	(1,658,721.76)
Administrative Expenses	(2,890.35)	(2,890.35)
Investment Expense	(2,113.29)	(2,113.29)
Other	0.00	0.00
Ending Balance	\$21,197,607.83	\$21,197,607.83
FY End Contrib per GASB 74 Para 22	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$21,197,607.83	\$21,197,607.83

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	19.234593	19.234593
Period Ending Unit Value	17.834803	17.834803

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 09/30/2022

Town of Los Gatos

Entity #: SKB0-4589482285



Item 2.

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



October 31, 2022

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.

Composition

Asset Class Allocations and Benchmarks

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

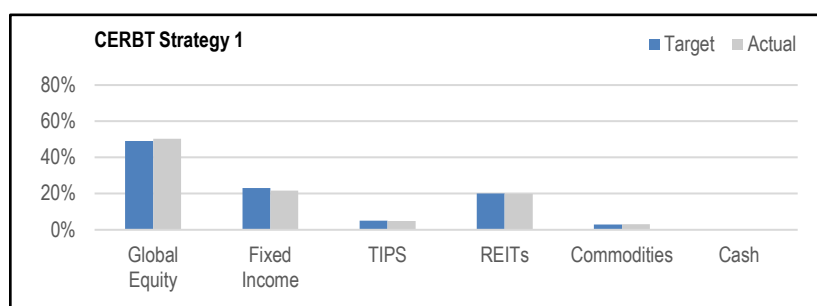
Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	49%	± 5%	MSCI All Country World Index IMI (Net)
Fixed Income	23%	± 5%	Bloomberg Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	20%	± 5%	FTSE EPRA/NAREIT Developed Index (Net)
Commodities	3%	± 3%	S&P GSCI Total Return Index
Cash	-	+ 2%	91-Day Treasury Bill

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.



Assets Under Management

As of the specified reporting month-end:

CERBT Strategy 1	Annual Operating Ratio
\$12,516,618,331	0.10%

CERBT Strategy 1 Performance as of October 31, 2022

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (June 1, 2007)
Gross Return ^{1,3}	3.32%	-9.58%	-4.18%	-19.64%	2.05%	3.66%	5.82%	4.46%
Net Return ^{2,3}	3.31%	-9.60%	-4.21%	-19.71%	1.97%	3.57%	5.72%	4.38%
Benchmark Returns	3.31%	-9.54%	-4.18%	-19.79%	1.81%	3.40%	5.48%	4.06%
Standard Deviation ⁴	-	-	-	-	15.17%	12.99%	10.44%	12.99%

* 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 Returns 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

October 31, 2022



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 0.10% 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.

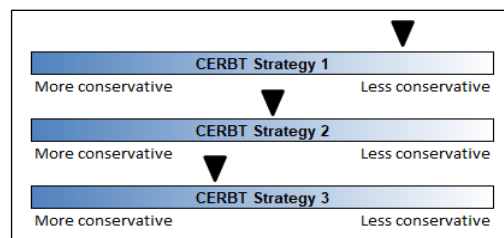
Fund Performance

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	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%





TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 12/12/2022

ITEM NO: 3

Item 3.

DATE: December 7, 2022
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive California Employer's Pension Prefunding Trust (CEPPT) Strategy
Market Value Summary Report for the Period Ending September 30, 2022

RECOMMENDATION:

Receive California Employer's Pension Prefunding Trust (CEPPT) Strategy 2 Market Value Summary Report for the period ending September 30, 2022.

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:

On April 14, 2021, the remaining CEPPT balance at the time of approximately \$700,000 was liquidated for inclusion in a \$2,050,942 additional discretionary payment. The CEPPT account continues to be maintained by the Town (at no cost) to accommodate annual account distributions associated with the Town's General Fund Reserve Policy.

Effective Fiscal Year (FY) 2015/16, Council determined if sufficient General Fund year-end savings are available and targeted reserve levels for the Catastrophic Reserve and Budget

PREPARED BY: Arn Andrews
Assistant Town Manager

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

PAGE 2 OF 2

SUBJECT: CEPPT Update

DATE: December 7, 2022

DISCUSSION (continued):

Stabilization Reserve 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, in 2018 the Council updated the General Fund Reserve Policy to provide for additional discretionary payments (ADPs) of \$400,000 per year to address the unfunded pension liability. Under the updated Policy, a 20-year amortization equivalence will be achieved.

Since the last distribution in 2021, the ending CEPPT 115 Trust account balance as of September 30, 2022, was \$638,355 (Attachment 1). As of October 31, 2022, the CEPPT Strategy 2 fund had a net return of 0.86% for the month and -4.78% for the Fiscal YTD (Attachment 2). Per prior Pension/OPEB Oversight Committee direction, staff will consult with the Town's actuary and provide a recommendation to the Finance Commission for a future ADP.

Attachments:

1. CEPPT Market Value Summary
2. CEPPT Performance October 2022

Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$676,150.03	\$676,150.03
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	(37,400.73)	(37,400.73)
Administrative Expenses	(260.01)	(260.01)
Investment Expense	(134.21)	(134.21)
Other	0.00	0.00
Ending Balance	\$638,355.08	\$638,355.08
FY End Contribution Accrual	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$638,355.08	\$638,355.08

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	68,400.224	68,400.224
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	68,400.224	68,400.224
Period Beginning Unit Value	9.885202	9.885202
Period Ending Unit Value	9.332646	9.332646

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 09/30/2022

Town of Los Gatos

Entity #: SKHE-4589482285-501P



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



October 31, 2022

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 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 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:

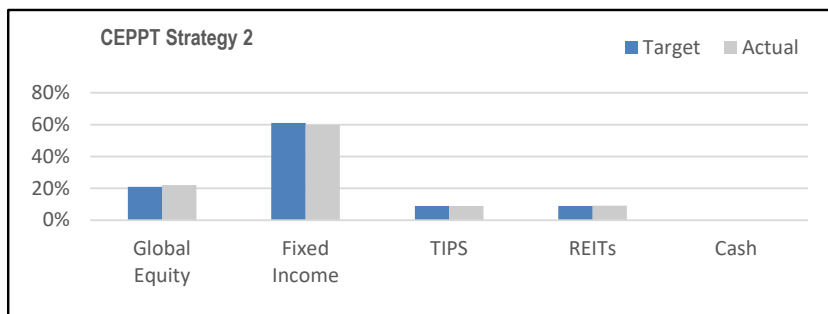
Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	21%	± 5%	MSCI All Country World Index IMI (Net)
Fixed Income	61%	± 5%	Bloomberg US Aggregate Bond Index
Treasury Inflation-Protected Securities ("TIPS")	9%	± 3%	Bloomberg US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	9%	± 5%	FTSE EPRA/NAREIT Developed Index (Net)
Cash	-	+ 2%	91-Day Treasury Bill

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
\$25,685,433	0.25%

CEPPT Strategy 2 Performance as of October 31, 2022

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (January 1, 2020)
Gross Return ^{1,3}	0.88%	-8.05%	-4.71%	-16.05%	-	-	-	-2.11%
Net Return ^{2,3}	0.86%	-8.10%	-4.78%	-16.24%	-	-	-	-2.33%
Benchmark Return	0.88%	-8.09%	-4.75%	-16.16%	-	-	-	-2.24%
Standard Deviation ⁴	-	-	-	-	-	-	-	-

* 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



October 31, 2022

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.

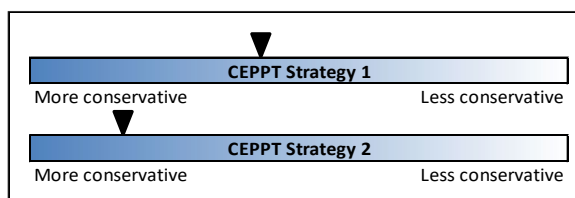
Fund Performance

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: 12/12/2022

ITEM NO: 4

Item 4.

DATE: December 7, 2022
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive CalPERS 2022 Annual Review of Funding Levels and Risks

RECOMMENDATION:

Receive CalPERS 2022 Annual Review of Funding Levels and Risks.

BACKGROUND:

Staff routinely monitors items presented to the CalPERS Investment Committee and Board of Administration. While the Town has no fiduciary control over the investment decisions determined by CalPERS it is prudent to understand the potential risks, and consequences, inherent in actions taken by CalPERS. Attachment 1 contains the CalPERS 2022 Annual Review of funding levels and risks. This report focuses on:

- Reporting the current funded status of the system,
- Identifying and quantifying investment risks,
- Examining other system risks, such near-term high inflation and the COVID pandemic, and
- Discussing risk mitigating activities for the system and employers

This report is intended to assist the CalPERS Board of Administration, participating employers, and other stakeholders in assessing the soundness and sustainability of the Public Employees' Retirement System for ongoing pension plans. The results presented in this report are based on the June 30, 2021 annual valuations, which have been projected forward to June 30, 2022 based on preliminary investment performance for the year ending June 30, 2022. Staff routinely utilizes information from CalPERS during development of the Proposed Operating Budget, Five-Year Forecast, and other Town financial analysis. The Pension OPEB Oversight Committee will receive this same information at its December 20th meeting.

PREPARED BY: Arn Andrews
Assistant Town Manager

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

SUBJECT: CalPERS Funding Risk Report

DATE: December 7, 2022

DISCUSSION:Following are items of note identified in the report:

With the lower-than-expected investment returns for Fiscal Year (FY) 2021/22, the funded status of the system is projected to decrease from 81.2% as of June 30, 2021 to an estimated 72% as of June 30, 2022. Employer contribution levels are expected to increase in response to the investment loss for FY 2021/22.

Many CalPERS plans are less than 100% funded as of June 30, 2022. CalPERS believes this is not a significant cause for concern provided employers continue to make the actuarially determined required contributions. The report states there is no specific funded status that indicates a retirement plan and its members are in jeopardy, but states plans that fall below 50% would likely have short-term required contributions that would strain the employer's budget.

CalPERS completed an Asset Liability Management (ALM) process in November 2021 that reviewed updated capital market assumptions and based on that review adopted a revised strategic asset allocation. Based on the ALM results, the discount rate was reduced to 6.8% along with a reduction in the inflation assumption to 2.3% and an increase in the payroll growth assumption to 2.8%.

CalPERS cautions that recent and current increases in the Consumer Price Index (CPI) are expected to have a material impact on the pension liabilities in future actuarial valuation reports for both retirees (due to cost of living increases) and the active members (due to future salary increases). If current inflationary trends continue, CalPERS has determined that required contributions may increase 5%-12% of payroll over the next several years depending on how long the high inflation period lasts and how quickly it returns to Federal Reserve targets.

CalPERS concludes the report with the following observation:

"Over the last few years various external factors have had material impacts on the experience of the Retirement System. While some of the impacts may have led to short-term improvements in the current funding levels of the system, other factors have worsened the funded position and pose additional threats to the system in the future.

"Recent factors that were favorable to the funded status of the system were:

- Significant investment gains during the 2020-21 fiscal year
- Higher than expected mortality likely due to the COVID pandemic

"Factors that were unfavorable to the current funding levels of the system and pose potential future threats are:

- Significant investment losses during the 2021-22 fiscal year
- Financial strain on employers due in part to the COVID pandemic
- High levels of inflation over the last 1-2 years which may persist
- Potential ongoing effects of COVID

SUBJECT: CalPERS Funding Risk Report

DATE: December 7, 2022

DISCUSSION (continued):

- Potential economic downturn in the near-term
- Reduced expectations of future investment returns

“The combined impact of the above factors has the potential to worsen the funded status of the system and result in large increases to required contributions for employers and members. The ability of employers to continue making required contributions to the system is the area of greatest concern.

“While certain external factors are outside of the control of the system, CalPERS and its participating agencies have responded to these risks in a number of positive ways such as:

- The recent adoption of new amortization policies that mitigate the risk of the system dropping to dangerously low funding levels.
- The increased level of additional contributions made by CalPERS agencies.
- The use of a separate 115 trust by many CalPERS agencies for minimizing the risk of required contribution spikes and volatility.
- The adoption of a new investment policy which maintains favorable investment return expectations and associated volatility.
- Improvements in the processes of setting actuarial assumptions which are expected to lead to less volatile contributions rates in the future.
- Improved modeling tools that allow CalPERS and its participating employers to forecast future required contributions and funded status under a variety of possible future scenarios.

“In addition to the actions listed above, we believe the following items should receive a high level of focus going forward.

- Continual focus on the acceptable level of investment risk versus the desire for higher investment returns including the possible impacts of the existing Funding Risk Mitigation Policy.
- Monitor the effectiveness of the current investment policy to ensure desired returns relative to the chosen level of risk.
- Continue the focus on educating participating employers on the risks facing the system and providing tools that enhance their ability to manage these risks.
- Stakeholder outreach regarding employers' ability to make required contributions.

“With the anticipated increases in required employer contributions, due primarily to the investment losses experienced during the 2021-22 fiscal year, combined with current economic difficulties caused by the pandemic, inflation, and turbulent investment markets, some employers will likely have difficulty making required CalPERS contributions over the next several years. In addition, near-term forecasts by investment and economic professionals suggest it may be difficult to achieve a 6.8% investment return in the near-term. This potential for further increases to required employer contributions increases the risk that individual

PAGE 4 OF 4

SUBJECT: CalPERS Funding Risk Report

DATE: December 7, 2022

DISCUSSION (continued):

agencies may struggle to make required CalPERS contributions leading to potential contract terminations and possible benefit reductions. While financial necessity policies within the CalPERS amortization policy can be used in some cases to spread amortization payments over a longer period and hence reduce near-term contributions, these policies require minimum contributions that may still pose challenges for some agencies. In addition, these policies do not reduce costs but merely delay and increase them. CalPERS and its participating employers have taken many positive steps to manage the risks of the system. Continued focus on the risks described in this report, and opportunities to minimize and manage them, will be of utmost importance going forward.”

Attachments:

1. CalPERS 2022 Annual Review of Funding Levels and Risks

California Public Employees' Retirement System

2022 Annual Review of Funding Levels and Risks

November 2022



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Introduction

This report is intended to assist the CalPERS Board of Administration (board), participating employers and other stakeholders in assessing the soundness and sustainability of the Public Employees' Retirement System for ongoing pension plans. It does not address the Terminated Agency Pool or the 1959 Survivor Benefit Program, nor does it address the other systems (Judges' Retirement Systems, Legislators' Retirement System or the non-pension programs) administered by CalPERS.

The results presented in this report are based on the June 30, 2021 annual valuations, which have been projected forward to June 30, 2022 based on preliminary investment performance for the year ending June 30, 2022. Unless stated otherwise, current and projected results in the report are based on a long-term discount rate of 6.80% and the demographic assumptions reflect all changes recommended in the 2021 Experience Study.

The actual results based on the June 30, 2021 valuations are summarized in Appendix A.

This report focuses on:

- Reporting the current funded status of the system
- Identifying and quantifying investment risks
- Examining other system risks, such near-term high inflation and the COVID pandemic
- Discussing risk mitigating activities for the system and employers

Pension and investment beliefs adopted by the board that inform our work on risks and funding include the following:

Pension Belief 5: Funding policies should be applied in a fair, consistent manner, accommodate investment return fluctuations and support rate stability.

Pension Belief 9: Sound understanding, and deployment of enterprise-wide risk management is essential to the ongoing success of a retirement system.

Investment Belief 1: Liabilities must influence the asset structure. More specifically, ensuring the ability to pay promised benefits by maintaining an adequate funding status is the primary measure of success for CalPERS.

Investment Belief 9: Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error.

Executive Summary

With the lower-than-expected investment returns for fiscal year (FY) 2021-22, the funded status of the system has decreased from 81.2% as of June 30, 2021 to an estimated 72% as of June 30, 2022. Funded ratios vary somewhat among the different plans, with the plans for miscellaneous members generally having higher funded ratios than plans for safety members.

The recent decrease in funded status has increased the risk that plans will fall to low funding levels. In addition, employer contribution levels are expected to increase in response to the investment loss for fiscal year 2021-22. With the added economic stress due to the Coronavirus pandemic, increased inflation, and the possibility of a recession, the ability of employers to continue making required contributions is an area of concern for the system and its members. However, with few exceptions, employers are currently up to date with their contribution requirements, and many are making additional discretionary payments to improve their funded status and lower their overall costs.

The termination policies and processes currently in place should mitigate risk to the system. However, if an employer is under severe financial stress, the termination policies do not fully protect the benefits of members that have served that employer. Ultimately, the members' benefits are only secure if the employer continues to make the required contributions.

CalPERS completed an Asset Liability Management (ALM) process in November 2021 that reviewed the capital market assumptions and adopted a revised strategic asset allocation. In addition, the discount rate was reduced to 6.8% along with a reduction in the inflation assumption to 2.3% and an increase in the payroll growth assumption to 2.8%. At the same time the Actuarial Office completed its Experience Study to review the demographic experience within the pension system and made minor changes to modify future assumptions where necessary. The most significant change was implementing fully generational mortality assumptions with mortality rates weighted by benefits. This weighting reflects the observed trend of lower mortality rates for wealthier members.

Recent and current increases in the Consumer Price Index (CPI) are expected to have a material impact on the pension liabilities in future actuarial valuation reports for both retirees (due to cost of living increases) and the active members (due to future salary increases). We have determined that required contributions may increase 5%-12% of payroll over the next several years depending on how long the high inflation period lasts and how quickly it returns to Federal Reserve targets.

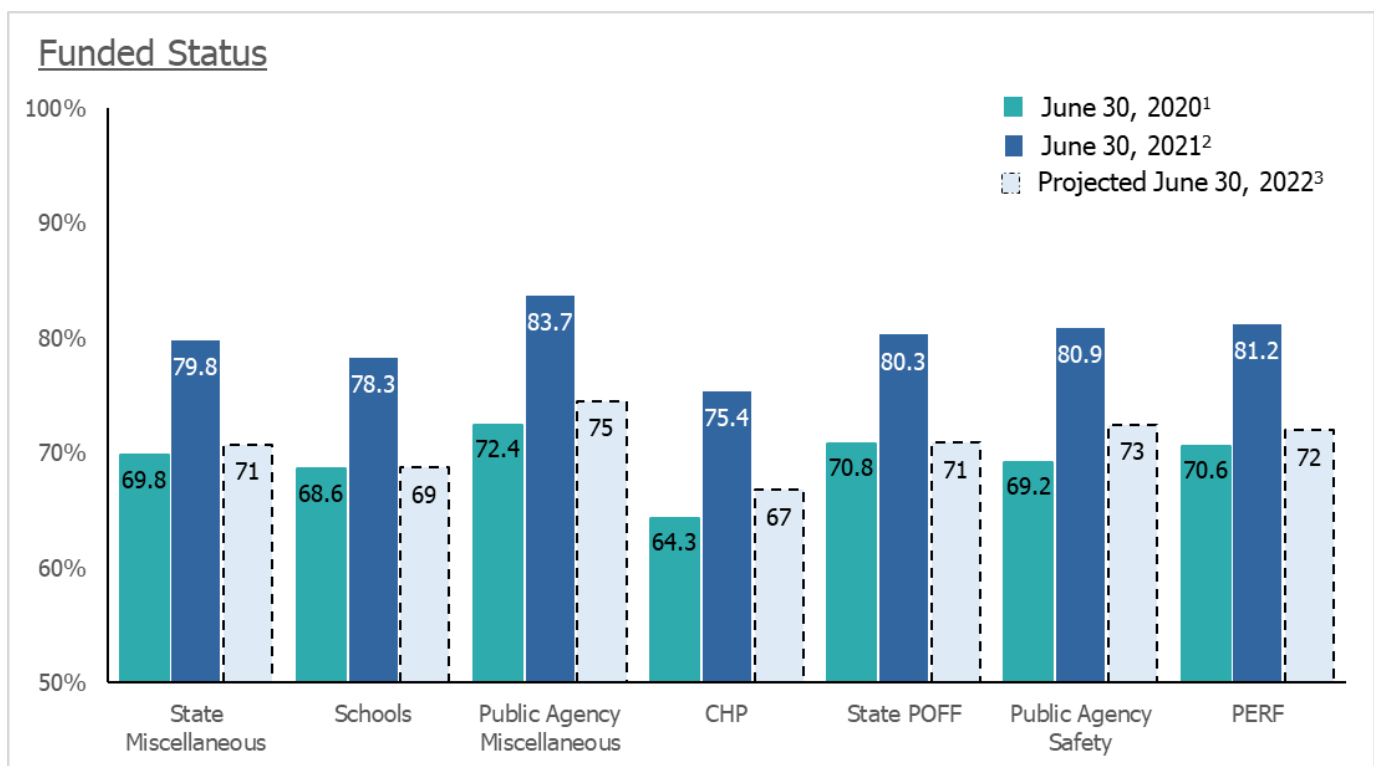
This report illustrates the impact of recent events on the retirement system and projects the possible impacts of various factors that are possible in the future. While there is no immediate concern regarding the system's ability to pay required benefits, the possibility of unfavorable events in the near future, such as high inflation, continued impacts from the Coronavirus pandemic and the possibility of an economic recession, lead to concerns that required employer contributions could rise to levels that would be challenging for employers. Understanding these risks and opportunities to manage them is the main focus of this report.

Funding Levels

The overall level of funding of the system has been quite volatile over the last 2-3 years. Strong investment performance during the fiscal year ending June 30, 2021 significantly improved asset values. However, the following fiscal year ending June 30, 2022 saw decreases in asset values due to the FY 2021-22 poor investment return.

The system is a conglomeration of multiple plans and several risk sharing pools. Each of these pools and the non-pooled plans are funded separately. Over the last two years, many of these individual plans received additional discretionary payments (ADPs) from the sponsoring agencies. As a result, funded statuses for these plans are higher than they would otherwise be.

The chart below shows the funding levels of the various components of the Public Employees' Retirement Fund (PERF) as of June 30, 2020, June 30, 2021, and estimated results as of June 30, 2022. Estimates as of June 30, 2022 were based on preliminary asset values as of June 30, 2022 and liabilities rolled forward from the most recent valuation date of June 30, 2021 to June 30, 2022.



¹June 30, 2020 valuations based on a 7.00% discount rate.

²June 30, 2021 valuations based on a 6.80% discount rate.

³June 30, 2022 projected funded status based on a preliminary investment return of -7.4% for FY 2021-22.

The previous chart shows that the funded status increased significantly between June 30, 2020 and June 30, 2021, and then decreased significantly as of June 30, 2022. Based on the results of the funding valuations as of June 30, 2021, the overall funded ratio of the PERF was about 81% and the estimated PERF funded ratios of June 30, 2022 is 72%. While the favorable and unfavorable returns during these two years both deviated significantly from the expected returns of 7.0% and 6.8% respectively, the returns for both years were within two standard deviations of the expected return. Based on the current allocation of assets, returns that deviate from the expected return by two standard deviations or more are expected to occur about once every 20 years. Therefore, such investment volatility is expected to occur sporadically but not regularly.

The term "funded status" as used in the chart, is the funded portion of the funding target determined annually for each plan in the actuarial valuation process. This funding target reflects all the actuarial assumptions and methods adopted by the Board of Administration. Alternate funding methods and assumptions would yield different funding targets and therefore different funded status results. For example, reflection of a lower assumption for future investment return would lower the current funded status for each CalPERS plan. The Trend Toward Lower Discount Rates section of this report provides funded status results by employee group under alternate assumptions for future investment return (i.e., discount rate).

If an agency elects to terminate its contract with CalPERS, the employer is required to contribute the amount necessary to fully fund the plan. However, for this purpose, the funded status of the plan is determined using different actuarial assumptions and methods. Since the employer will no longer be obligated to make up any shortfalls in investment return (or due to other economic or demographic events), CalPERS funds the terminated agency pool on a much more conservative basis to ensure that the affected members' benefits are secure. With the funding of terminated plans based on fixed income assets, the termination discount rate depends on actual market rates of return for such assets on the date of termination. Such rates are lower than the ongoing discount rate (currently around 4%) and result in a lower funded status for CalPERS plans. A typical CalPERS plan that is currently 70% funded based on a 6.8% discount rate, would be around 40%-45% funded based on current termination rates. This indicates some additional risk to public agency members, in the form of potential benefit reductions, if their employer were to terminate their plan and be unable to make the required final contribution to fully fund the plan.

Identifying and Quantifying Investment Risks

This section looks at risks to the retirement system and members due to future investment performance by focusing on three key risk considerations:

1. The funded status and probability that it will fall to very low levels
2. The risk of increasing contributions due to lower-than-expected average investment returns
3. The possibility of high contribution increases in a single year due to investment "shocks"

These risks were evaluated in connection with alternate investment scenarios. Other factors can impact the risks of the system but generally not to the same extent as investment returns. However, COVID and high near-term inflation are potentially material risks and are analyzed separately in later sections of the report.

Shared Risk

Member benefits are paid through the combination of CalPERS investment returns, required employer contributions, and member contributions. While there is a legal requirement for the employer to make the full contribution needed to fund the system, in extreme circumstances the employer may be unable to do so. In these situations, the employer's financial hardship can become a direct risk to the members and their benefits.

The risks borne by the employers (primarily investment risk) can impact their ability to make required CalPERS contributions. Investment and actuarial policies adopted by the board are always adopted with the purpose of maintaining benefit security for members.

By focusing on the risks to the soundness and sustainability to the overall system, CalPERS can take steps to mitigate risks to both members and employers. Ultimately, pensions are a shared responsibility between members and employers.

Risk of Low Funding Levels

When the funded status of a plan is low, the required employer contributions can become quite high. If required contributions exceed the amount that an employer is able to pay, there is a possibility the employer's CalPERS contract will be terminated which can lead to benefit reductions for members of that plan. Many CalPERS plans are less than 100% funded as of June 30, 2022. This is not a significant cause for concern provided employers continue to make the actuarially determined required contributions. While there is no specific funded status that indicates a retirement plan and its members are in jeopardy, plans that fall below 50% would likely have short-term required contributions that would strain the employer's budget.

The likelihood that a plan falls below 50% funded in the future can be estimated with "Stochastic Modeling". With this type of modeling, alternate future investment scenarios are used to create projected future funded ratios. The results provided in this section are based on the outcomes of 5,000 alternate investment scenarios for all future years provided by the investment office.

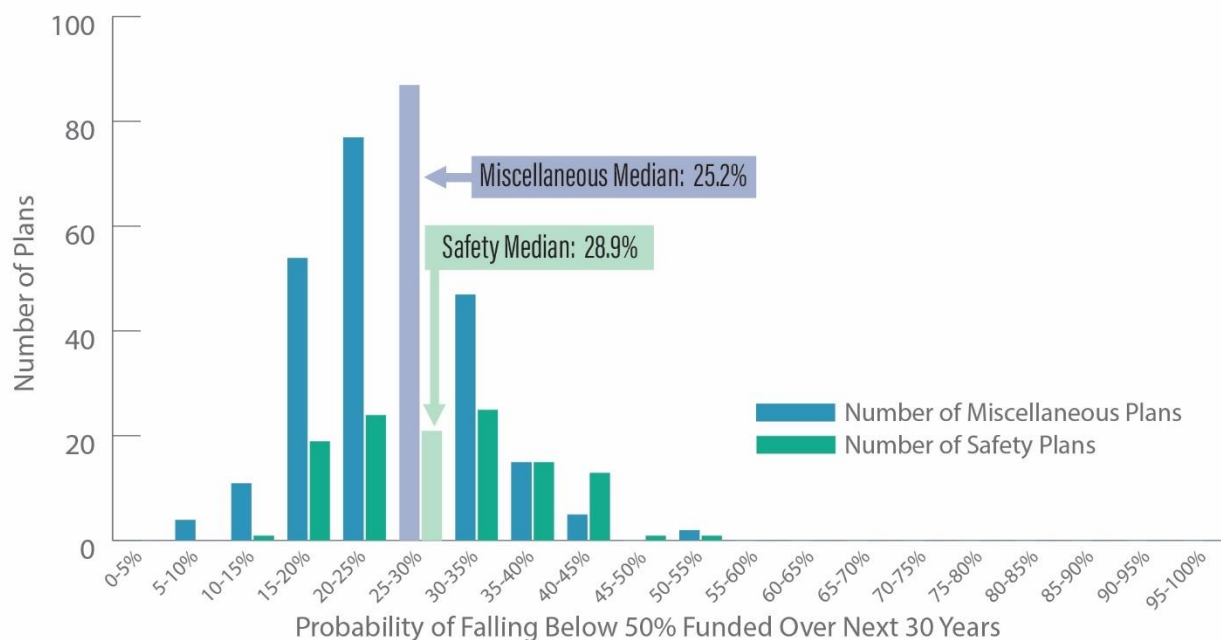
Alternate investment return scenarios were developed based on the expected returns and standard deviations of each of the asset classes in the PERF. Assumed correlations along with a covariance matrix between asset classes are also reflected.

Based on stochastic modeling, the State Miscellaneous Plan has a 23.4% probability of falling below 50% funded at some point over the next 30 years. For the School's Pool, the probability is 24.9%. While many factors contribute to these results, the recent investment loss during the fiscal year ending June 30, 2022 was a primary factor in increases to these percentages. Notably, additional contributions by the state reduced the probability for the State Miscellaneous Plan.

The probability of falling below 50% funded status for CalPERS public agency plans is illustrated in the chart below. The chart shows the numbers of non-pooled plans within various probability ranges of falling below 50% funded. (Pooled plans are expected to have similar results.) For example, 87 miscellaneous plans have a 25%-30% probability of falling below 50% funded over the next 30 years.

Probability of Falling Below 50% Funded (at any point in next 30 years)

Distribution of Non-Pooled Public Agency Plans



Lower Than Expected Average Investment Returns

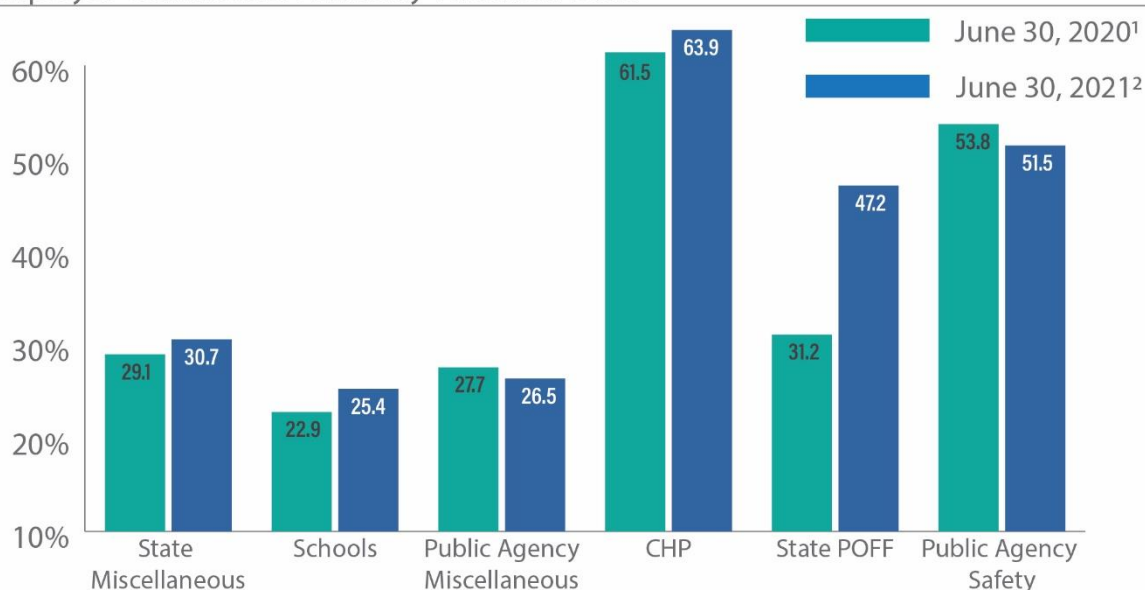
While it is believed that the current investment policy and asset allocation will result in average long-term geometric returns of approximately 6.8%, future average returns may be higher or lower. It is also believed that there is an equal likelihood that long-term average returns will be either greater than or lower than 6.8%. Average future returns of greater than 6.8% pose little risk to the system. However, since required contributions for PEPRA members reflect the current 6.8% assumption, it could be considered that PEPRA members overcontributed if the fund earns greater than 6.8% on a long-term basis.

Returns in any year that are lower than the assumed 6.8% result in increases to employer contributions. High employer contribution rates impose significant financial stress and may increase the risk that employers will default and be unable to make their required contributions. Since future employer contributions are one of the funding sources for the benefit payments, a default by the employer would result in increased risk to the members' benefits. The level of financial stress associated with any particular level of contributions will differ by employer.

Current State

Current contribution levels or average contribution levels for public agency plans are shown in the table below. As shown below, employer contribution levels are relatively high, especially for safety plans. Actions to reduce the probability of low funded status or contribution volatility generally result in increases in the contribution levels. It is difficult to assess just how much strain current contribution levels are putting on employers. However, evidence such as collections activities, inquiries regarding extensions to amortization schedules and information regarding termination procedures indicate that some public agencies may be under significant strain.

Employer Contribution Rates by Valuation Date



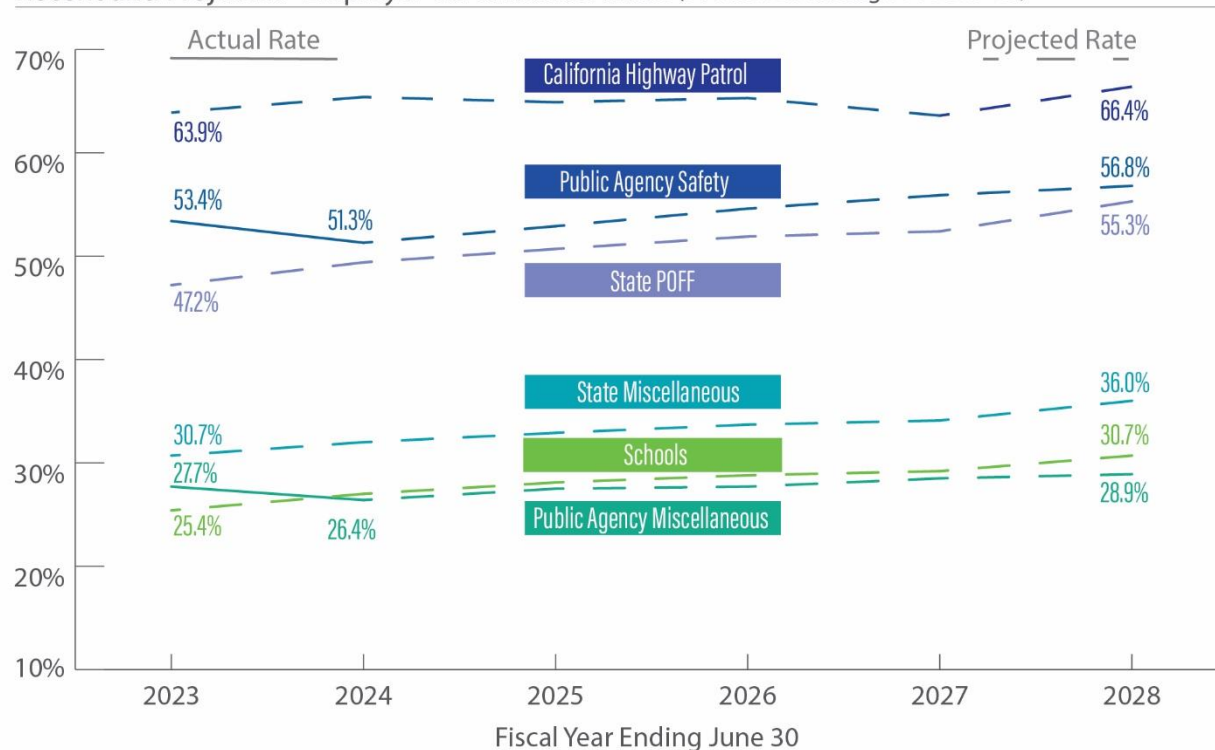
1 June 30, 2020 valuations for state plans and the schools pool set FY 2021-22 rates and set FY 2022-23 rates for public agencies.

2 June 30, 2021 valuations for state plans and the schools pool set FY 2022-23 rates and set FY 2023-24 rates for public agencies.

Note, for the above chart the results for Public Agency plans were determined by summing the required dollar contributions for each plan and then dividing by total payroll for all plans.

Expected Future State

Below are projected employer contribution requirements (expressed as percentage of payroll) based on the June 30, 2021 actuarial valuation results projected forward with a preliminary investment return of -7.4% for FY 2021-22 and assumed annual investment returns thereafter of 6.8%.

Recent and Projected¹ Employer Contribution Rates (FY 2022-23 through FY 2027-28)

¹FY 2022-23 state plan and schools pool rates are actual. FY 2022-23 and 2023-24 public agency rates are actual.

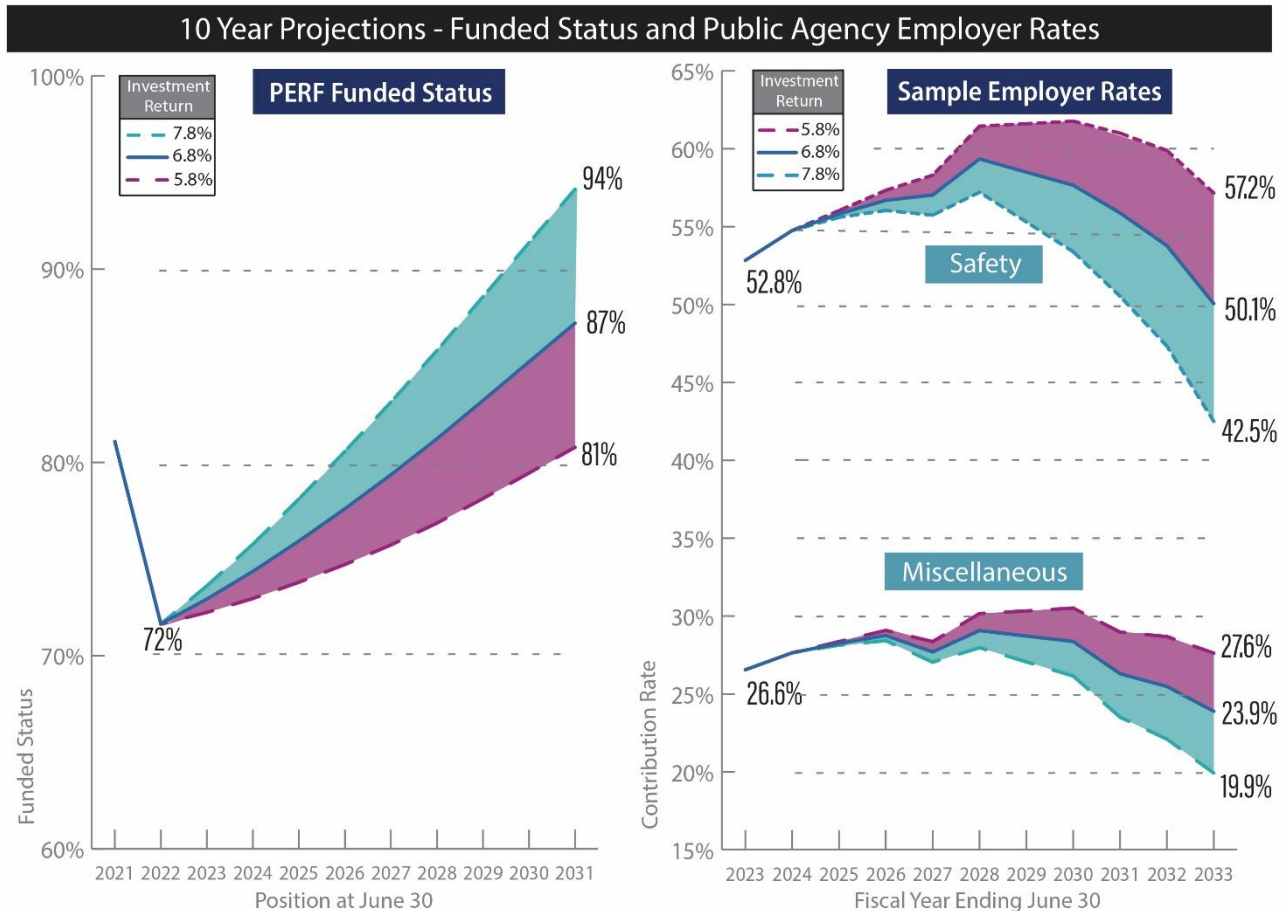
Alternate Investment Scenarios

To the extent future experience deviates from the actuarial assumptions, adjustments are made to the unfunded liability position which result in required contribution increases or decreases from present levels. The factor that is likely to have the largest impact on future contribution requirements is the investment return of the PERF. While actual plan experience in other areas such as mortality, inflation, rates of retirement, pay changes, etc., also impact required contributions, these factors are typically not as volatile as investment return.

The expected long-term investment return of the PERF is 6.8%. If the actual returns every year in the future were 6.8%, the following are expected to occur:

- Required employer contributions would continue to increase over the next few years while the full costs of recent investment losses are being phased in.
- In approximately five years, required employer contributions are expected to decrease. This is due to two separate factors:
 1. the continual decrease in normal cost as Classic members retire or terminate and are replaced by PEPRAs members, and
 2. current required payments toward existing unfunded accrued liability bases will be gradually eliminated as individual UAL bases are fully paid-off.
- In the long-term, required employer contributions will trend toward the employer portion of the normal cost.
- The funded status of all plans would gradually increase to around 100% over the next 20 to 25 years.

The charts below provide the projected funded status of the PERF and sample employer contribution rates for a public agency safety and miscellaneous plan over the next ten years reflecting the assumed 6.8% annual investment return, with alternative annual investment returns of 5.8% and 7.8% to demonstrate the sensitivity of the PERF and the plans to future investment returns.



Over longer periods of 30 years or more, chances are greater the average return will be closer to the expected geometric average of 6.8%. However, based on the current allocation of assets and the expected volatility of the various asset classes, the possibility exists that the average return over the next 30 years will fall outside of the range illustrated above of 5.8% to 7.8%.

Investment Shocks

Over periods shorter than 30 years or single year periods, the likelihood of varying from the 6.8% expected return is even greater. For example, there is roughly a 16% chance that in a single year, the investment return will be lower than -5.2% and a 16% chance that it will be greater than 18.8%. These returns are one standard deviation lower and higher than the expected return of 6.8%. So, while it is more likely that any single year return will be between -5.2% and 18.8% (68% probability), the chance of falling outside this range for one year is not insignificant.

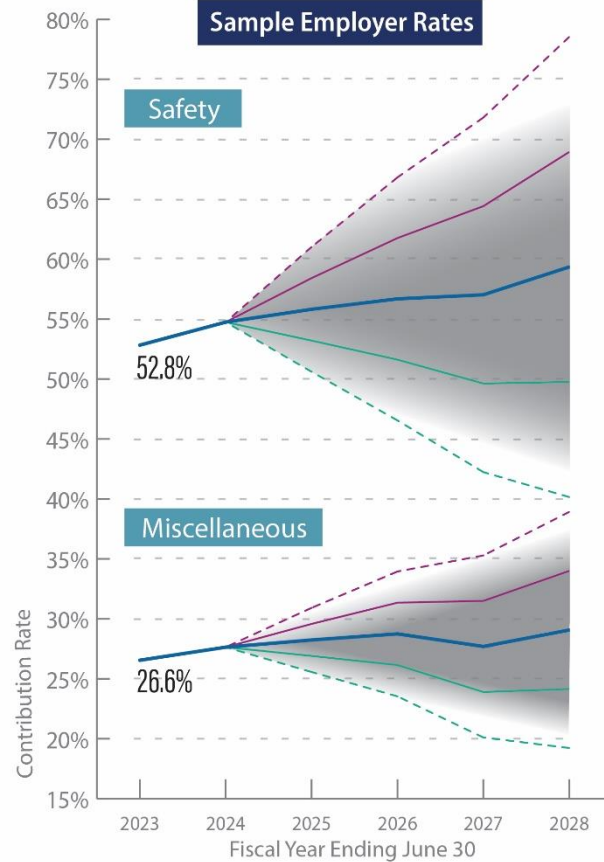
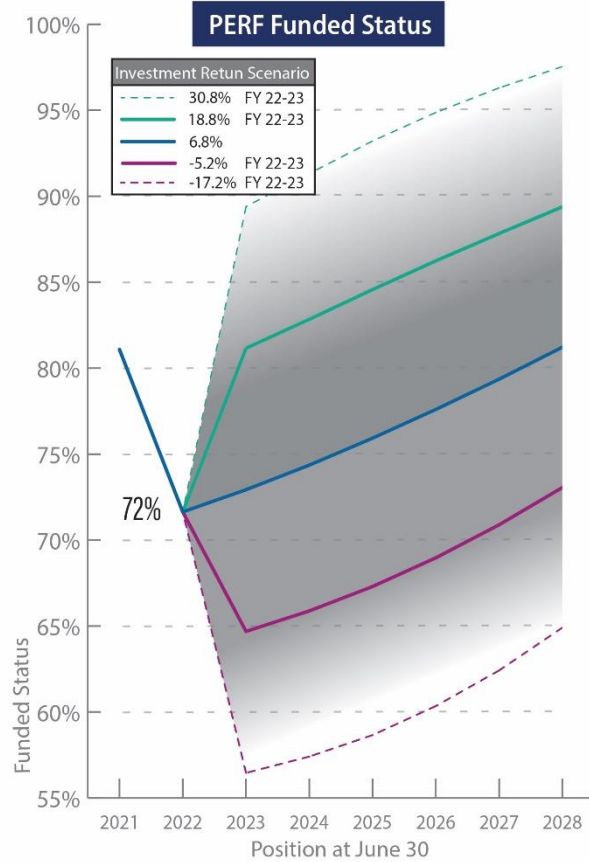
A two standard deviation higher or lower return is much less likely but does have roughly a 5% chance of occurring. The two standard deviation range is -17.2% to 30.8%. Or said another way, a return between -17.2% and 30.8% in any given year has a probability of around 95%.

While such "shock" returns are possible and do occur, history has shown that market corrections in the opposite direction typically occur over the next few years. However, such corrections are certainly not guaranteed.

The chart below provides the impact of various "shock" returns in the year ending June 30, 2023 with no assumed future correction. The purpose of the chart is to illustrate the potential impact of a single very good year or very bad year of investment return.

As demonstrated in the chart, funded status is impacted immediately and significantly while changes to required contributions happen more gradually due to the 5-year phase-in of the impact of investment gains and losses. The 5-year phase-in would allow time for a possible correction to occur which would then begin to have the opposite effect on future contributions.

Hypothetical Investment Return Scenarios - Funded Status and Public Agency Employer Rates



Other Risks

COVID-19

As of the publication of this document, there have been close to 100,000 COVID-19 related deaths in California. While many of these deaths have been among older individuals, deaths have occurred at younger ages as well. The impacts of the pandemic in California began early in the 2020 calendar year and continue through today. During this relatively short period of time, impacts of the pandemic on the economy, public health and workplace norms have been significant but there remain many unknowns regarding the potential long-term impacts to CalPERS.

The pandemic has the potential to alter the experience of the retirement system in several different areas. These include, investment returns, inflation, deaths, retirements, terminations, disability retirements, pay increases, etc. Experience in these areas will impact future actuarial valuation results and required contributions.

Impacts on the pension system to date

- In FY 2020-21 mortality was 20.1% over expected
- In FY 2021-22 mortality was 15.3% over expected
- More retirements occurred than expected in the school's pool and within public agency plans

While there were a significant number of additional deaths over the last 2 years, presumably due primarily to COVID 19, the impact on the liabilities of CalPERS plans has been less. Many of these "additional" deaths were among older retirees and therefore liability gains measured in the June 30, 2021 valuations were less material than if deaths occurred among younger retirees. We expect to see similar results in the June 30, 2022 valuations.

Long-term Questions

- Will viruses like COVID-19 be more common in the future?
- Will COVID-19 survivors and those that experience Long Covid have a higher likelihood of earlier death or disability?
- Will increased handwashing, masks, and social distancing practices lower the risk of existing diseases and therefore improve future mortality?
- Will changes in work patterns (e.g., increased teleworking) change the frequency of job changes?
- Will high interest rates and forecasts of slower economic growth persist and reduce the long-term expected return on plan assets?

These questions will be examined in the November 2025 experience study which will also analyze their impact to the pension system and provide us with enough credible experience to determine if changes are needed to the demographic assumptions.

A larger concern is the impact of the pandemic on inflation and on employers' ability to continue to make required contributions to CalPERS. Even before the pandemic, employers' ability to make future required contributions was a concern. Increased inflation due in part to lingering supply chain issues and decreased revenues resulting from the pandemic have added to this concern.

Several employers have utilized budget management tools such as golden handshakes, furloughs, pay decreases and staff reductions to reduce short-term spending. In addition, many employers have issued Pension Obligation Bonds using the proceeds to reduce or eliminate CalPERS unfunded liability. There are risks to these tools and it remains of utmost importance that employers use appropriate due diligence.

Inflation

Inflation recently experienced a 40-year high when US consumer prices jumped by 9.1% in June 2022. Factors that are likely contributing to the current levels of inflation include supply chain issues persisting from the COVID-19 pandemic, high gas prices due in part to the war in Ukraine and the presence of a strong labor market. It appears likely high inflation will persist in the near-term. It remains to be seen how long before inflation declines to Federal Reserve targets. Given the transitory nature of some of the causes of the current high inflation and continued efforts by the Federal Reserve to reduce inflation through interest rate increases, it is expected that inflation will gradually return to levels near our current long-term inflation assumption of 2.3%. However, we will continue to monitor actual inflation levels as well as inflation forecasts by economists and investment professionals in order to assess whether a change to this assumption may be appropriate. Temporary high inflation can have significant impacts on CalPERS and its members as discussed below.

Cost of Living Adjustments (COLAs)

CalPERS retirees are entitled to cost of living adjustments based on the specific provisions adopted by the plan sponsor. Provisions vary, but most existing retirees are expected to receive higher benefit increases in the near-term while higher inflation persists. This is expected to result in somewhat higher employer contributions. While retirees' benefits will likely experience higher increases, these increases will likely not fully maintain current purchasing power for many retirees.

Pay Increases

Workers' wages generally tend to keep pace with inflation. However, pay increases may lag higher inflation measurements due to the time it takes to negotiate bargaining agreements. Future pay increases to CalPERS members exceeding the assumed increases will also lead to higher employer contributions. Such increases will be in the form of higher dollar contributions but required employer contributions expressed as a percentage of payroll will not be impacted to the same extent. For example, if plan members experience salary increases 5% greater than expected, the normal cost percent of the plan may not change materially. However, when the employer contributes future required normal costs, the unchanged normal cost percent will be applied to higher payroll resulting in higher dollar contributions.

Other Factors

The determination of member benefits can be impacted by other factors that are tied to inflation. One such factor is the compensation limit that applies to most PEPPRA members. Increases to this pay limit due to higher inflation will increase employer contributions. In addition, certain federal limits that apply to qualified retirement plans are also impacted by inflation. These include limits on member compensation and benefit amounts. However, the impact of these federal limits is to cap benefits paid from the PERF with the difference in benefits being paid by the Replacement Benefit Fund (RBF). Therefore, higher increases to these federal limits due to higher near-term inflation will generally simply result in a different allocation of costs between the PERF and RBF.

Estimated Contribution Impact

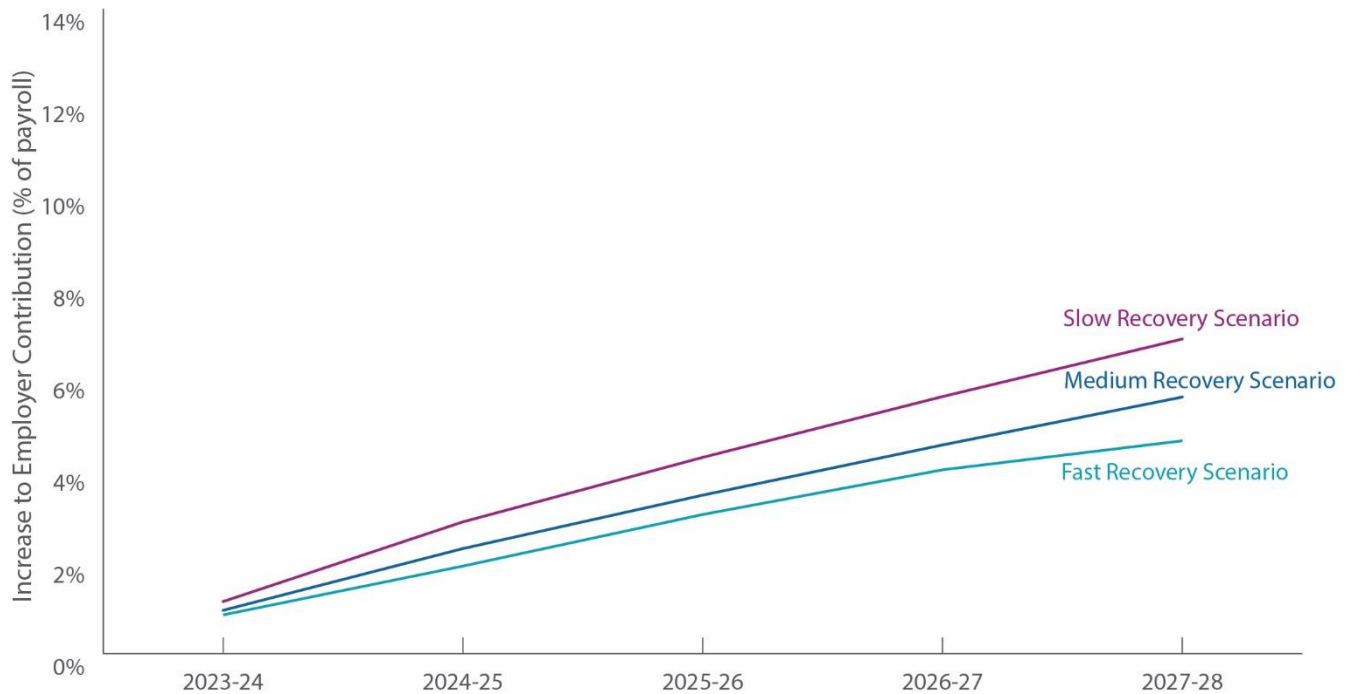
For purposes of estimating the impact of inflation on future contributions, we selected three reasonable scenarios for future near-term inflation. The three scenarios considered are shown below. The difference between the scenarios is the speed with which it takes to return to the expected price inflation of 2.3% (slow, medium, and fast).

Projection Year	Fast Recovery	Medium Recovery	Slow Recovery
1	5.0%	5.0%	5.0%
2	8.0%	8.0%	8.0%
3	3.0%	4.0%	6.0%
4	2.3%	3.0%	4.0%
5 and beyond	2.3%	2.3%	2.3%

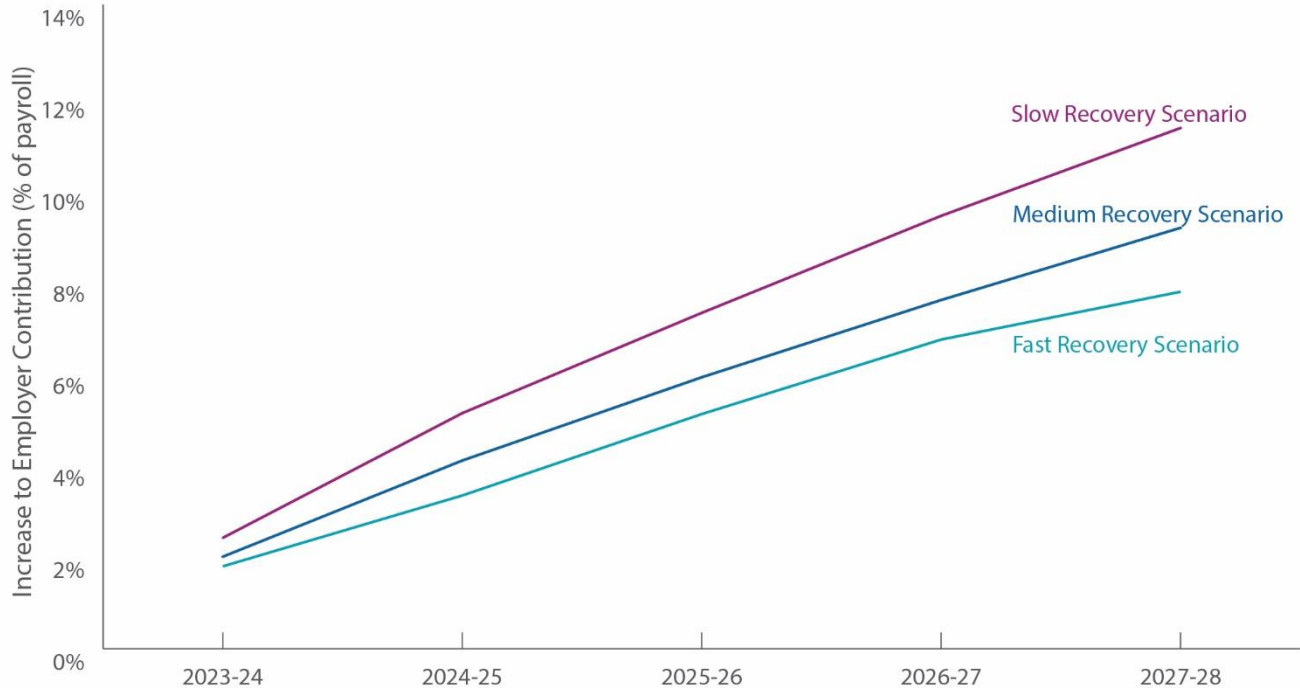
The charts below provide estimates of the additional employer costs that may arise under various scenarios for higher near-term price inflation. As stated above, increases to member earnings consistent with the inflation scenarios may take several years to materialize. However, for simplicity, the results below assume such pay increases occur immediately following the measurement of the higher inflation values. In addition, due to the phenomenon discussed above regarding how contributions are expected to change as dollar amounts versus rates of payroll, we have chosen to represent results as estimated contribution increases expressed as percentages of current payroll without adjustments for higher assumed inflation. This provides a better comparison of current dollar costs versus projected higher dollar costs. Finally, the graphs below provide median results for non-pooled plans. Actual results for individual plans can be somewhat higher or lower than the median. In particular, the actual results for plans with higher contracted COLA levels or with higher liability volatility ratios are likely to be higher than the median results.

Estimated Median Impact of High Inflation on Employer Contribution Rates

Miscellaneous Non-Pooled Public Agency Plans



Safety Non-Pooled Public Agency Plans



Impacts of Plan Maturity

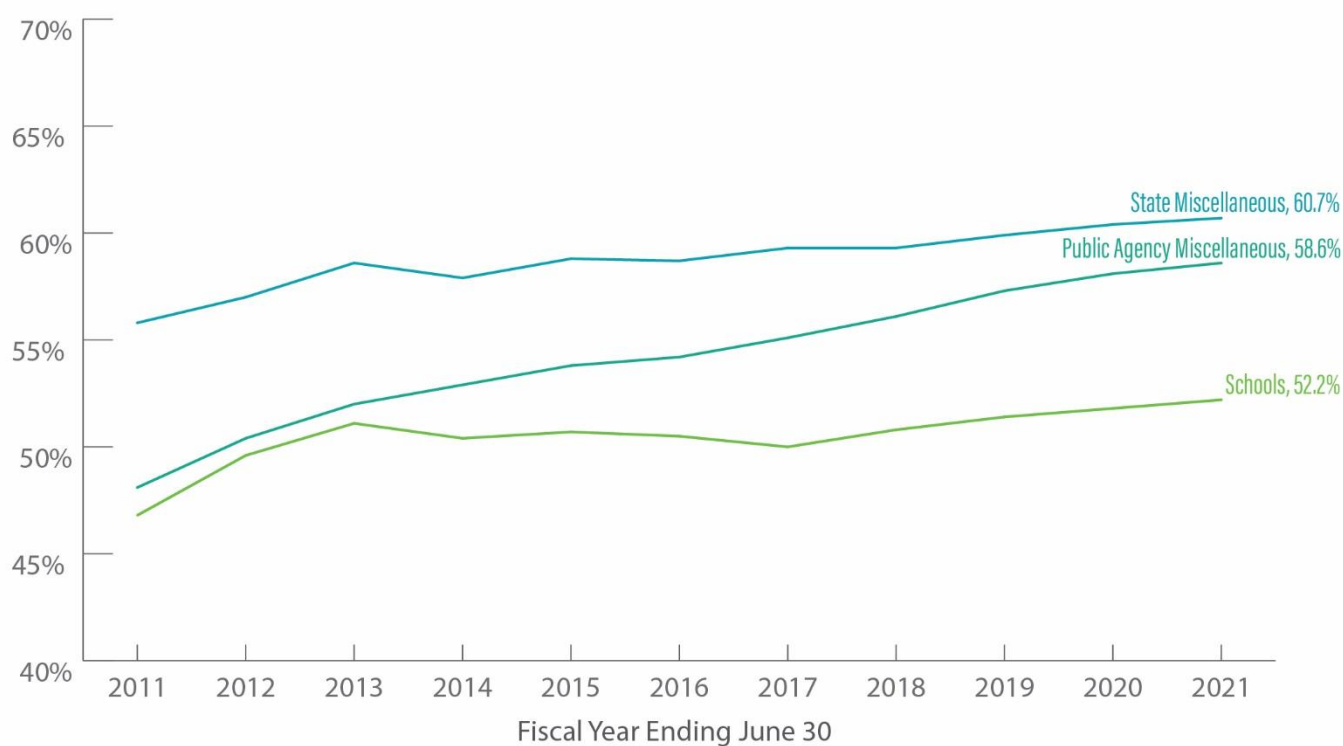
The aging of the population and the retirement of the baby boomer generation are well known demographic shifts that have long been predicted and considered in the funding of the system. The higher number of retirements experienced over the previous ten years was anticipated, and this trend is expected to continue over the next several years as the remainder of the baby boomer generation leaves the workforce to enter their retirement years. Even though anticipated, demographic shifts such as this impact risk measures identified in this report and should be part of any discussion on funding levels and risks.

A simple way to look at the maturity level of CalPERS and its plans is to look at the ratio of active members to retirees. An ever more relevant ratio is a plan's retiree liability to its total liability. A pension plan in its infancy will have a very low ratio of retiree liability to total liability. As the plan matures, the ratio increases. A mature plan will often have a ratio above 60%-65%. For CalPERS and other retirement systems in the United States, these ratios have been steadily increasing in recent years. However, as seen in the charts below, this measure has flattened out somewhat in the last few years. Certain individual plans may have a significantly lower ratio, particularly if the plan has not been in existence as long.

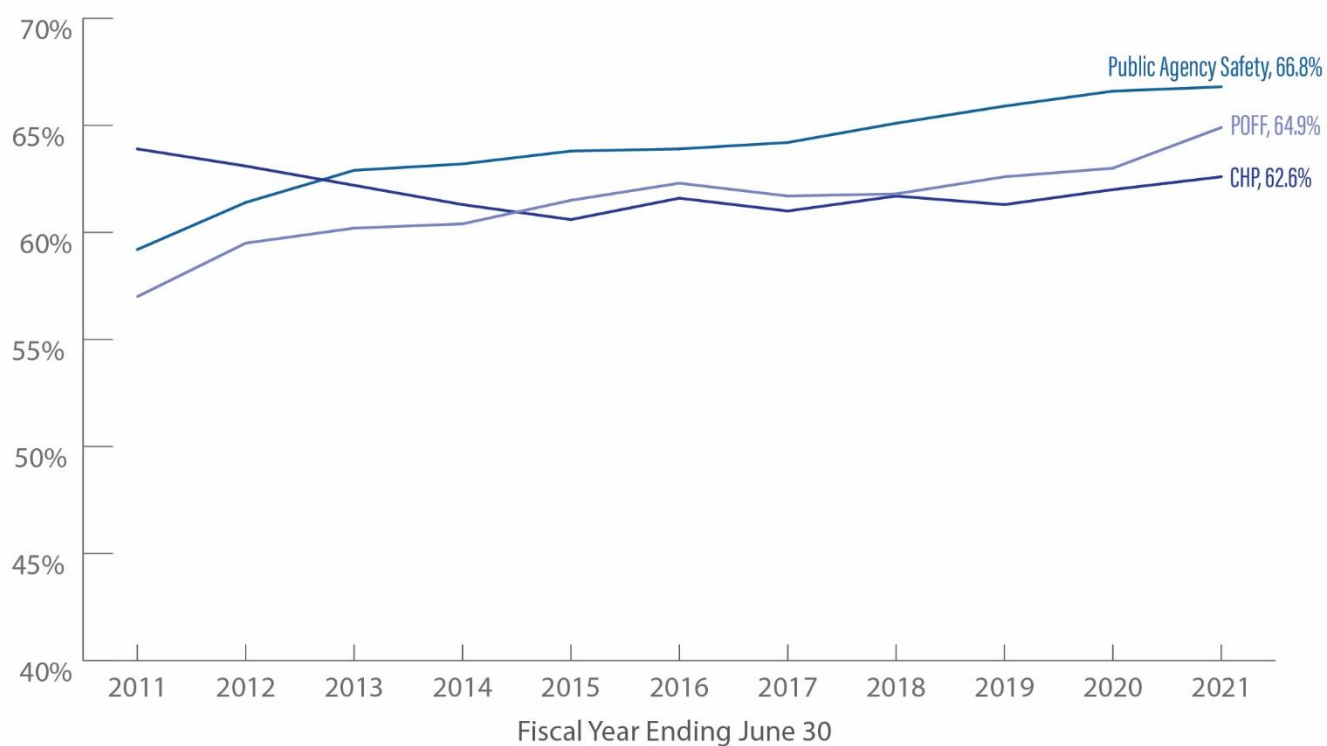
The steep incline in this measure from 2011 through 2013 was largely attributable to the wave of retirements experienced during the most recent recession. A similar increase may be seen if we experience another recession in the near future.

In general, plans with higher retiree liability ratios have a shorter "duration" over which current accrued benefits will be paid. In some cases, particularly when a plan has only retiree liability, the actuary may determine that a shorter amortization period for unfunded liability is appropriate to avoid the depletion of plan assets.

Ratio of Retiree Accrued Liability to Total Accrued Liability (June 30, 2011 through June 30, 2021)



Ratio of Retiree Accrued Liability to Total Accrued Liability (June 30, 2011 through June 30, 2021)



Other measures of plan maturity are the Asset Volatility Ratio (AVR) and the Liability Volatility Ratio (LVR). The AVR is the ratio of assets to payroll, and the LVR is the ratio of liability to payroll. As with the ratio of retiree liability to total liability, these ratios start out low given the low levels of assets and accrued liabilities, then increase over time as service is earned and contributions are made. Plans that have higher asset-to-payroll or liability-to-payroll ratios generally experience more volatile employer contributions (as a percentage of payroll) due to unexpected experience such as investment returns or mortality experience. For example, if the investment return in any given year is 1% less than expected, a plan with an AVR of 10 experiences an investment loss equal to 10% of annual payroll, whereas a plan with an AVR of 5 only suffers an investment loss equal to 5% of annual payroll.

The projected increases in the AVR are only partially due to demographic maturation. The other factor causing the AVRs to increase is the fact that the assets are projected to grow to equal the accrued liability as the funded ratio grows toward 100%. The funding policy alone will cause the AVRs to increase above current levels. As the AVR increases, each investment loss will have a higher impact than the last from the perspective of the employer.

As plans mature, they accrue more assets and liabilities, both in an absolute sense, but also in relation to the financial resources of the plan sponsor. This means that when financial markets fail to deliver a strong return or even collapse like they did in 2008–2009, it can lead to very high contribution levels. These high contribution levels could result in severe financial stress for employers. Larger swings in required contributions are generally due to investment experience. However, other factors such as unexpected pay increases or mortality experience can also produce material contribution changes.

While many of the individual plans within CalPERS have comparable AVRs and LVRs, there can be significant differences from plan to plan based on several factors such as:

- The age of the plan
- The funded ratio of the plan
- The level of benefits provided by the plan
- Changes to the membership of the plan, for example if fire services are moved from a city to a county, etc.

Projections of these ratios indicates that Liability Volatility Ratios are projected to grow minimally (or decrease) for many CalPERS plans which have already been in existence for a long period of time. However, some public agency plans that were established more recently have lower current LVRs that are projected to grow more significantly in the future. Overall, the results indicate that contribution risks due to factors that impact plan liabilities, such as mortality, salary increases, retirements, etc., are not expected to increase significantly for most plans due to further maturation. However, current LVRs are already relatively high which indicates most CalPERS plans already face high contribution volatility.

The gap between Asset Volatility Ratios and Liability Volatility Ratios is generally determined by the funded status of a plan. Lower funded plans have lower AVR that are projected to approach the LVRs over time as the plan approaches full funding. As these AVR increase, so too will contribution volatility due to future investment returns.

The chart below shows projected AVR and LVR for typical public agency plans. Additional charts for the State Miscellaneous Plan, the School's Pool and less typical public agency plans can be found in the appendix.

Projected Asset and Liability Volatility Ratios

Typical Non-Pooled Public Agency Miscellaneous and Safety Plans



The maturing of a defined benefit retirement system is expected and is not a sign of mismanagement or that corrective action needs to necessarily take place. In fact, it is difficult to reduce plan maturity measures without lowering benefits or settling benefit obligations with retirees through lump sums or annuity purchases. However, it is important to recognize that increasing plan maturity typically leads to increased contribution volatility. Employers who may be more sensitive to such volatility may wish to create or increase funding toward a stabilization or rainy-day fund such as the new California Employers' Pension Prefunding Trust (CEPPT). Eventually, there will be downward pressure on AVR as liabilities for benefits earned by PEPPRA members become a larger portion of total liabilities.

Trend Toward Lower Expected Returns and Discount Rates

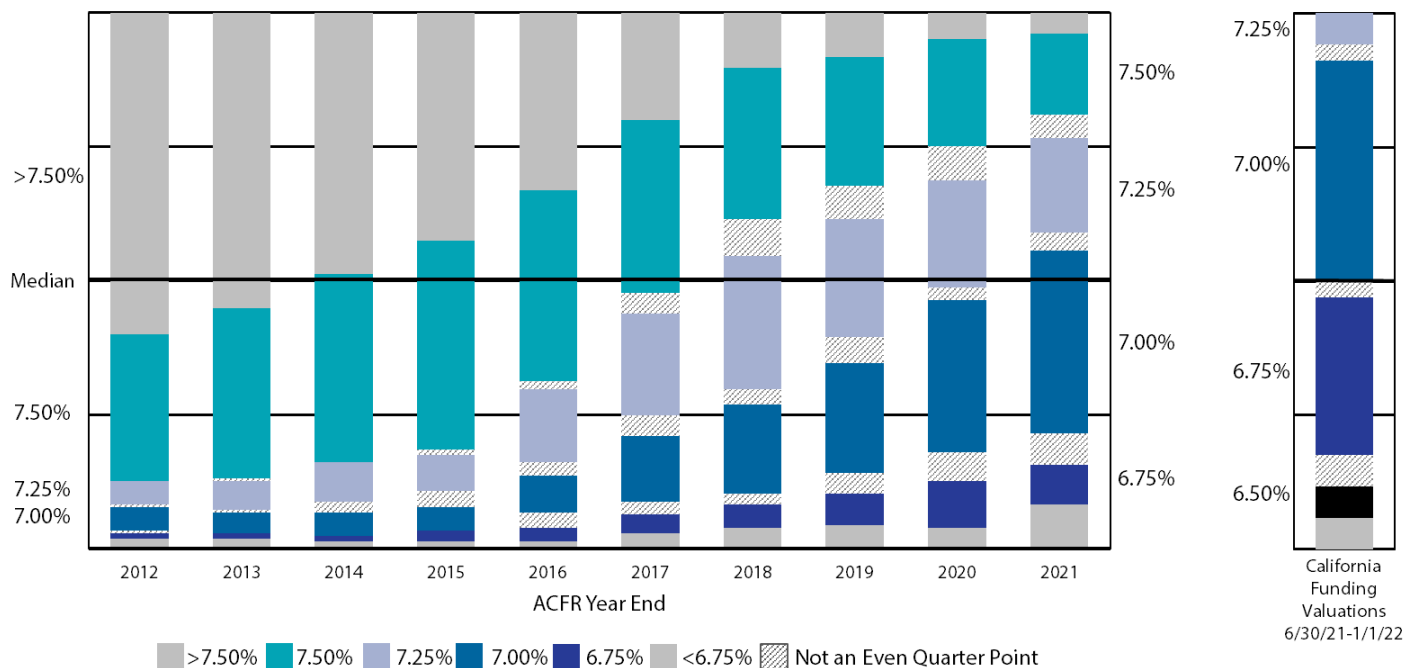
In addition to demographic forces, concerns about lower returns over the next 10 to 20 years persist. The trend nationally for public pension plans in recent years has been a reduction in the rate of return assumption.

Not only have bond yields trended downward, well below historical averages, but forecasts of economic growth and inflation also remain lower than they were prior to 2009. This means that plans must change their asset allocations to accept a higher level of investment risk (to achieve the same level of expected return) or to accept a lower expected return on investments. Over the prior year, price inflation has increased, and the Federal Reserve has responded by increasing interest rates. Whether this will impact long-term assumptions remains to be seen.

CalPERS is not alone in facing the changed expectations of what can be achieved in the capital markets. The chart below left shows the change in distribution of public pension investment return assumptions from 2012 through 2021.

The survey shows that based on the available 2021 Annual Comprehensive Financial Report (ACFR) data, discount rates ranged from 5.25% to 8.25% with a median of 7.00%

Distribution of Public Pension Plan Investment Return Assumptions



Data sources: Center for Retirement Research at Boston College Public Plans Data (left), downloaded September 19, 2022 and California Funding Valuations (right)

Each year from 2012 through 2021 between 15% and 40% of the systems included in the survey reduced their discount rates.

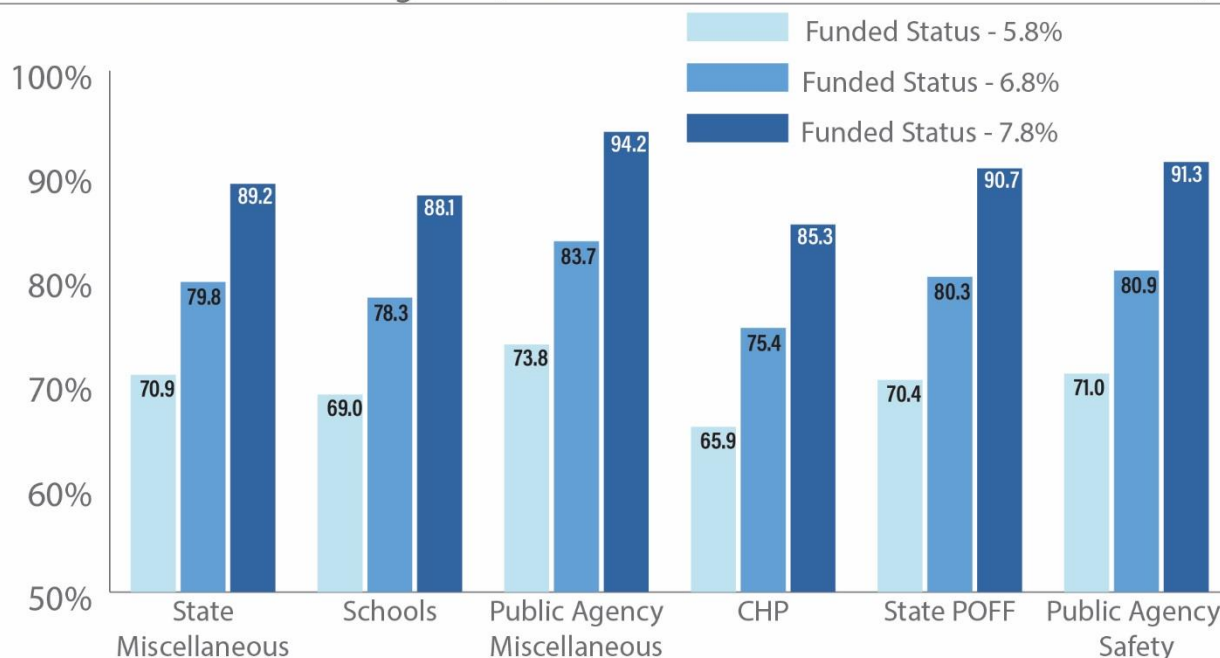
Since the Public Plans Data was compiled from available 2021 ACFR information, it is somewhat out of date compared to current funding practices. For example, in the data used for the chart, the 2021 ACFR discount rate for CalPERS is 7.25%. For funding purposes, CalPERS used a discount rate of 7.00% for three years before reducing it to 6.80% in the 2021 funding valuation.

The Actuarial Office performed a more up to date, albeit smaller, survey of public retirement systems in California. The discount rates for 34 state, county and city retirement systems within California were compiled from funding valuations with valuation dates ranging from June 30, 2021 through January 1, 2022 and are shown to the right of the Public Plans Data. The survey found that discount rates ranged from 6.00% to 7.25%. There were 17 systems with discount rates at or above 7.00% and 17 systems with discount rates at or below 6.80%.

Given the recent changes in capital market assumptions, and the uncertainty regarding what the actual CalPERS long-term rate of investment return will be, it is informative to consider the current funded status under alternate discount rate assumptions. The chart below provides such results assuming 5.8%, 6.8%, and 7.8% discount rates with no change to the current inflation assumption of 2.3%.

Funded Status based upon 5.8%, 6.8% and 7.8% Discount Rates

Funded Status Based using 5.8%, 6.8% and 7.8% Discount Rates¹ as of June 30, 2021



¹Inflation assumption is kept at 2.3% for all scenarios listed. The inflation assumption may increase or decrease along with the discount rate assumption.

Discount rate changes are primarily due to 1) revised expectations of the future returns of utilized asset classes, or 2) decision to raise/lower investment risk by shifting investment allocations toward more/less risky investments. The decision regarding the level of investment risk to target is among the most important decisions made by the system and its board. Excessive risk can lead to significant swings in funded status and contribution requirements as illustrated throughout this report. In addition, if discount rates are set higher than the reasonably expected average return, required contributions will be understated with the differences needing to be made up by future generations. Under that scenario, future contributions can rise to levels higher than if the discount rate had been set appropriately.

Managing Risk

Current Amortization Progress

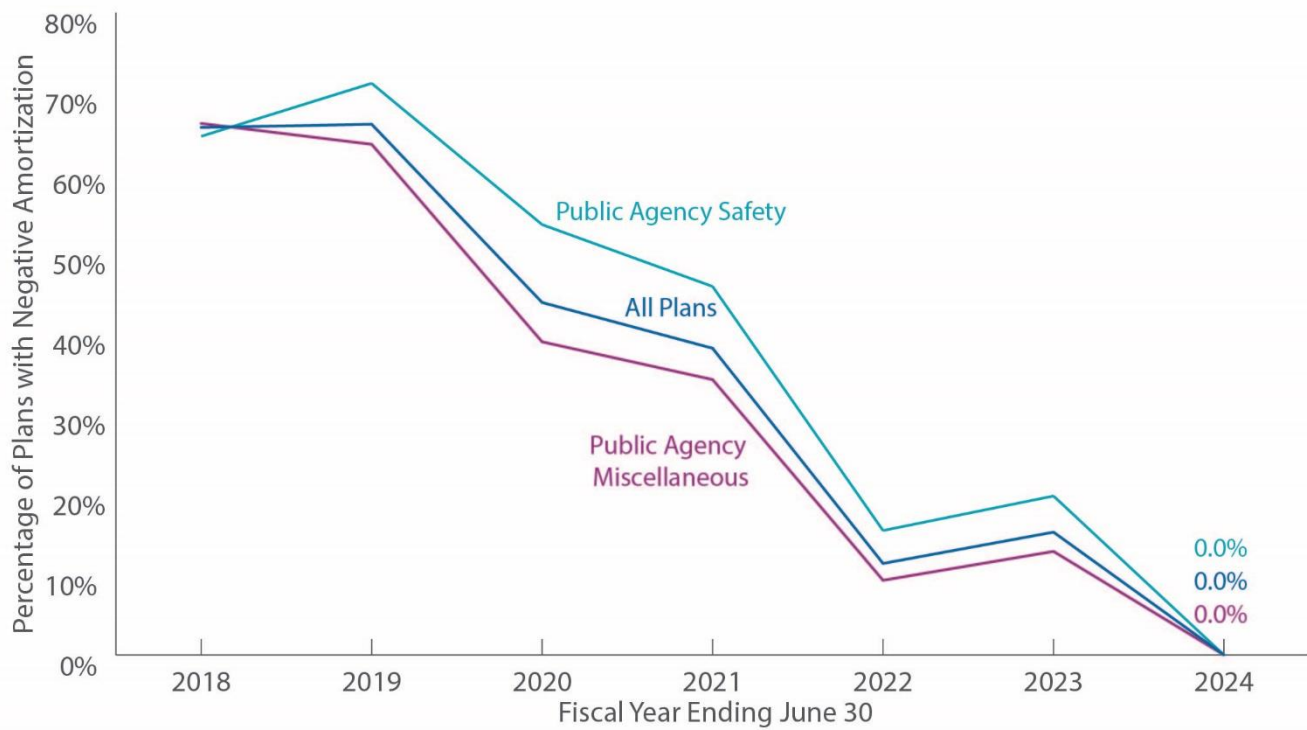
The goals of a retirement system's amortization policy should be to pay down existing unfunded liability over a reasonable amount of time in order to:

- Provide benefit security for plan members
- Maintain intergenerational equity
- Limit contribution volatility to the extent possible

CalPERS current amortization policy adopted by the Board (effective with the June 30, 2019 Actuarial Valuation Reports), improved the overall expected outlook for these objectives relative to the previous policy. In particular, the current policy greatly reduces the possibility of "negative amortization" which occurs when required amortization payments are lower than the interest on a plan's existing unfunded liability. However, it is still possible under the current policy that a plan's required payment toward the UAL is less than one year of interest on the UAL. The main factors that can produce this result are 1) recent increases in the UAL due to investment losses for which required payments are in the 5-year ramp-up period, and 2) the relatively long average remaining amortization period for the UAL due to older bases with longer periods. As shown in the chart below, the number of rate plans subject to negative amortization has declined over the last few years as the recent UAL bases due to investment losses and assumption changes approach the end of the 5-year ramp-up period.

While the chart below indicates that no CalPERS plan has a required UAL payment for FY 2023-24 that is less than interest on the UAL, we expect that following the investment loss for FY 2021-22, several plans will have required UAL payments for FY 2024-25 that will be less than interest on the UAL.

Percentage of Plans with Negative Amortization by Contribution Year



The Actuarial Amortization Policy addresses situations where an employer has requested an extension of the amortization of the UAL due to a financial necessity. Such employers are required to contribute at least interest on the UAL.

Employers Making Supplemental Payments

Many employers have elected to make additional contributions over and above the minimum required contributions. Education efforts over the last few years have increased employers' awareness of the ability to make such payments and the many advantages of doing so. As part of the education efforts, CalPERS Actuarial Office has been providing the Managing Employer Contribution (MEC) spreadsheet upon employer request and access to the newly created Pension Outlook tool on the CalPERS website. These tools help employers determine the possible impact of additional contributions to their plans.

The primary advantages of additional contributions are:

- Expected savings in interest paid and lowering the overall cost of the pension program
- Lower risk of low funded status in the future
- Lower risk of high contributions in the future
- A reduction to net pension liability for financial reporting purposes
- A reduction in pension expense for financial reporting purposes

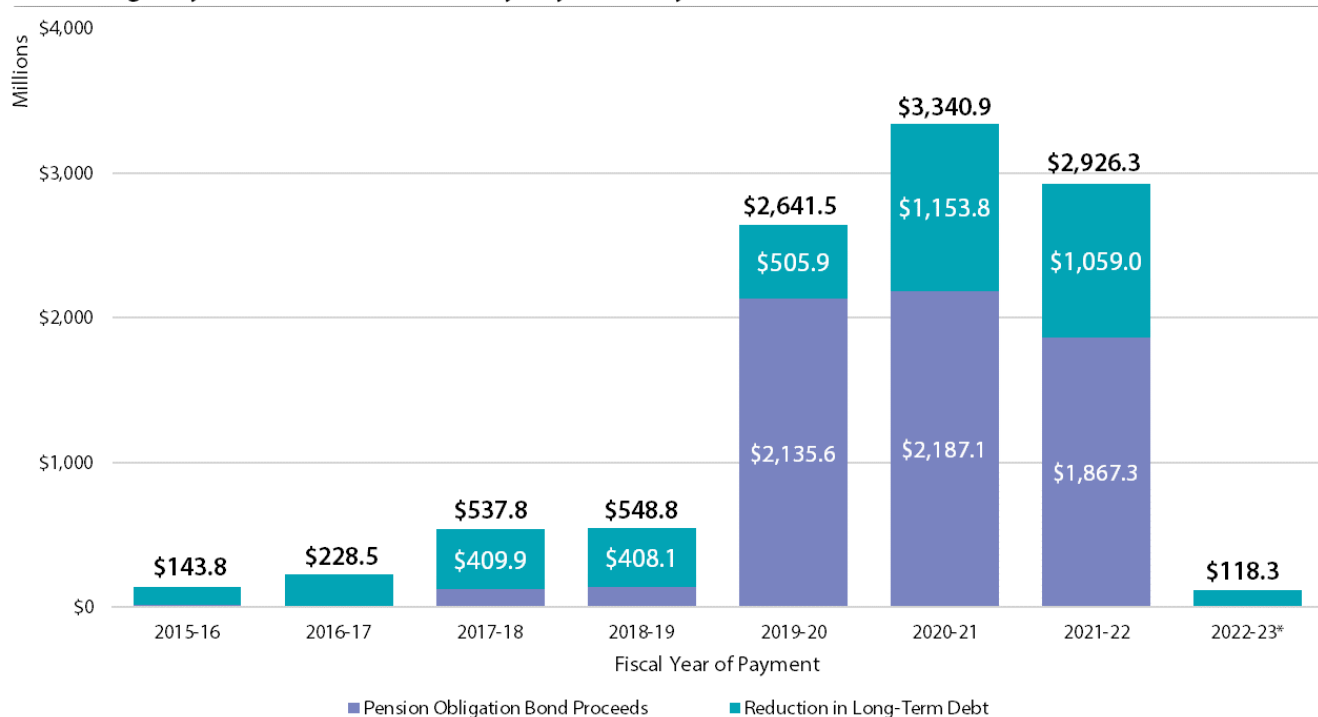
The form of these additional discretionary payments (ADPs) varies between employers. Some employers make occasional ADPs on an ad hoc basis, for example, if they have a budgetary surplus towards the end of a fiscal year. Other employers have made more regular ADPs on a monthly or quarterly basis, and some even have a formal plan in place to pay off their unfunded liabilities by a specific target date.

The State of California also makes contributions in excess of the actuarially required contributions in order to reduce unfunded liabilities. Some additional contributions have been collectively bargained, some are due to a provision in the California Constitution that requires certain surplus funds be used to reduce State pension debt, and some are discretionary and serve to reduce long-term costs and stabilize contribution rates. In FY 2022-23, the State is expected to contribute over \$3 billion more than the actuarially required contributions.

In addition to additional discretionary payments, public agencies have also been issuing Pension Obligation Bonds (POBs) with increased frequency since FY 2019-20. A POB is a taxable bond that some agencies issue to fund the unfunded portion of their pension liabilities by creating a debt to bondholders. The low interest environment likely contributed to the recent trend of public agencies issuing POBs. Now that interest rates are beginning to rise, the frequency of new POB issues may start to decline.

The chart below reflects the total ADPs made by public agencies including the POBs that were issued in order to make those ADPs. The ADPs reduce long-term public agency debt only to the extent they exceed new POB issues. Although much of the increase in ADPs over the last few years has been driven by an increased use of POBs, agencies continue to pay off pension debt. The total public agency ADPs that were not paid for with POB proceeds has increased to over \$1 billion per year in each of the last two years.

Public Agency Additional Discretionary Payments by Fiscal Year



*ADPs from July 1, 2022 through September 30, 2022

ADP information was provided by the CalPERS Financial Office. POB issuance data was downloaded from the California Debt and Investment Advisory Commission at <https://www.treasurer.ca.gov/cdiac/debt.asp>.

California Employers' Pension Prefunding Trust Program

Many public employers set aside additional pension assets in a trust separate from pension fund. These trusts, known as "Section 115 Trusts" (after Internal Revenue Code Section 115), allow employers to prefund future required defined benefit pension system normal costs and unfunded accrued liability (UAL) payments. This also includes both lump sum annual UAL payments and voluntary Additional Discretionary Payments (ADP's). Section 115 pension trust assets can be used by the employer at any time to reimburse the employer's general fund from which they have made these pension contributions. Employers may also make pension contributions directly from a Section 115 pension trust.

The purposes of Section 115 pension trusts include the following:

- Save overall pension costs due to additional prefunding which generates investment income
- Likely earn higher long-term returns than the State Treasurer's Local Agency Investment Fund or a county treasurer's office
- Invest with different time horizons and risk levels than the pension fund
- Retain liquidity on assets dedicated to pension costs
- Stabilize and subsidize future budgets
- Create a contingency reserve for difficult times ahead
- Pay down pension liabilities in a predictable and prudent manner

One of the most attractive of these Section 115 pension trust purposes from an employer's point of view is the ability to build up a contingency reserve that can be used to satisfy CalPERS contribution requirements during years the employer's budget is strained. This can be an effective way to deal with CalPERS contribution volatility due to fluctuating investment markets.

The unfunded pension liabilities and future pension contribution volatility summarized in the previous sections of this report do not reflect the fact that hundreds of public employers already have Section 115 pension trust funds. Because Section 115 pension trusts can be expensive to set up and administer, CalPERS launched the California Employers' Pension Prefunding Trust (CEPPT) in 2019. The CEPPT was established by Senate Bill 1413 which provides public agencies additional low cost and not-for-profit investment vehicles to help manage pension costs. Participation in the CEPPT is voluntary and provides employers with the flexibility to determine the amount of their contributions, reimbursements, and overall funding strategy. The CEPPT offers two broadly diversified portfolio options with low to moderate risk profiles that are expected to have a net rate of investment return of 3.5% and 4.5%, respectively. As of October 2022, a total of 77 employers have established CEPPT accounts with assets under management totaling approximately \$90 million.

Conclusion

Over the last few years various external factors have had material impacts on the experience of the Retirement System. While some of the impacts may have led to short-term improvements in the current funding levels of the system, other factors have worsened the funded position and pose additional threats to the system in the future.

Recent factors that were favorable to the funded status of the system were:

- Significant investment gains during the 2020-21 fiscal year
- Higher than expected mortality likely due to the COVID pandemic

Factors that were unfavorable to the current funding levels of the system and pose potential future threats are:

- Significant investment losses during the 2021-22 fiscal year
- Financial strain on employers due in part to the COVID pandemic
- High levels of inflation over the last 1-2 years which may persist
- Potential ongoing effects of COVID
- Potential economic downturn in the near-term
- Reduced expectations of future investment returns

The combined impact of the above factors has the potential to worsen the funded status of the system and result in large increases to required contributions for employers and members. The ability of employers to continue making required contributions to the system is the area of greatest concern.

While certain external factors are outside of the control of the system, CalPERS and its participating agencies have responded to these risks in a number of positive ways such as:

- The recent adoption of new amortization policies that mitigate the risk of the system dropping to dangerously low funding levels
- The increased level of additional contributions made by CalPERS agencies
- The use of a separate 115 trust by many CalPERS agencies for minimizing the risk of required contribution spikes and volatility
- The adoption of a new investment policy which maintains favorable investment return expectations and associated volatility
- Improvements in the processes of setting actuarial assumptions which are expected to lead to less volatile contributions rates in the future
- Improved modeling tools that allow CalPERS and its participating employers to forecast future required contributions and funded status under a variety of possible future scenarios

In addition to the actions listed above, we believe the following items should receive a high level of focus going forward.

- Continual focus on the acceptable level of investment risk versus the desire for higher investment returns including the possible impacts of the existing Funding Risk Mitigation Policy
- Monitor the effectiveness of the current investment policy to ensure desired returns relative to the chosen level of risk
- Continue the focus on educating participating employers on the risks facing the system and providing tools that enhance their ability to manage these risks
- Stakeholder outreach regarding employers' ability to make required contributions

With the anticipated increases in required employer contributions, due primarily to the investment losses experienced during the 2021-22 fiscal year, combined with current economic difficulties caused by the pandemic, inflation, and turbulent investment markets, some employers will likely have difficulty making required CalPERS contributions over the next several years. In addition, near-term forecasts by investment and economic professionals suggest it may be difficult to achieve a 6.8% investment return in the near-term. This potential for further increases to required employer contributions increases the risk that individual agencies may struggle to make required CalPERS contributions leading to potential contract terminations and possible benefit reductions. While financial necessity policies within the CalPERS amortization policy can be used in some cases to spread amortization payments over a longer period and hence reduce near-term contributions, these policies require minimum contributions that may still pose challenges for some agencies. In addition, these policies do not reduce costs but merely delay and increase them. CalPERS and its participating employers have taken many positive steps to manage the risks of the system. Continued focus on the risks described in this report, and opportunities to minimize and manage them, will be of utmost importance going forward.

Appendix A – Public Employees' Retirement System (PERS) Summary Statistics

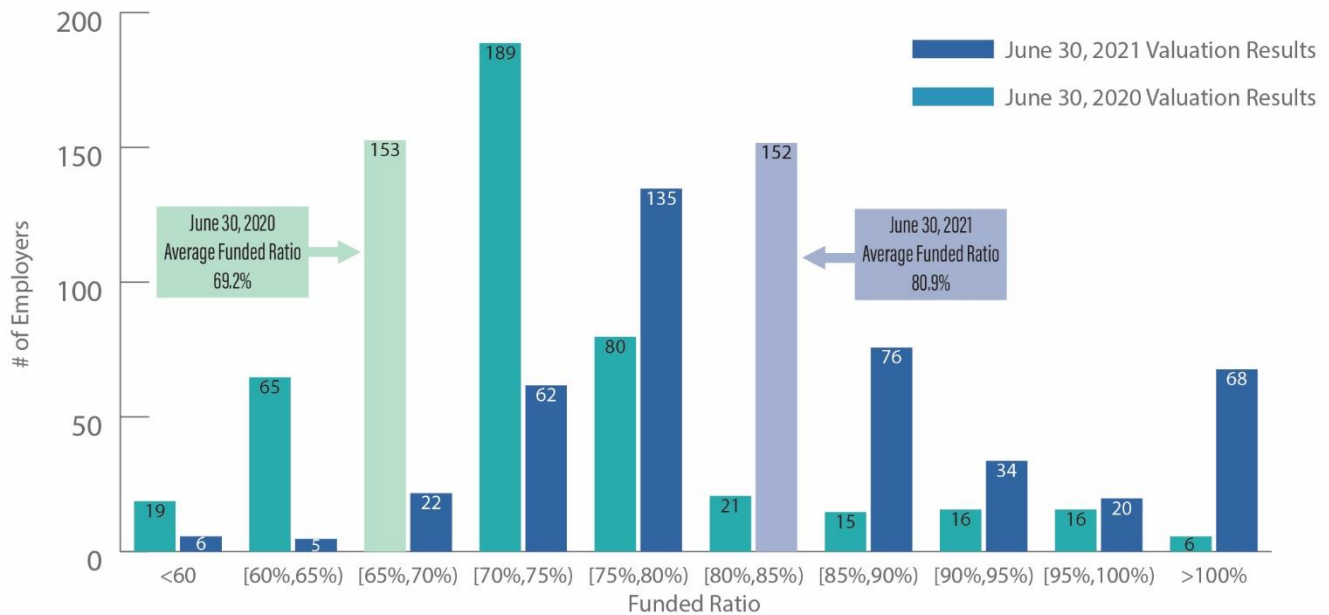
	June 30, 2020	June 30, 2021
Number of Actives¹	861,976	844,905
Number of Transferred¹	167,375	166,686
Number of Separated¹	433,500	458,012
Number of Receiving¹	869,819	897,640
Payroll	\$58.6 billion	\$58.7 billion
Entry Age Accrued Liability	\$554.1 billion	\$587.3 billion
Market Value of Assets	\$390.4 billion	\$476.2 billion
Unfunded Liability	\$163.7 billion	\$111.1 billion
Funded Status	70.5%	81.1%
Prior Year Benefit Payments	\$26.1 billion	\$27.7 billion
Prior Year Employer Contributions	\$22.0 billion	\$20.0 billion
Prior Year Employee Contributions	\$4.9 billion	\$4.8 billion

¹These counts are from the CalPERS actuarial valuation system, which may not match the statistics provided in CalPERS Annual Comprehensive Financial Report (ACFR). For example, the number of receiving displayed in this report is not the count of unique benefit recipients; rather, it is the count of data records in CalPERS actuarial valuations for benefits in pay status. Some individual retirees have multiple records in our data due to having worked at multiple CalPERS agencies. Numbers shown in the ACFR for retirees receiving benefits include individuals just once in the count even if they are receiving benefits from multiple CalPERS agencies.

Appendix B – Results of June 30, 2021 Public Agency Valuations for Safety Plans

Public Agency Funded Ratios for Safety Plans

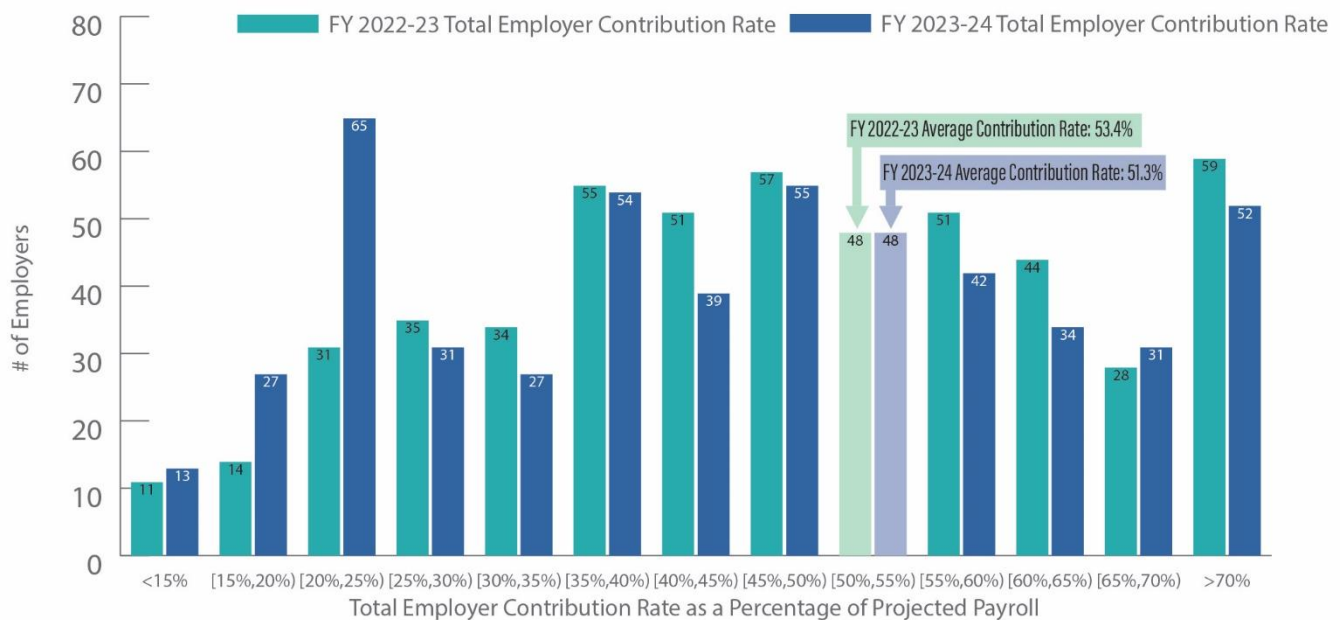
Funded Ratios by Employer as of June 30, 2020 and June 30, 2021 (Public Agency Safety)



Public Agency Contribution Rates for Safety Plans

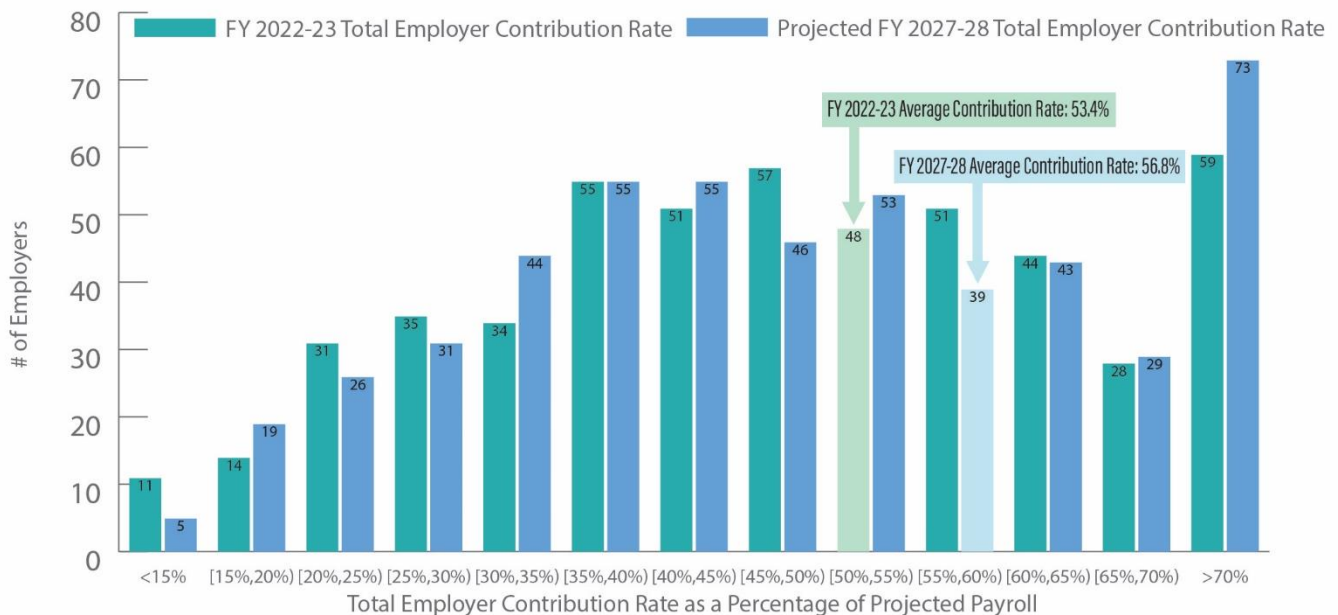
The following table displays the total employer contribution rates for public agency safety plans that contract with CalPERS for benefits. These contribution percentages reflect both the required normal cost contribution percentage and the required payment toward any unfunded liability (converted to a percent of payroll).

Total Employer Contribution Rates for Fiscal Year 2022-23 and 2023-24 (Public Agency Safety)



The following table displays the actual and projected total employer contribution rates for public agency safety plans that contract with CalPERS for benefits. These contribution percentages reflect both the required normal cost contribution percentage and the required payment toward any unfunded liability (converted to a percent of payroll). FY 2027-28 rates are based on a projected payroll. For plans with a decreasing number of active members (and therefore decreasing payroll), these contribution percentages can become quite large when the required payment toward unfunded liability becomes a large percentage of the decreasing payroll. In addition, the projected contributions are based on experience through June 30, 2021. There will be additional investment, economic and demographic experience that will impact the projected rates before they become actual rates in the future.

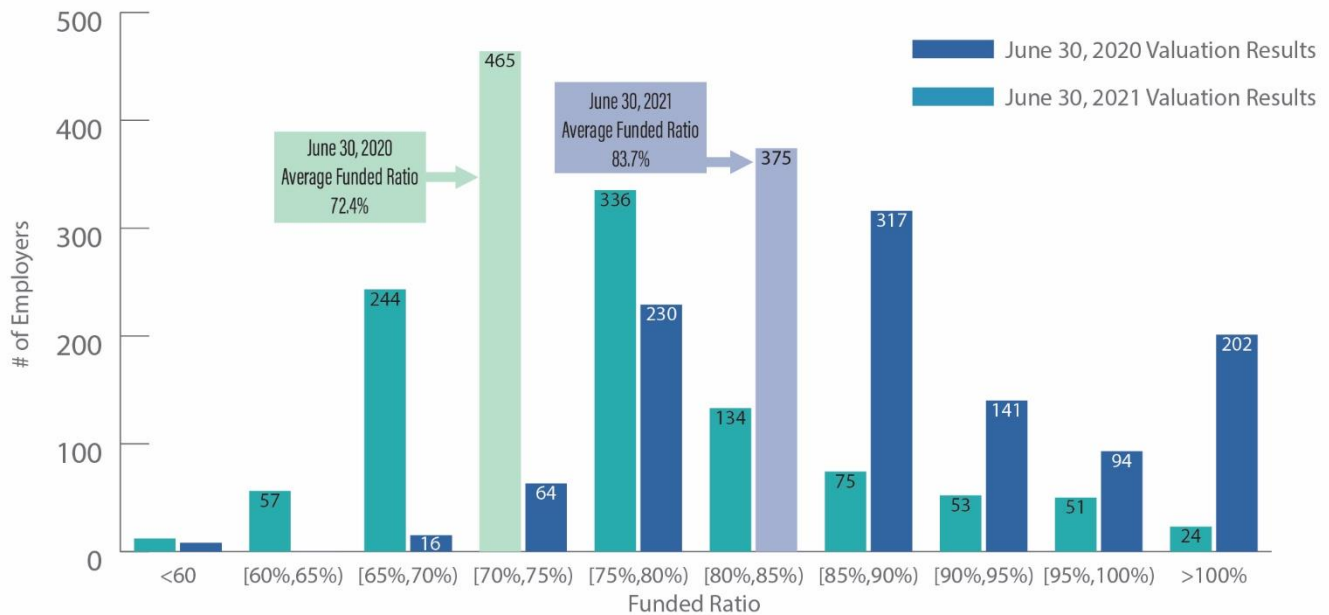
Total Employer Contribution Rates for Fiscal Year 2022-23 and 2027-28 (Public Agency Safety)



Appendix C – Results of June 30, 2021 Public Agency Valuations for Miscellaneous Plans

Public Agency Funded Ratios for Miscellaneous Plans

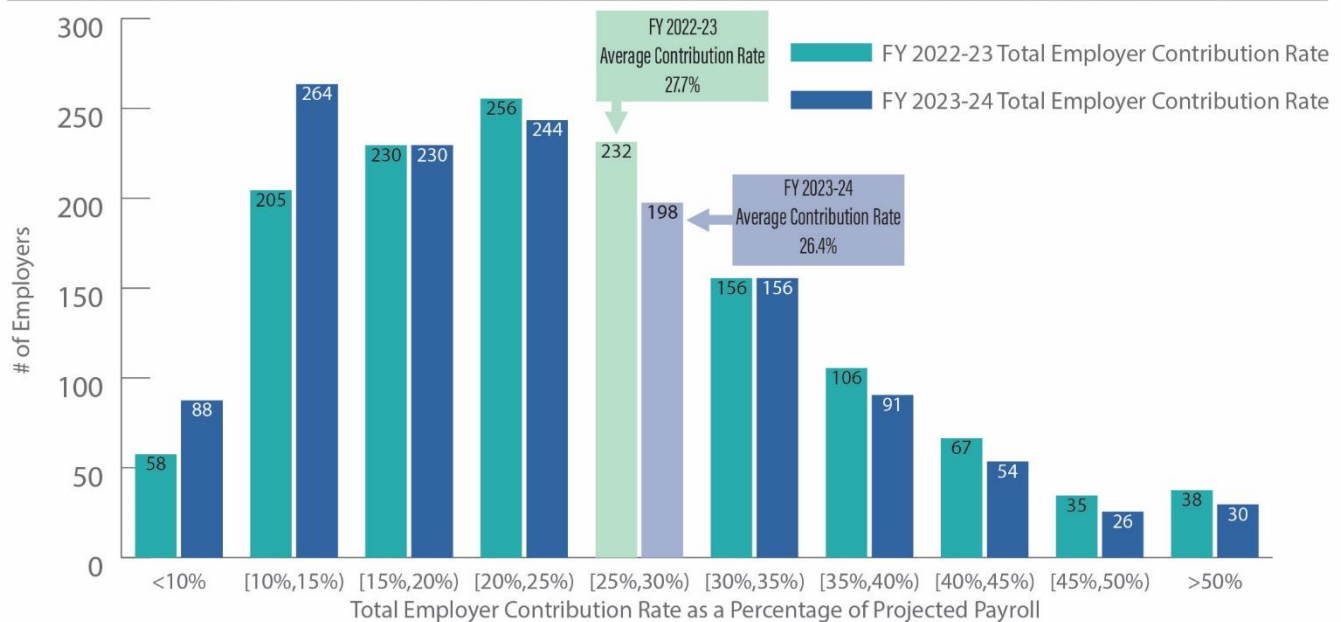
Funded Ratios by Employer as of June 30, 2020 and June 30, 2021 (Public Agency Miscellaneous)



Public Agency Contribution Rates for Miscellaneous Plans

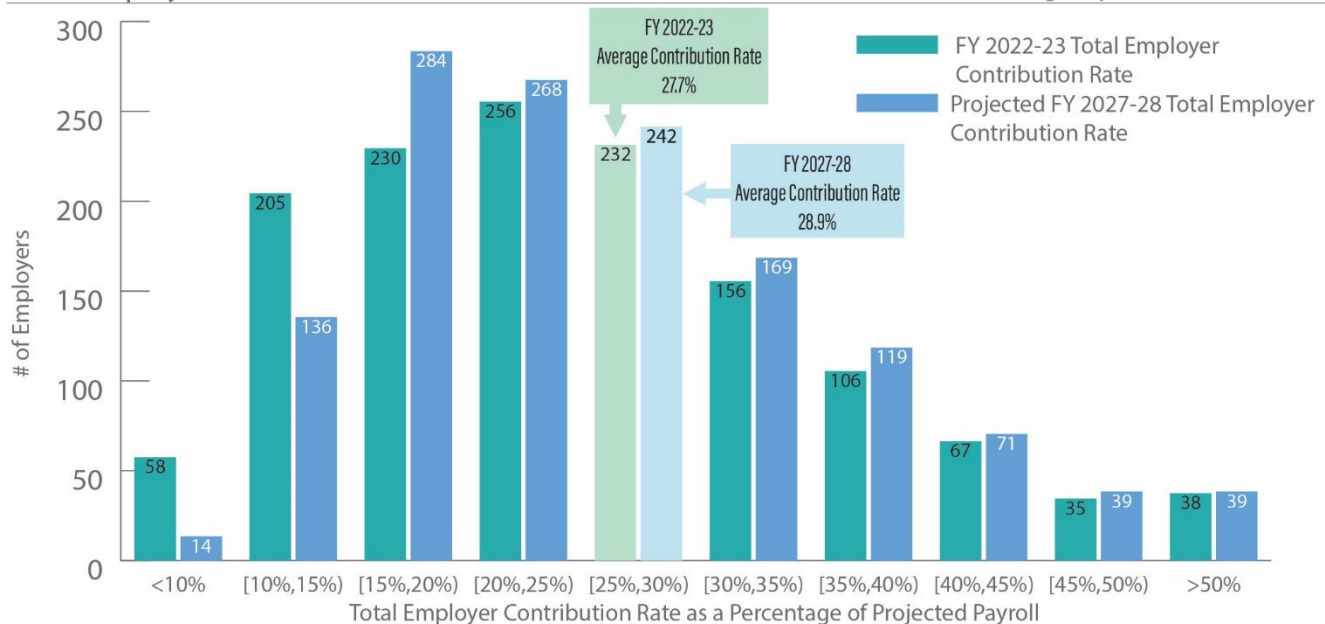
The following table displays the total employer contribution rates for public agency miscellaneous plans that contract with CalPERS for benefits. These contribution percentages reflect both the required normal cost contribution percentage and the required payment toward any unfunded liability (converted to a percent of payroll).

Total Employer Contribution Rates for Fiscal Year 2022-23 and 2023-24 (Public Agency Miscellaneous)



The following table displays the actual and projected total employer contribution rates for public agency miscellaneous plans that contract with CalPERS for benefits. These contribution percentages reflect both the required normal cost contribution percentage and the required payment toward any unfunded liability (converted to a percent of payroll). FY 2027-28 rates are based on a projected payroll. For plans with a decreasing number of active members (and therefore decreasing payroll), these contribution percentages can become quite large when the required payment toward unfunded liability becomes a large percentage of the decreasing payroll. In addition, the projected contributions are based on experience through June 30, 2021. There will be additional investment, economic and demographic experience that will impact the projected rates before they become actual rates in the future.

Total Employer Contribution Rates for Fiscal Year 2022-23 and 2027-28 (Public Agency Miscellaneous)



Appendix D – Recent and Projected Employer Contribution Rates

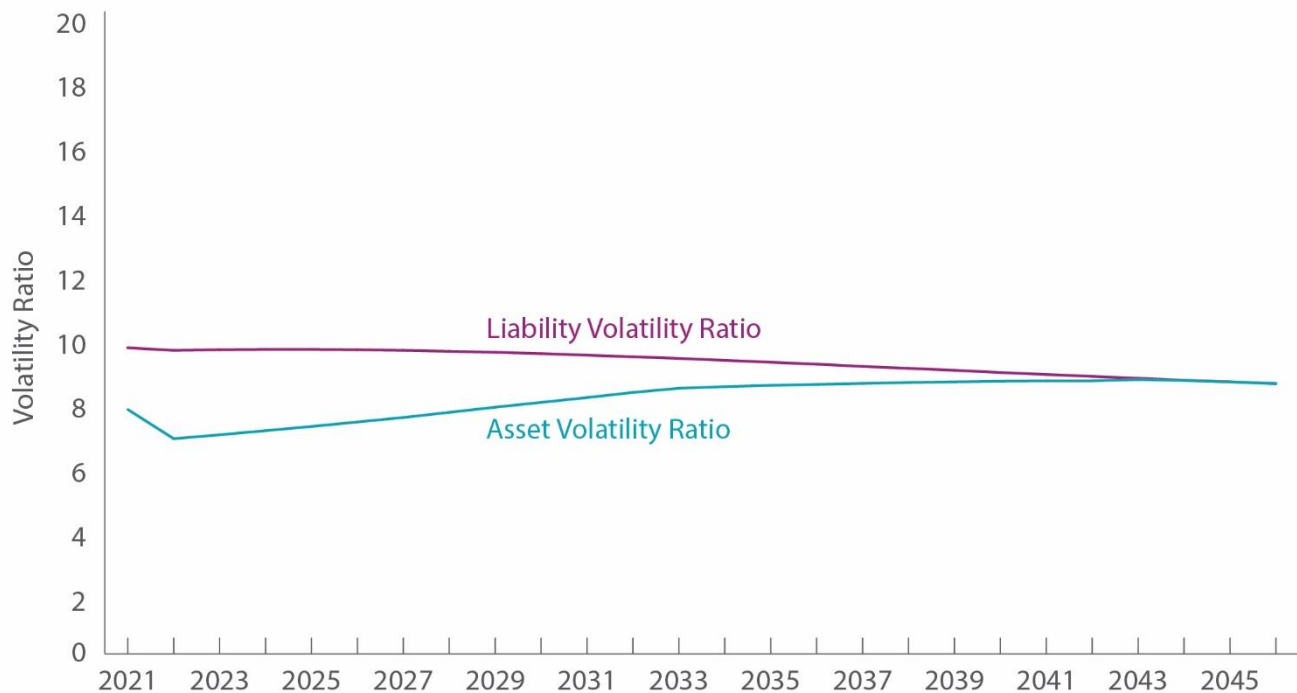
Average of Public Agency Total Employer Contribution Rates (FY 2022-23 to 2028-29)



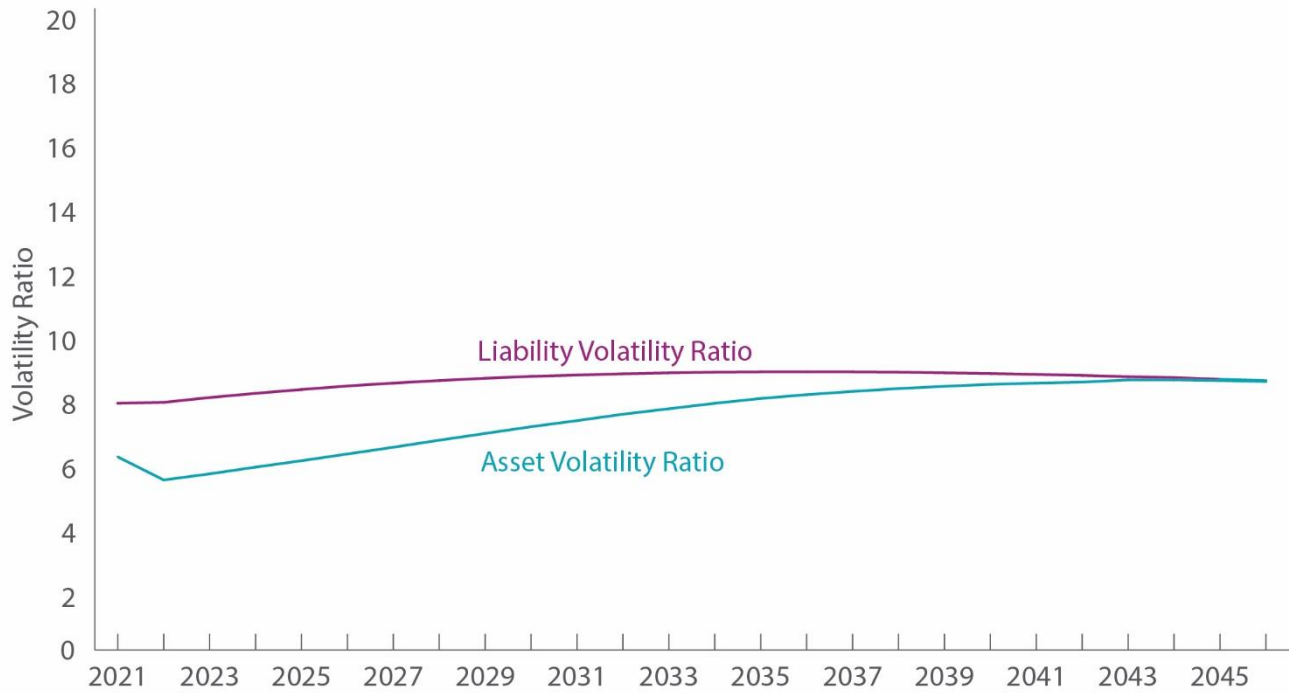
Appendix E – Asset and Liability Volatility Ratio Charts

As discussed in the Impacts of Plan Maturity section, this appendix contains the Asset and Liability Ratio charts for the State Miscellaneous Plan, the School's Pool and less typical public agency plans.

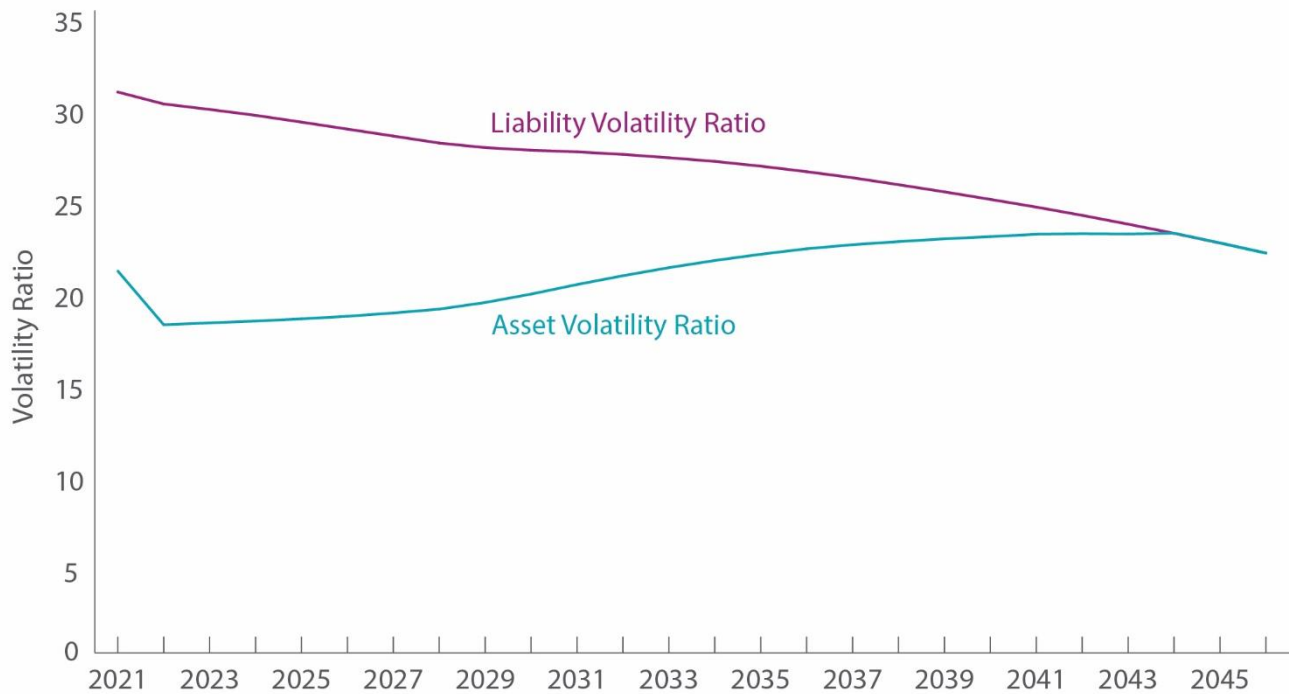
State Miscellaneous Plan



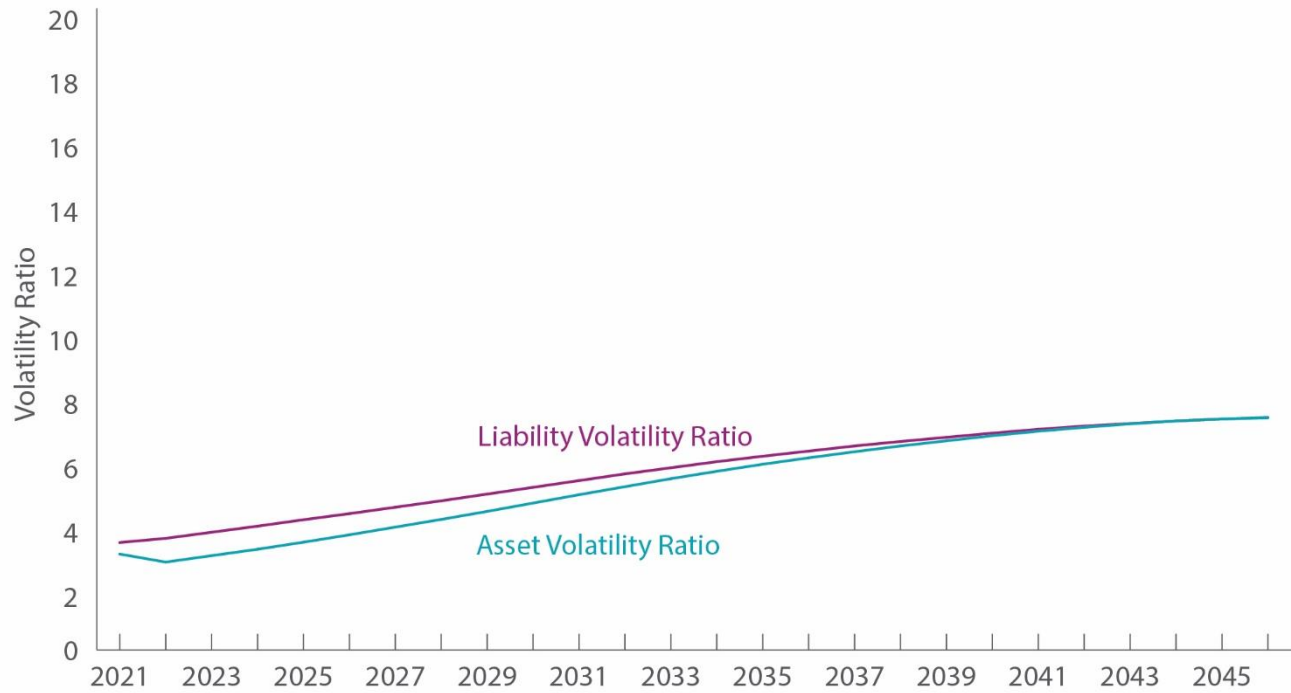
School's Pool



Super Mature Safety Plan



Less Mature Miscellaneous Plan



2022 Annual Review of Funding Levels and Risks

November 2022





**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 12/12/2022

ITEM NO: 5

Item 5.

DATE: December 6, 2022
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review the Draft Annual Comprehensive Financial Report (ACFR) for the Preceding Fiscal Year and Provide Written Comments and Recommendations Prior to Presenting to the Town Council

RECOMMENDATION:

Review the Draft Annual Comprehensive Financial Report (ACFR) for the preceding Fiscal Year (FY) and provide written comments and recommendations prior to presenting to the Town Council.

DISCUSSION:

With the passage of Measure A, the Finance Commission has been tasked with several mandated duties as described in the provisions of the adopted Ordinance. Section 2.50.225. – Duties states that:

(a) The Finance Commission shall:

(3) Review the Town Manager's draft Annual Comprehensive Financial Report (ACFR) for the preceding fiscal year and provide written comments and recommendations to the Town Manager.

(A) The Town Manager shall respond in writing to the Finance Commission providing his or her rationale for accepting or rejecting each of the Finance Commission's comments and recommendations prior to presenting the ACFR to the Town Council for formal consideration.

(B) The Town Manager may not present the ACFR to the Town Council for formal consideration unless or until he or she considers and responds in writing to all of the Finance Commission's comments and recommendations.

PREPARED BY: Gitta Ungvari
Finance Director

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

PAGE 2 OF 2

SUBJECT: Review Draft FY 2021/22 ACFR

DATE: December 6, 2022

CONCLUSION:

Review the draft Annual Comprehensive Financial Report (ACFR) for the preceding fiscal year and provide written comments and recommendations prior to presenting to the Town Council on December 20, 2022.

Attachment:

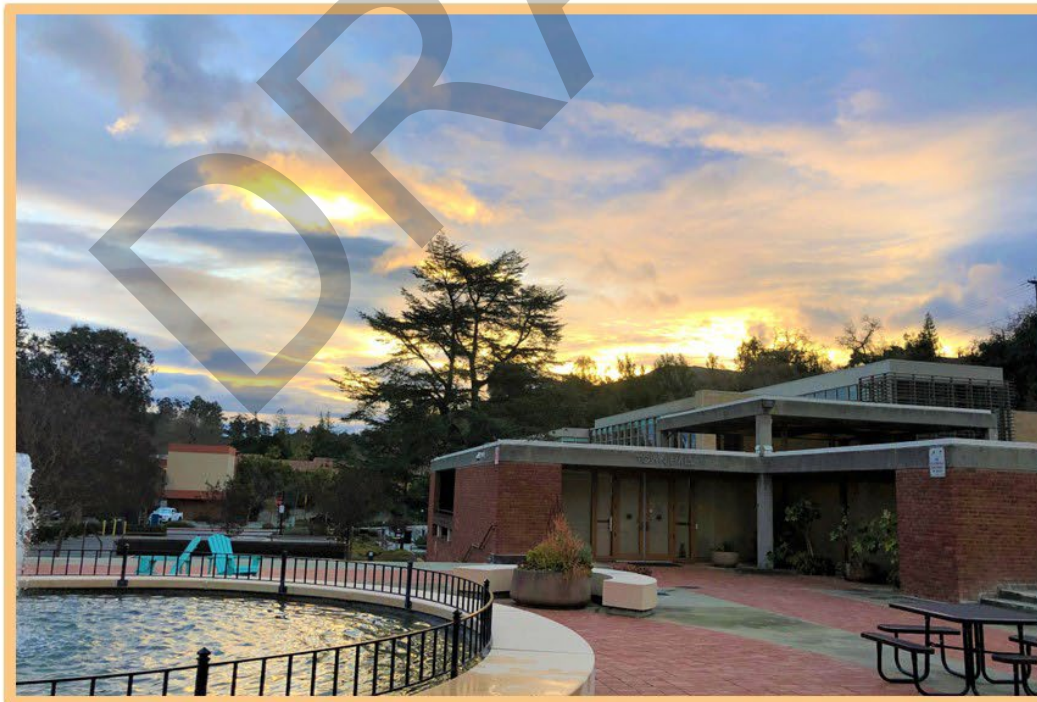
1. Draft FY 2021/22 Annual Comprehensive Financial Report



TOWN OF LOS GATOS

Item 5.

CALIFORNIA



Annual Comprehensive Financial Report

For the Fiscal Year ended June 30, 2022

DRAFT

**Cover Photo: Ricky Pan (Old Town Los Gatos)
Ken Benjamin (Yellow House)**

**TOWN OF LOS GATOS
CALIFORNIA**

**ANNUAL COMPREHENSIVE
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2022**

DRAFT

**PREPARED BY THE
OFFICE OF THE TOWN MANAGER**

TOWN HISTORY

The name Los Gatos comes from “El Rancho de Los Gatos.” A ranch established in 1839 by a Mexican land grant and so named because of the large number of mountain lions in the area. In 1854, James Alexander Forbes purchased some of this land and built a flour mill. In 1860, the first hotel was opened to provide a stage stop on the toll road which had been built between San Jose and Santa Cruz.

Wheat production gave way to orchards, and rapid growth ensued when the railroad reached Los Gatos in 1878. The residential subdivisions of Broadway, Bayview, Fairview, and Almond Grove were built in the 1880's. By 1887, the population had grown to 1,500 and Los Gatans voted to incorporate.

Fruit industries faded slowly during the Depression and World War II, but the postwar period brought an influx of people and associated residential and commercial development. Highway 17 was constructed through the center of Town. Growth levelled off in the early 1970's, leaving Los Gatos with its small-town atmosphere and pedestrian-oriented downtown.

Because of its distance from other centers of population, Los Gatos developed as a complete community including residential, business and industrial elements. Preserving Los Gatos as a complete and well balanced community has been and remains a prominent goal of the community. From the first 100-acre Town site in 1890 with a population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers between 14 and 15 square miles and has a population of 30,836. This growth over the last 80 years resulted in a community with vibrant business districts, well maintained neighborhoods, and lovely parks and open spaces.

As it exists now, the Town's boundaries encompass a wide variety of terrain, ranging from level land to steep and densely wooded hillsides. The sharp visual contrasts among these features and charming architecture create a picturesque setting of the Town. In the midst of the growth of Silicon Valley, Los Gatos attracts people with a preference for the Town's distinctive, high quality natural and urban environment.

TOWN OF LOS GATOS MISSION STATEMENT



THE MISSION OF THE TOWN OF LOS GATOS IS TO ENHANCE THE QUALITY OF LIFE IN LOS GATOS BY PROVIDING THE HIGHEST QUALITY LEADERSHIP AND MOST EFFICIENT SERVICES AND FACILITIES.

THE TOWN STRIVES TO PROVIDE A WORKING ENVIRONMENT WHICH PROMOTES EXCELLENCE; FOSTERS COOPERATION; VALUES VOLUNTEERISM; AND SEEKS TO MEET THE NEEDS OF THE COMMUNITY AND THE TOWN COUNCIL, EMPLOYEES, COMMISSIONS, COMMITTEES AND BOARDS.

SMALL TOWN SERVICE, COMMUNITY STEWARDSHIP, AND FUTURE FOCUS

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

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ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2022

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INTRODUCTORY SECTION

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TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

Phone: (408) 354-6832

FAX: (408) 399-5786

December 6, 2022

Honorable Mayor and Town Council,

I am pleased to submit the Town's Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2022. In coordination with the Town Manager's Office, this report was prepared by the Finance Department, which assumes responsibility for the accuracy of the data, the completeness and fairness of the presentation, and all disclosures. The information in this report presents the reader with a comprehensive view of the Town's financial position and the results of its operations for the fiscal year ending June 30, 2022, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the Town's financial activities.

This report was prepared as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34). This GASB Statement requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

This Annual Comprehensive Financial Report is organized into three sections:

- I. The Introductory Section includes the table of contents, letter of transmittal, listing of elected officials, Town administrative personnel, and an organization chart delineating organizational structure.
- II. The Financial Section includes the Independent Auditor's opinion, the MD&A, the basic financial statements, notes to the financial statements, combining statements of non-major funds, and required supplemental information.
- III. The Statistical Section includes both financial and non-financial data about the Town.

The Annual Comprehensive Financial Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting

Standards Board (GASB) and includes the audit report of Chavan & Associates, the Town's independent certified public accountants.

This Annual Comprehensive Financial Report will be submitted to the Government Finance Officers Association for consideration of its Achievement of Excellence Award in financial reporting certification. This award is granted only to entities whose reports meet the highest standards of municipal financial reporting.

THE REPORTING ENTITY AND ITS SERVICES

Los Gatos is a general law Town, incorporated under the legal framework of California in 1887. The Town is located in the foothills and level terrain of southwestern Santa Clara Valley, referred to internationally as "Silicon Valley." From the first 100-acre Town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles with a population of 11,750. Today Los Gatos covers approximately 15 square miles with a population of 33,062 (California Department of Finance, January 2022). The growth over the last 80 years resulted in a community with vibrant business districts, well-maintained neighborhoods, and lovely parks and open spaces. Preserving the unique charm of Los Gatos as a complete and well-balanced community while meeting its economic and housing needs, has been, and remains a key goal for the Town.

The Town maintains a Council-Manager form of government which combines the strong political leadership of elected officials with the strong managerial experience of an appointed Town Manager. Five Council members are elected at large for staggered four- year terms to govern the Town. The Mayor and Vice-Mayor are appointed by the Council from its own ranks and serve one-year terms. The Town Manager and Town Attorney are appointed and supervised directly by the Council. The Town Manager oversees all municipal services such as Public Safety, Parks and Public Works, Community Development, Library, and Town Administration including Human Resources, Information Technology, and Finance.

ECONOMIC CONDITIONS AND OUTLOOK

This past year the Town continued to see a modest return to economic normalcy after the initial economic impacts associated with the pandemic. However, the Town's economically sensitive Transient Occupancy Tax (TOT) remains near historic lows and Sales Tax receipts are still below FY 2018/19 levels. Property Tax revenues remained steady as suburban communities continued to benefit from urban flight and remote work remained viable for certain occupations.

General Fund revenues (not including transfers in) increased 8.8% from the prior year. Property tax revenues remain the largest and most consistent source of support for General Fund operations, comprising approximately 45.3% of General Fund revenues in FY 2021/22. For FY 2021/22 property tax receipts of \$21.1 million were \$1.2 million higher than the prior year's collection, reflecting the continued desirability of the Town, its environment, culture, and educational opportunities.

The Town also relies heavily on sales tax revenues to support General Fund operations, comprising approximately 18.2% of General Fund revenues in FY 2021/22. For FY 2021/22 sales tax receipts of \$8.5 million were \$0.6 million higher than the prior year's collection. Sales tax revenues were supported by significant increases in gas prices, strong auto sales, and the continued resurgence of the restaurant sector. The Town's 1/8 cent District Sales Tax continued to perform well as the District Tax captures a larger share of the increase in online sales versus the County pool collections.

In addition to the Town's revenue sources the Town continues to benefit from the federal American Rescue Plan Act (ARPA). The Act will allocate \$7,229,744 to the Town over a two-year period with the first nonrecurring payment of \$3,614,872 received on July 13, 2021. The funding provided critical support for budget stabilization, economic vitality, and social welfare initiatives. For more information regarding the two federal programs please refer to Note 15. –

As with most municipalities, services are provided directly by employees to the Town's residents, businesses, and visitors. As a service delivery enterprise, the cost of salaries and benefits are a significant portion of the Town's expenditures. Salaries are largely dictated by regional market forces as evidenced by fierce competition for talent in the San Francisco Bay Area, and inflationary pressures nationwide. During FY 2021/22, the Town successfully completed negotiations with all bargaining units. While important for the consistent delivery of high-quality services for the Town, these actions exacerbated an already existing imbalance between revenues and expenditures.

The Town also continues to adjust and prepare for pension employer costs to continue to be a primary expense in conjunction with salaries. The Town's pension plans over the past several decades, like all other CalPERS participants, have experienced changes in actuarial assumptions, demographic changes, and volatile investment returns which have outweighed any positive plan experiences. The outcome of these unfavorable economic and demographic conditions is the creation of unfunded pension and Other Postemployment Benefits (OPEB) obligations for the Town. According to the 2021 CalPERS actuarial valuations, the unfunded actuarial liability for pensions was \$36.8 million and \$5.5 million for OPEB as of June 30, 2021.

To address the escalation in pension costs, current and previous Councils have allocated additional discretionary pension funding totaling \$10.4 million. These additional discretionary payments will ultimately yield an approximate \$12.7 million in pension contribution savings. In addition to the management of the Town's pension obligations, prior Councils have worked to curb cost escalation in Other Postemployment Benefits (OPEB). In 2009, the Town initiated prefunding of the retiree healthcare benefit and has since established approximately \$23.2 million in OPEB assets from zero in 2009.

In addition, it should be noted that the net pension obligation varies annually depending upon the plan's actual investment earnings compared to the assumed rate of return during the plan's measurement periods. The Net Pension Obligation (NPO) reported in the Town's ACFRs has experienced a high degree of variability in recent years, with Net Pension Obligation reported in the June 30, 2017 ACFR in the amount of \$33.4 million rising to \$58.02 million in fiscal year 2020/21. The NPO reported in this year's financial statements (ACFR 2021/22) has decreased 52.6% to the

current NPO of \$27.48 million. Due to CalPERS preliminary negative returns of 7.5%, staff expects the NPO to rise significantly in the next fiscal year reporting period.

Readers are cautioned that in considering the amount of the pension and OPEB liabilities and other actuarial data as reported by CalPERS and the Town's actuary, this is "forward looking" information. Such "forward looking" information reflects the judgment of the Board of Administration of CalPERS, its actuaries, and the Town's actuary as to the amount of assets which the pension and OPEB plans will be required to accumulate to fund future benefits. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or that may change with the future experience of the pension and OPEB plans. The actuarial methods and assumptions could be changed by CalPERS and the Town's actuary at any time based on their professional judgement. Such changes could cause the Town's obligations to the pension and OPEB plans to be higher or lower in any particular year. This sensitivity to changes in actuarial assumptions is especially evident in changes to the Discount Rate as illustrated in Note 10 and changes to Healthcare Trend and Discount rates as illustrated in Note 11

For detailed information about the Town employees' retirement plan please refer to Note 10 of the Notes to Basic Financial Statements Section. For detailed information about the Town OPEB obligations please refer to Note 11 of the Notes to Basic Financial Statements Section. In addition, the Town provides extensive information on pension and OPEB information on the Town's website.

Despite revenue constraints and increasing costs associated with unfunded federal and state mandates, the Town has managed to maintain high service levels through increased efficiencies in Town operations and prudent fiscal management. The Town continues its outreach to the community, the League of California Cities, and local legislators to prevent and limit any future revenue losses and mandated cost increases. For example, the Town is currently evaluating a recent California Supreme Court case that could negatively impact the collection of waste hauler franchise fees. For more information see Note 16.

MAJOR CAPITAL PROJECT INITIATIVES

Major capital asset and infrastructure initiatives were once again the priority for the fiscal year. Approximately \$21.4 million in Town infrastructure and other capital asset improvements and contributions were invested in FY 2021/22, including a \$12.2 million Los Gatos Theater contribution, a \$1.5 million parking lot acquisition, and \$3.9 million in Town-wide street projects to improve the pavement condition. In addition, \$3.7 million was invested in construction in progress including, roads, bridges, storm drains, park, pathways, building improvements, and downtown revitalization efforts.

Additional infrastructure improvements are scheduled in accordance with the Town's approved Capital Improvement Plan, and will continue into future years. All of these improvements are funded either through grants, or via revenues accumulated from prior year budget savings and/or excess revenues per Town Council Policy.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The effectiveness of internal controls is a primary consideration in the development and evaluation of the Town's accounting system. Internal accounting controls are designed to provide reasonable but not absolute assurance regarding:

- 1) safeguarding of assets against loss from unauthorized loss or disposition,
- 2) accuracy and reliability of accounting data, and
- 3) adherence to managerial policy.

The concept of reasonable assurance recognizes that the cost of internal controls should not outweigh the benefits, and that management must make estimates and judgments in evaluating these costs and benefits.

All governmental fund types use the modified accrual basis of accounting. This means that revenues are recorded when measurable and available rather than when received. Measurable means the amount can be determined and available means the cash is received within sixty days after the end of the fiscal year. Expenditures are recorded when the liability is incurred, rather than when paid. An exception to this rule is principal and interest on general long-term debt, which is not recognized by debt service funds until it is due.

Proprietary (internal service) funds are accounted for using the accrual basis of accounting, similar to that used by corporations. Proprietary fund revenues are recognized when they are earned rather than when the cash is received, even if the cash is not available and proprietary fund expenses are recognized when they are incurred. With the implementation of GASB 34, the Town prepares its Basic Financial Statements on the accrual basis. Internal accounting procedures have been developed to provide reasonable assurance regarding the safeguarding of assets and the reliability of financial records for preparing financial statements and maintaining asset accountability.

An annual operating budget, five-year budget forecast, and five-year capital improvement plan is adopted by the Town Council consistent with generally accepted accounting principles. All budget adjustments and transfers between funds must be approved by the Town Council during the fiscal year. The Town Manager is authorized to transfer unencumbered appropriations within a budget category, within a fund. Appropriations are valid for each fiscal year and lapse at year-end.

AWARDS

The Town's Annual Comprehensive Financial Report for the fiscal year ended June 30, 2021 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. This is the 27th consecutive year that the Town has received the award. This prestigious award recognizes the report's conformance with strict accounting and reporting standards established by the Government Accounting Standards Board

and government finance organizations. This award is annual in nature and valid for one year only. This year's report will be submitted for award consideration by this organization, as we believe it continues to meet these standards.

INDEPENDENT AUDIT

State law requires an annual audit of the Town's accounts by independent certified public accountants. The accounting firm of Chavan & Associates LLP performs this function for the Town of Los Gatos, and their report is included in the financial section of the ACFR.

ACKNOWLEDGEMENTS

The preparation of this Annual Comprehensive Financial Report, as presented herein, is the result of the combined efforts and dedicated services of the excellent staff of the Department of Finance. Special thanks to Mark Gaeta, Accountant; Melissa Ynegas, Finance Analyst; Diane Howard, Finance Analyst; and Maurice De Castro, Accountant; Wayne Chen, Administrative Technician; Steve Conway, Former Finance Director; and Arn Andrews Assistant Town Manager for their efforts in preparing this report. The Town's Finance Commission is also recognized for its contributions to strengthening the ACFR through its review, discussion, and comments.

Respectfully submitted,



Laurel Prevetti
Town Manager

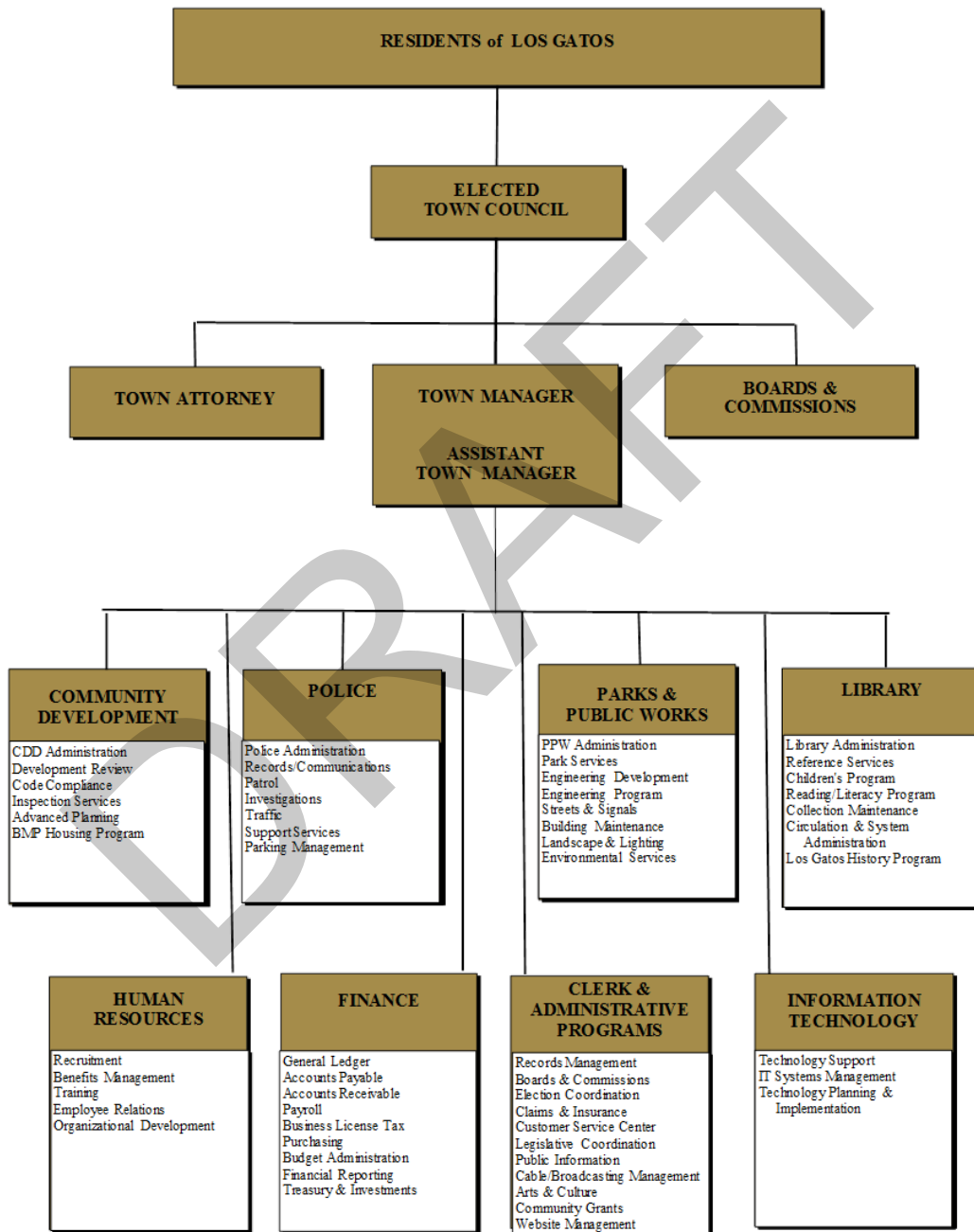


Gitta Ungvari
Director of Finance



Town of Los Gatos

Organizational Structure



**TOWN OF LOS GATOS
PRINCIPAL OFFICERS
JUNE 30, 2022**

TOWN COUNCIL

Mayor

Vice Mayor

Council Member

Council Member

Council Member

Rob Rennie

Maria Ristow

Mary Badame

Matthew Hudes

Marico Sayoc

COUNCIL APPOINTEES

Town Manager

Town Attorney

Laurel Prevetti

Gabrielle Whelan

APPOINTED OFFICIALS

Assistant Town Manager

Chief of Police

Community Development Director

Interim Parks and Public Works Director

Library Director

Interim Finance Director

Human Resources Director

Arn Andrews

Jamie Field

Joel Paulson

Tim Borden

Ryan Baker

Stephen Conway

Salina Flores



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Town of Los Gatos
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2021

Christopher P. Morill

Executive Director/CEO

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FINANCIAL SECTION

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Chavan and Associates, LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, General Fund budgetary statement, and the aggregate remaining fund information of the Town of Los Gatos (the "Town"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, General Fund budgetary statement, and the aggregate remaining fund information of the Town of Los Gatos, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with the 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 audit opinions.

Emphasis of a Matter

During the year, the Town implemented GASB Statement No. 87, *Leases*. As a result, the Town recorded lease receivables of \$1,826,417 and net deferred inflows of resources of \$1,156,412, increasing beginning fund balance and net position by \$687,399. See note 4 for additional information. Our opinion was not modified for this matter.

Responsibilities of Management for the Financial Statements

Town management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAGAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, 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 amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Chavan and Associates, LLP
Certified Public Accountants

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The introductory section, supplementary budgetary comparison schedules, combining individual non-major fund schedules, combining internal service fund schedules, and statistical data, are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements and combining internal service fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and combining internal service fund schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory, supplemental budgetary and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2022 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

C & A LLP

Chavan & Associates, LLP
Certified Public Accountants
December 6, 2022
Morgan Hill, California

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Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Town of Los Gatos's Annual Comprehensive Financial Report (ACFR) presents Management's Discussion and Analysis (MD&A) of the Town's financial performance during the fiscal year that ended on June 30, 2022. This analysis should be read in conjunction with the Transmittal Letter at the front of this report and the accompanying Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- Town assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of Fiscal Year (FY) 2021/22 by \$138,406,981 (total net position).
- The Town's total net position increased by \$24,888,881 during the fiscal year largely as a combined net result of an approximate \$37 million decrease in total long-term liabilities outstanding, a \$16 million dollar increase in capitalized assets including a \$12.2 million historic Los Gatos Theatre contribution and a \$3.7 million addition to non-capitalized capital outlay expenses from the prior year. Non-capitalized project expenditures reduce net position as they are not added back to total assets as new infrastructure or capital investments. Major non-capitalized expense projects included approximately \$849K in bicycle lane safety improvements, \$58K for parking program implementation, and \$77K for traffic safety. Depreciation expenses allocated to all Town Departments increased by approximately \$439K from the prior year reflecting the significant additional investments and contributions made in the Town's infrastructure through FY 2021/22.
- The decrease in long-term liabilities was mostly attributed to the decline in net pension liabilities of \$30.5 million. The decline was due to each plan's actual investment earnings having far exceeded the actuarial return assumptions during the plan's measurement periods (July 1, 2020 through June 30, 2021). Also contributing to the decrease in the net pension liabilities were the Town's additional discretionary payments (ADPs) in excess of the contractually required contributions in prior fiscal years that are now recognized in the FY 2021/22 financial statements.
- Total pension expense calculated for the Town's miscellaneous and safety plans is a credit of \$3,168,358. This credit led to reduced pension expense in both the miscellaneous and safety plans as a result of better than projected investment earnings versus the projected assumed investment returns on pension plan investments as of the June 30, 2021 measurement date. A more detailed discussion of the Town's unfunded pension liabilities can be found in Note 10.
- Reported unrestricted net position is \$1,785,294 compared to negative (\$4,735,103) the prior year. Unrestricted net position represents all resources not included as net investment in capital or restricted assets.
- During FY 2021/22, the Town implemented GASB Statement No. 87 Leases. As a result, the Town recorded long-term lease receivables of \$1,826,417 and net deferred inflows of leases

of \$1,156,412, increasing beginning fund balance and net position by \$0.7 million. See Note 4 for additional information.

- The Town received the first tranche payment of \$3,614,872 from the American Rescue Plan Act (ARPA) grant on July 13, 2021. For FY 2020/21, \$200K of ARPA proceeds was recognized as revenue to reimburse the Town for qualifying expenditures under the provisions of the Act including boosting economic recovery and providing rent forgiveness and direct grants to non-profit and social welfare organizations. For FY 2021/22, the Town recognized \$3.4 million in ARPA revenues related to recovery of revenue loss.
- Despite the ongoing economic impacts resulting from the nationwide pandemic, the Town's economically sensitive major revenues of property tax, sales tax, and business license tax were able to record gains from amounts reported the prior fiscal year. Property taxes collected increased \$1.3 million, sales taxes increased \$0.6 million, while business license tax increased by a modest \$94K from amounts collected the prior year.
- The economic impacts related to the pandemic and initial travel restrictions continued into FY 2021/22. FY 2021/22 Transient Occupancy Tax (TOT) revenue collection increased by \$840K compared to the level collected in FY 2020/21. However, the current year proceeds of \$1.9 million is still \$0.8 million lower than FY 2019/20 level of TOT collection.
- Total expenses as reported in the Statement of Activities increased \$2.2 million from the prior year. The increase primarily was driven by a one-time \$6.9 million State pass-through grant payment in General Government for wildfire protection. Excluding the one-time payment, total expenses actually decreased from the prior year by \$4.7 million primarily due to the \$3.1 million calculated pension expense credit, salary and benefit savings, and other miscellaneous operational savings. As previously noted, the pension expense credit was mostly from actual investment earnings in excess of estimated assumed investment earnings and additional discretionary payments in excess of contractually required contributions.
- The cost of all governmental activities as presented in the Statement of Activities this year was \$52.7 million. The Town's governmental program revenues were \$41.2 million including charges for services of \$12.8 million, operating grants and contributions of \$6.2 million, and capital grants and contributions of \$22.2 million. After taking governmental program revenues into consideration, the net amount of taxpayer supported governmental activities was \$11.5 million. The Town paid for the remaining "public benefit" portion of governmental activities from total taxes and general revenues of \$35.7 million. This \$11.5 million in net cost of governmental activities is net of the \$12.2 million Los Gatos Theatre contribution that occurred during FY 2021/22. Excluding the theatre contribution, the net cost of governmental activities would be \$23.7 million which represents an approximate 32% decrease from the prior fiscal year (\$35.1 million). The decrease reflects reduced costs related to the pension credit and increased governmental grant revenues from the prior year.
- At the end of FY 2021/22, the General Fund balance was \$26,896,789 compared to \$23,914,618 in the prior year. The ending fund balance of \$26,896,789 represents approximately 62% of General Fund expenditures for the current fiscal year excluding

transfers-out to the Town's capital projects funds and internal service funds. The \$3.6 million increase in General Fund ending fund balances was primarily due to the combined effect of favorable year end increases in economically sensitive revenues coupled with operational savings, and approximately \$3.5 million transfer (including \$2.9 million General Fund Reserves and 50% of the FY 2021/22 Measure G proceeds in the amount of \$0.6 million) to the Town's capital projects fund to provide resources for Town infrastructure improvements.

- Fund balances for all governmental funds at year end were \$50,862,138, an increase of approximately \$3.0 million or (6.3%) from the prior year. Governmental fund balances increased primarily due to approximately \$3.3 million of excess operating revenues above operating expenditures offset for capital use. Much of the surplus was due to an increase in property taxes, sales taxes, other taxes, licenses and permits, charges for services and franchise fees of \$4.7 million over the prior year. These increased revenues were partially offset by mark-to-market declines which are recognized as negative interest income in FY 2021/22 of \$1.2 million versus positive interest income of \$300K the prior year.
- At fiscal year end, the Town's General Fund restricted cash assets reported a \$690K balance in the Town's IRS Section 115 Pension Trust.
- As of June 30, 2022, the Town's investment in capital assets for its governmental activity is recorded at \$127,770,566 (\$101,704,464 net of accumulated depreciation and \$26,066,102 nondepreciable). During FY 2021/22, the Town's investment and contribution in capitalized assets were \$21.4 million with depreciation totaling \$5.0 million. The Capital asset increased by \$16.4 million for the current year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the ACFR contains the following information: Independent Auditor's Report, Management's Discussion and Analysis (this section), the Basic Financial Statements, and the Required Supplementary Information. The ACFR also includes a Supplementary Information section, which presents combining and budgetary schedules for individual non-major funds. The Basic Financial Statements are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements. The Management's Discussion and Analysis is intended to be an introduction to the Basic Financial Statements.

Government-Wide Financial Statements

The Government-Wide Financial Statements present the financial picture of the Town from an economic resources measurement focus using the accrual basis of accounting. An economic resources measurement focus is when a body of financial statements report all inflows, outflows, and balances affecting or reflecting an entity's net position.

The Statement of Net Position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases

in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the Government-Wide Financial Statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activity*). The governmental activities of the Town include public safety, parks and public works, community development, library, community services, debt service, and general government. Governmental activities typically include financial data for all governmental funds. Internal service funds are typically incorporated into governmental activities as well. Business-type activities typically include financial data for all enterprise funds. The Town has no enterprise funds and therefore reports no business-type activities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – The Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The Governmental Fund Statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's operations. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds – The Town maintains one type of proprietary fund: Internal Service Funds. Proprietary funds are reported using the accrual basis of accounting. Internal Service Funds are an accounting tool used to accumulate and allocate costs internally among the Town's various functions. The Town uses Internal Service Funds to account for its fleet of vehicles, computer equipment, risk management activities, and other items. Internal Service Funds help smooth the

variability of certain expenses and insulate the Town from large unanticipated costs. The Internal Service Funds are included within governmental activities in the Government-Wide Financial Statements.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are not reflected in the Government-Wide Financial Statements because the resources of those funds are not available to support the Town’s own programs.

Included in fiduciary funds is the Redevelopment Successor Agency private-purpose Trust Fund created upon the dissolution of the former Redevelopment Agency (RDA) in 2012. The Trust Fund was created to hold the assets of the former Redevelopment Agency until they are transferred for governmental purposes to other entities or distributed to the underlying taxing jurisdictions in Santa Clara County after the payment of enforceable obligations. Additional information on the dissolution of the RDA and this fiduciary fund can be found in Note 12 in the notes to basic financial statements.

Notes to Basic Financial Statements

The notes provide additional information to facilitate a full understanding of the data provided in the Government-Wide and Fund Financial Statements.

ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Government-Wide Financial Statements provide long-term and short-term information about the Town’s overall financial condition. This analysis addresses the financial statements of the Town as a whole, utilizing data from throughout the ACFR to describe the changes between 2021 and 2022. Given the unique nature of the economic impacts of the COVID-19 pandemic during the reporting period, 2020 data have also been provided to provide additional context.

Net Position Discussion

As shown below, the Town’s combined net position for the year ended June 30, 2022 was \$138.4 million, reflecting an increase of approximately \$24.8 million to the prior year’s net position of \$113.5 million. In general, net position can serve as an important indicator of whether the Town’s overall financial condition is improving or deteriorating over time.

Town of Los Gatos
Net Position
Governmental Activities
For the Year Ended June 30, 2022

	2022	2021	2020
Current and other Assets	\$ 78,302,210	\$ 72,065,091	\$ 75,995,161
Capital Assets	127,770,566	111,416,264	111,700,225
Total Assets	<u>\$ 206,072,776</u>	<u>\$ 183,481,355</u>	<u>\$ 187,695,386</u>
Deferred Outflows - Pension/OPEB	13,232,279	19,746,595	17,441,310
Current Liabilities	17,537,678	16,334,887	18,093,199
Long-Term Liabilities Outstanding	34,368,351	71,339,626	69,465,025
Total Liabilities	<u>\$ 51,906,029</u>	<u>\$ 87,674,513</u>	<u>\$ 87,558,224</u>
Deferred Inflows - Pension/OPEB	28,992,045	2,335,387	2,727,441
Net Position			
Net Investment in Capital Assets	126,418,275	109,894,936	111,700,225
Restricted	10,203,412	8,269,330	7,117,984
Unrestricted	1,785,294	(4,646,166)	(3,967,178)
Total Net Position	<u>\$ 138,406,981</u>	<u>\$ 113,518,100</u>	<u>\$ 114,851,031</u>

Current and other assets increased \$6.2 million from the prior year, primarily due to an \$2.9 million increase in cash/restricted cash and investments, \$1.8 million increase in Long Term Lease Receivable, and \$1.2 million increases in Long Term Note Receivable.

Capital assets increased \$16.4 million to \$127.8 million for the year reflecting current year's capital asset additions less the annual depreciation expense. Capital infrastructure activity includes the following:

- \$12.2 million added including \$4.3 million to land , building and improvements (\$7.7 million) and equipment (\$205K) related to the donation of the historic Los Gatos Theatre to the Town;
- \$1.5 million 224 West Main parking lot acquisition added to the to the Town assets. The parking lot was previously purchased by the Los Gatos Redevelopment Agency to develop below market housing. The Town reimbursed the Redevelopment financing to acquire the land and placed the funds into the Below Market Housing Program deposit account for future below market housing projects;
- \$3.9 million in street repair and resurfacing and curb and gutter work Town-wide; and
- \$3.7 million construction in progress.

Deferred Outflows for Pension and Other Post-Employment Benefits (OPEB) decreased \$6.5 million primarily due to the difference between projected assumed investment returns and actual investment earnings on pension and OPEB investments, the change in the Town's proportionate share for the pooled safety pension plan, and the fact that the Town did not contribute additional discretionary payments during FY 2021/22.

Long-term liabilities decreased by \$37 million. The decrease is primarily due to a pension liability decrease of \$30.5 million and a decrease of OPEB liabilities of \$6.0 million. See Note 10 and Note 11 of Notes to the Financial Statements for more information on Town's pension and OPEB plans. Deferred Inflows increased by \$26.7 resulting primarily from the difference between projected assumed investment returns and actual investment earnings on pension and OPEB investments. The pension inflows increased \$20.7 million and the OPEB plan increased \$4.9 million. In addition, the implementation of GASB 87 Leases added \$1.2 million of deferred inflows of resources.

The largest segment of the Town's net position, representing \$126.4 million of net position, reflects the net investment in capital assets (e.g., land, buildings, infrastructure, and equipment) less accumulated depreciation and related outstanding debt used to acquire those assets. The Town uses these capital assets to provide infrastructure and services to the residents. Therefore, they do not represent a liquid financial resource to the Town and consequently are not readily available for funding current obligations.

Restricted net position totaled approximately \$10.2 million representing approximately \$8.8 million for capital projects and maintenance, \$0.7 million for restricted pension trust, \$0.6 million placed in a special revenue trust accounts for Library services, and \$0.1 million for workers' compensation.

As of June 30, 2022, unrestricted net position reports an approximate \$6.5 million increase from a deficit of approximately (\$4.74 million) the prior year to an ending balance of approximately \$1.78 million.

Governmental Activities

Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange revenues. The Statement of Activities is intended to illustrate how the cost of governmental activities is financed and determine the annual change in net position.

Town of Los Gatos
Statement of Activities
For the Year Ended June 30, 2022

	2022	2021	2020
Revenues:			
Program revenues:			
Charges for Services	\$ 12,773,746	\$ 11,353,932	\$ 10,288,351
Operating Grants and Contribution:	6,179,842	3,287,564	3,854,188
Capital Grants and Contributions	22,226,206	846,345	850,113
General Revenues:			
Property Taxes	21,132,098	19,878,835	18,330,426
Sales Taxes	8,483,673	7,933,604	7,531,425
Franchise Taxes	2,822,515	2,499,463	2,495,792
Other Taxes	2,042,580	1,126,887	1,911,774
Motor Vehicle in Lieu	35,624	23,058	24,526
Developer Fee	1,735,571		
Investment Earnings	(1,278,978)	227,136	2,428,470
Miscellaneous	755,400	1,528,039	323,940
Total Revenues	76,908,277	48,704,863	48,039,005
Expenses:			
Police Department	15,093,308	19,808,230	20,446,188
Parks and Public Works	12,969,615	13,141,034	11,803,005
General Government	15,681,345	7,452,136	7,405,368
Community Development	5,827,001	6,481,075	5,001,958
Library Services	2,969,954	3,496,153	3,347,523
Sanitation	178,575	185,981	3,041
Total Expenses	52,719,798	50,564,609	48,007,083
Change in Net Position	24,188,479	(1,859,746)	31,922
Net Position - Beginning	113,518,100	115,377,846	114,819,109
Prior Period Adjustment - Principal Payments	13,003		
Prior Period Adjustment - GASB 87 Leases	687,399		
Net Position - Beginning, Adjusted	114,218,502		
Net Position, Ending	\$ 138,406,981	\$ 113,518,100	\$ 114,851,031

Governmental Activities Revenue Discussion

The Statement of Activities shown above details how the \$76.9 million in Governmental Activities revenues and contributions were derived. As categorized in the Statement of Activities as program revenues, approximately \$12.8 million or 16.6% of the revenues were recorded from fees paid by residents/businesses who directly benefited from the program or service. Another \$28.4 million or 36.9% of the revenues were sourced from operating/capital grants and

contributions. Significant grants and contributions include the donated \$12.2 million historic Los Gatos Theatre, one-time \$6.9 million State pass-through wildfire grant contribution, and \$3.4 million in recognized ARPA proceeds. The remaining \$35.7 million or 46.5% represents general revenues of the Town, including taxes, intergovernmental revenues, and other miscellaneous revenues.

Program revenues increased by approximately \$25.7 million from the prior year. This is largely due to a \$21.4 million increase in capital grants and contributions, \$2.8 million increase in operating grants and contributions, and \$1.4 million revenue increases from charges for services.

The Town's General Revenues related to Governmental Activities increased by approximately \$2.5 million from the prior year. The increase is attributable to a combination of approximately \$1.25 million increase in property taxes, a \$550K increase in sales tax, \$824K increases in Transient Occupancy Tax (TOT), \$323K increase in franchise fees, and \$86K increase in business license tax collections. The increases were offset by \$700K decrease in miscellaneous revenues and nearly \$1.5 million reduction in investment earnings from the prior year as result of lower mark-to-market values on the Town's investment portfolio.

Property tax is the largest individual revenue source for the Town and collections finished the year \$1.25 million higher than the previous year. This increase was mostly due to an increase of \$596K in general property tax collection, \$329K in secured taxes received as a rebate of excess property taxes collected and available from the State of California's Educational Revenue Augmentation Fund (ERAF), \$176K increase in VLF Property Tax In-Lieu fee, and \$148K increase in property transfer tax as strong demand for residential Town property continued. In addition, new development helped to drive property values higher. It is important to note that assessed valuations for FY 2021/22 were established on the tax roll in January 2021 and collected in FY 2021/22.

At \$8.5 million, sales taxes represent the second largest individual revenue source for the Town. Sales taxes increased \$550K from the previous year largely due to significant increases in gas prices, strong auto sales, and the continued resurgence of the restaurant sector. The increase was aided by the Town's 1/8 cent District Tax which captures a larger share of the increase in online sales versus those receipts provided by the County pool collections.

Franchise taxes, the Town's third largest revenue source, finished the year at \$2.8 million, reflecting only an increase of \$332K from the previous fiscal year. As discussed in more detail in Note 15, a recent California case indicates that jurisdictions may not be able to collect waste franchise fees in the future.

Investment earnings decreased \$1.5 million from the prior year. The primary factor responsible for this decline was the lower total mark-to-market value above historical investment cost than the prior year for the Town's investment portfolio. These non-cash or paper gains/losses are recognized as investment income/loss as a result of the "mark to market value" procedure required by GASB 31.

Governmental Activities Expenses Discussion

The Town provides residents, businesses, and visitors with an array of high quality municipal services. General government strategic support is comprised of six departments (Town Council, Town Clerk, Town Manager, Town Attorney, Human Resources, Information Technology, and Finance) which provide in information technology, executive management, economic vitality, legal, records management, risk management, human resources, finance, and accounting services. The Town's Police Department (public safety) provides general law enforcement, crime prevention, dispatch, and responses to emergency and non-emergency calls for service. Parks and Public Works provides engineering, construction, and maintenance of public streets, street lighting, Town-owned buildings, parks, and related infrastructure; as well as traffic engineering and engineering evaluation of private development proposals. Community Development provides planning and zoning services; and building plan check and inspection; and code compliance services. The Library Department provides library, local history, and cultural services to the community.

Total expenses of \$52.7 million as reported in the Statement of Activities increased \$2.2 million from \$50.5 million the prior year. The increase was primarily driven by the following:

- The increase of \$6.9 million one-time State pass-through grant payment for wildfire protection.
- Pension and OPEB expense credit of \$4.4 million calculated under accounting standards and allocated for the current fiscal year compared to a \$2.6 million credit for the last fiscal year. The calculated pension and OPEB expense credit of \$4.4 million was applied across all operating Departments as follows:
 - Public Safety - \$1.7 million
 - General Government - \$1.3 million
 - Parks and Public Works - \$0.7 million
 - Community Development - \$0.5 million
 - Library - \$0.2 million
 - Sanitation - \$16K

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds

Recognizing the financial resources measurement focus, the Town's Governmental Funds provide information on near-term inflows and outflows, and balances of spendable resources. This information is useful in assessing the Town's financing requirements and may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Unlike the Statement of Activities which does not include transfers, the Governmental Funds Balance Sheet does include transfers in and out.

Fund Balance – As discussed below, the Town's Governmental Funds Balance Sheet reports the following fund balances.

Restricted Fund Balance – The Town has \$10.1 million in fund balance classified as restricted to indicate that it has an externally imposed restriction on how the money may be spent. Of the \$10.1 million restricted fund balance, \$8.7 million is restricted for capital projects, \$0.7 million for pension, \$0.6 million for Library special revenue trust accounts, and \$0.2 million for maintenance and repairs.

Committed Fund Balance – The Town has \$12.9 million in fund balance classified as committed to indicate that the Town Council previously committed how the money will be spent. Of the \$12.9 million, \$12.0 million is for budget stabilization (\$6.0 million) and catastrophe response (\$6.0 million).

Assigned Fund Balance – The Town has \$27.7 million in fund balance which is not restricted or committed and is classified as assigned to indicate the Town Council's intent to be used for specific purposes. The largest assignments of fund balance are the Reserve for Capital/Special Projects with a balance of approximately \$11.1 million and the Capital Projects Reserve of \$13.6 million which are the primary funding sources for the Town's five-year capital improvement plan and special projects as budgeted by the Town.

Additional information on the Town's Fund Balance can be found in Note (9) of the Notes to the Financial Statements.

Major Governmental Funds results for the year included the following:

TOWN OF LOS GATOS
TOTAL GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2022

REVENUES	2022	2021	2020
Property Taxes	\$ 21,167,722	\$ 19,917,428	\$ 18,368,466
Sales Taxes	8,483,673	7,933,604	7,531,425
Other Taxes	1,976,198	1,126,887	1,911,774
Licenses & Permits	6,055,040	5,212,831	4,818,671
Intergovernmental	15,492,982	3,746,587	4,292,453
Charges for Services	6,925,359	6,035,659	5,309,470
Fines and Forfeitures	319,170	103,468	271,117
Franchise Fees	2,822,515	2,499,463	2,495,792
Developer Fees	1,735,571		
Interest	(1,278,983)	227,940	2,428,453
Use of Property	144,901	40,372	31,039
Other	349,145	423,115	376,922
Total Revenues	\$ 64,193,293	\$ 47,267,354	\$ 47,835,582
EXPENDITURES			
Current:			
Public Safety	\$ 16,451,190	\$ 16,570,836	\$ 15,793,815
General Government	15,953,968	14,040,134	13,024,146
Parks and Public Works	8,639,128	8,229,944	8,168,599
Community Development	6,313,511	5,195,302	4,473,790
Library Services	2,827,210	2,847,988	2,700,802
Sanitation and Other	194,969	166,173	162,837
Capital Outlay	10,478,670	5,746,447	7,861,972
Debt Service			
Principal	156,034		
Total Expenditures	\$ 61,014,680	\$ 52,796,824	\$ 52,185,961
Excess Revenues over Expenditures	\$ 3,178,613	\$ (5,529,470)	\$ (4,350,379)
Proceeds from sales of assets	2,151	1,201,369	1,566
Proceeds from issuance of debt	-	1,560,336	
Transfers in	8,154,307	4,053,535	8,935,260
Transfers out	(8,310,685)	(3,940,015)	(8,628,719)
Total Other Financing Sources (Uses)	\$ (154,227)	\$ 2,875,225	\$ 308,107
Net Changes in Fund Balances	3,024,386	(2,654,245)	(4,042,272)
Beginning/Ending Fund Balances As Restated	\$ 47,837,752	50491997	54,007,454
Ending Fund Balances	\$ 50,862,138	\$ 47,837,752	\$ 49,965,182

Overall, Total Governmental Funds revenues finished \$16.9 million or 35.8% higher than the prior year, while total expenditures finished \$8.2 million or 15.6% higher than the prior year. One of the major driving forces in increased revenues and expenditures is the one-time State pass-through wildfire grant in the amount of \$6.9 million. The approximate \$3.0 million increase in total governmental fund balance is the net result. The majority of excess revenues over

expenditures was due to an increase in property taxes, sales taxes, other taxes, licenses and permits, charges for services and franchise fees of \$4.7 million over the prior year. This was offset by lower mark-to-market values which are recognized as decreases to interest income in FY 2021/22.

General Fund revenues totaled \$46.6 million or nearly 72.6% of the total \$64.2 million in Total Governmental Fund revenues.

Total Governmental funds revenues increased by \$15.1 million, resulting from the net effect of:

- \$11.7 million increase in intergovernmental revenue including the \$6.8 million pass-through grant, \$3.4 million ARPA proceeds;
- \$1.8 million increase in development fees recognized for affordable housing loan and developer fee contributions include the appropriated reserves fund for capital projects;
- \$1.3 million increase in property tax collections;
- \$0.9 million increase in charge of services reflecting current development activities;
- \$0.9 million increase in in licenses and permits;
- \$0.8 million increase in TOT collection;
- \$0.6 million increase in sales tax collection;
- \$0.3 million increase in franchise fees;
- \$0.2 million increase in fines and forfeitures;
- \$0.2 million increase in use of property and other receipts; and
- \$1.5 million decrease in investment income.

Governmental Funds expenditures increased by \$8.2 million. General Fund expenditures represent approximately \$43.3 million of the Total Governmental Fund expenditures of \$61.0 million compared to \$46.2 million of General Fund expenditures and total Governmental Funds expenditures of \$52.8 million in the prior year.

Decreases in public safety expenditures from the prior year of approximately \$0.1 million were due primarily to vacancy savings experienced during the fiscal year.

The \$1.9 million increase in general governmental expenditures was attributable to the combined effect of the one-time \$6.9 million State pass-through wildfire safety grant, coupled with salary and benefit cost increases resulting from labor negotiations and mandated increases in employer pension contribution rates. Another factor was that the Town only contributed nonrecurring additional \$0.1 million toward the OPEB 115 Trust compared to approximately \$5.6 million toward a pension Additional Discretionary Payment and additional OPEB Trust contributions paid in the prior fiscal year.

Increases in Parks and Public Works were primarily due to salary and benefit cost increases resulting from labor negotiations and mandated increases in employer pension contribution rates.

Decreases in Library services expenditures from the prior year of approximately \$28K were due primarily to vacancy savings during the fiscal year.

Increases in Community Development were primarily due to expensing the \$1.2 million affordable housing loan through the Below Market Housing program. In addition, plan check and building inspection expenses increased moderately from the prior year.

Appropriated Reserves Fund capital projects fund balances decreased \$0.9 million from the prior year reflecting increased capital activity during the fiscal year. The \$4.5 million of general government and capital outlay expenditures above operating revenues was offset by \$3.6 million net transfers. The one-time \$6.9 million pass through grant payment for wildfire protection was reported as an intergovernmental revenue with an offsetting general government expenditure. Transfers in included \$0.6 million in ARPA revenue replacement funds.

Proprietary Funds

The Town's Proprietary Funds (Internal Service Funds) presented in the Fund Financial Statements section basically provide the same type of information in the Government-Wide Financial Statements and include individual segment information.

Total net position in the Internal Service Funds increased by \$629K a combined effect of GASB 87 increase adjustment of \$687K and a \$57K decrease in the current year due primarily to excess expenses over revenues for workers' compensation and general liability costs including administration, insurance premiums, and claims expense.

GENERAL FUND BUDGETARY HIGHLIGHTS

Changes to the Original Budget

Comparing the FY 2021/22 original budget (i.e., the Adopted Budget) General Fund expenditures of \$43,641,983 (excluding budgeted transfers-out and debt payments that are reimbursed) to the final adjusted budget of \$45,416,443 indicates a net increase of approximately \$1.8 million. Additions to the original expenditure budget included adjustments approved by Town Council throughout the fiscal year.

Original Budget GF Expenditures	+ Misc. Adjustments & Mid-Year Adjustments	= Final Budget
\$43,641,983	\$1,774,460	\$45,416,443

The increase in General Fund appropriations occurred primarily from the following selected budget adjustments made during the fiscal year.

- \$550K expenditure budget increase for Community Grants to recognize Council authorized spending of ARPA in the FY 2021/22.
- \$240K expenditure budget increase to cover the cost for special studies related to Justice, Equity, Diversity, and Inclusion (JEDI) services; the Business Tax Ordinance Review; Council Retreat; and NUMU Antique Map, and compensation study.

- \$220K expenditure budget increase to recognize increased cost related the retiree medical services due to additional recent retirements.
- \$129K temporary salary reimbursement from capital projects.
- \$105K expenditure budget increase for the Urban Forrest Manager position.
- \$100K expenditure budget increase for tree maintenance services.
- \$86K expenditure budget increase for dispatch salary increase based on compensation survey.
- \$80K expenditure budget increase for Chamber Thursday Promenade special event series.
- \$68K expenditure budget increase for executive recruitment services.
- \$55K expenditure budget increase for the Los Gatos Chamber destination marketing.
- \$49K for traffic signalization.
- \$33K expenditure budget increase to recognize the increased construction activities related to underground utility services.
- \$26K for miscellaneous and safety repairs.
- \$14K expenditure budget increase for crossing guard services.
- \$10K expenditure budget adjustments for park benches.
- \$9K to recognize and spend the Public Library Grant proceeds for Library Youth collections.

Variance with the Final General Fund Budget

The General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual (GAAP) for Fiscal Year Ended June 30, 2022 reports an approximate overall favorable variance with the final budget of approximately \$4.9 million. This favorable variance was created largely by the net effect of the following factors:

- Actual revenues ended the fiscal year at \$2.8 million above final budgeted revenues. The \$2.8 million total variance represents a combined effect of \$4.6 million favorable variances of the economic sensitive revenues from budget, \$1.2 million development revenue used for affordable housing loan, and an unfavorable variance of \$1.9 million in investment earnings for year, and an unfavorable \$0.2 million variance in sales tax collected.

Significant factors affecting actual expenditures include:

- Public safety expenditures had a favorable variance of approximately \$0.9 million. \$0.8 million in savings is reflective of limited term vacancies in Police Chief, Police Captain, Police Officer, Dispatcher, Police Record Specialist, and Police Records and Communication Manager positions, savings of \$62K in miscellaneous operating saving, and \$47K salary related internal service charges savings.
- Community Development expenditures reflected a \$0.9 million negative variance. The main reason of the negative variance is that the \$1.2 million loan provided to the Dittos Lane Below Market Housing Developer was expensed through the Below Market Housing

Program. The expenditure was fully funded from available developer contributions. Not counting the \$1.2 million loan expenditures, Community Development operating expenditures include \$349K combined savings on vacancies and miscellaneous operating expenditures. Planning Manager, Assistant Planner, Senior Planner, and Permit Counter Technician positions were partially unfilled during the fiscal year. The Department utilized temporary staffing agency contract to provide Building Counter services.

- Administrative Services reflected a favorable balance of approximately \$524K due to savings in salary and benefits (\$184K) due to partial year vacancies in the Emergency Manager, Special Event Coordinator, Administrative Technician, and Finance Director positions, \$235K saving on community grant due to timing of the grant distribution, savings in special events cost due to cancellation of events, and decreased travel activity, and other miscellaneous operational savings (\$105K).
- Parks and Public Works reflects a favorable variance of approximately \$475K largely due to vacancies savings due to partial year vacancies in the Parks and Public Works Director, Urban Forest Manager, Streets Maintenance Worker, and Administrative Assistant positions and other miscellaneous operational savings.
- Library services reflected a favorable variance of \$310K due mainly to salary and benefit savings from partial staff vacancies in the Librarian, Library Specialist, and Senior Library Page positions and other temporary vacancies.
- Town Attorney reflected a favorable balance of approximately \$40K in large measure due to savings in salary and benefits due to partial year vacancies of the Legal Administrative and Town Attorney positions.
- Town Council reflected a favorable balance of approximately \$13K due to benefit savings, and decreased travel and training activity, and other miscellaneous operational savings.

CAPITAL ASSETS

As of June 30, 2022, the Town's investment in capital assets for its governmental activity is recorded at \$127,770,566 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress, machinery and equipment. Capital assets increased \$16.4 million net of depreciation expense, totaling approximately \$5.0 million for the year.

- \$12.2 million added including \$4.3 million to land, building and improvements (\$7.7 million), and equipment (\$205K) related to the contribution of the historic Los Gatos Theatre to the Town;
- \$1.5 million 224 West Main parking lot acquisition added to the to the Town assets. The parking lot was previously purchased by redevelopment financing to develop below market housing. The Town reimbursed the redevelopment financing to acquire the land and placed the funds into the Below Market Housing Program deposit account for future below market housing projects;

- \$3.9 million in street repair and resurfacing and curb and gutter work Town-wide;
- \$3.7 million of construction in progress including:
 - \$835K in street repair in resurfacing;
 - \$813K for Town-wide traffic signal improvements;
 - \$555K million for downtown revitalization;
 - \$450K for bridges;
 - \$263K for Town's corporation yard building replacement;
 - \$210K in building improvements Town-wide;
 - \$196K in parking lots improvements;
 - \$157K pathways improvements;
 - \$118K for curb and gutter work Town-wide;
 - \$84 K equipment for fire suppression and IT disaster recovery;
 - \$40K for park improvements; and
 - \$26K in storm drain improvements.

Capital Assets
Town of Los Gatos
For the Year Ended June 30, 2022

	Governmental Activities
Infrastructure	\$ 61,933,593
Buildings	29,481,922
Land	26,066,103
Equipment	2,510,873
Construction in Progress	7,778,075
	<u>\$ 127,770,566</u>

Additional information on the Town's capital assets is found in Note 6 of this financial report.

LONG-TERM DEBT

The Town generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The Town long-term debt is related to the PG&E on-bill financing loan used for facility efficiency project updates totaling \$1.2 million at 6/30/2022. The long-term debt in the Successor Agency Trust Fund is related to the 2002 COP and 2010 COP totaling \$11.7 million. Additional information on the Town's Long-Term Debt is found in Note 7 of this financial report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A product of an ongoing examination of how the Town provides cost-effective services, the Town's budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

During the development and adoption of the Town's FY 2022/23 budget, the Town Council and management considered the following factors:

- The FY 2022/23 Budget reflects maintaining high service levels with little to no increases in the employee headcount. However during FY 2021/22, the Town successfully completed negotiations with all bargaining units. While important for the consistent delivery of high quality services for the Town, these actions exacerbated an already existing imbalance between revenues and expenditures. The Town is carefully monitoring its revenue and expenditures and will identify any required modifications at the mid-year budget discussion.
- Several Strategic Priorities are not one-time projects, but rather are ongoing commitments due to their critical significance to ensure the Town's fiscal and infrastructure stability and the safety and quality of life for Los Gatos residents, businesses, and visitors. These commitments include continuing to address the Town's unfunded pension and OPEB obligations; transportation demand management initiatives; exploration of new revenue opportunities, efforts to support community and economic vitality and the enhancement of emergency preparedness and community wildfire resilience.
- In terms of capital projects, the Town Council affirmed its interest in investing in bicycle and pedestrian improvements and implementing elements of the Comprehensive Parking Study. In addition to capital projects, the Council identified new policy priorities which include community policing and implementing diversity, equity, and inclusion efforts.
- Other Strategic Priorities should position the Town well for its future. The Council completed the General Plan update in FY 2021/22 and is preparing the Housing Element update. These efforts engage the community in land use planning and policies to guide development for the next couple of decades and address environmental sustainability and climate resiliency. Other Priorities included parking study implementation and completing the parklet program.
- Specific trends affecting the fund balance forecast include:
 - General property tax collections represent approximately 34.2% (not including the State's property tax "backfill" shifts) of the Town's General Fund revenues. Property tax collections are expected to increase 5.5% in FY 2022/23 from the prior year's tax collections. This increase reflects the continued strong property assessment values through the Town. This forecast is based on data from the Santa Clara County Tax Assessor's Office. The Town closely monitors its actual collection and other legislative changes regarding property tax.
 - The Town anticipates an increase in sales tax for FY 2022/23. General sales tax estimates of \$7.9 million and \$1.3 million in dedicated district sales tax revenue for FY 2022/23 were budgeted reflecting a 5.8% combined increase from the prior year's adjusted sales tax budget.

- The Town's investment portfolio yield was 1.37% as of June 30, 2022 which trended the same as the average yield of June 30, 2021. Prevailing interest rates are rising based on Federal Reserve actions.
- Transient Occupancy Tax (TOT) is expected to increase by 17.3% from FY 2021/22 adjusted budget. During the pandemic, TOT experienced the most significant percentage decline relative to historical adopted budgets. Due to a significant rebound in leisure "staycation" travel and modest improvements in business travel, current TOT collections are trending higher than anticipated and average occupancy rates are rebounding as well. Given the uncertainty around physical business travel resuming at prior levels, as opposed to a continuation of remote work and online meeting forums, staff believes TOT revenues will continue to remain below FY 2018/19 levels.
- The Town's pension plans over the past several decades, like all other CalPERS participants, have experienced volatile investment returns, changes in actuarial assumptions, and demographic shifts which have outweighed any positive plan experiences. To address this unfunded status, the Town took proactive steps including initiating the prefunding of OPEB obligations, budgeting and programming additional discretionary pension payments to accelerate reduction of unfunded liabilities, and recently partnering with the Town's employee groups to eliminate the existing retiree healthcare benefit for new employees. Even with these proactive steps, the Town continues to be impacted by the continuing rising cost of pension related benefits. Over the next five fiscal years, the Town's five-year forecast includes increasing pension costs due to further changes in actuarial assumptions or lowering the discount rate. The Town's net pension liability is \$16.7 million for the safety cost sharing plan and \$10.7 million for the miscellaneous plan based upon data from CalPERS as of 6/30/2021.
- To illustrate the sensitivity of the net pension liability to changes in the discount rate, CalPERS estimates that a 1 % reduction in the discount rate from 7.15% to 6.15% would increase the total net pension liability for both Miscellaneous and Safety by \$28.5 million. Conversely, an increase in the discount rate from 7.15% to 6.15% would decrease the total net pension liability for both Miscellaneous and Safety by \$23.6 million.
- In addition, CalPERS provides a hypothetical termination liability estimate of the plans should the contract with CalPERS be terminated. The plan liability on a termination basis is calculated differently from the plans' ongoing funding liability. Since no future employer contributions would be made in the hypothetical termination, benefit payments are secured by risk-free assets. For the Miscellaneous plan, a 2.25% termination return rate results in a \$117.7 million termination liability. For the Safety Classic and PEPRAs plans, a 2.25% termination return rate results in a \$124.1 million termination liability.
- For detailed information about the Town employees' retirement plan please refer to Note 11 of the Notes to Basic Financial Statements Section.

Requests for Information

This financial report is designed to provide residents, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Questions about this report or requests for any additional information, should be directed to Gitta Ungvari, Finance Director, at 110 East Main Street, Los Gatos, California, 95030; email at gungvari@losgatosca.gov; or phone at (408) 354-6805.

DRAFT

Basic Financial Statements

DRAFT

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022****GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES**

The Statement of Net Position, Statement of Activities, fund financial statements and the notes to financial statements comprise the Basic Financial Statements of the Town.

The purpose of the Statement of Net Position and the Statement of Activities is to summarize the entire financial activities and financial position of the Town. They are prepared on the same basis of accounting (accrual) used by most businesses, which means they include all the Town's assets and liabilities, as well as its revenues and expenses. The effect of the entire Town's transactions is accounted for, regardless of when cash changes hands, and all material internal transactions between funds have been eliminated.

The Statement of Net Position report the Town's total assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term debt, and presents similar information to the old balance sheet format while focusing the reader on the composition of the Town's net position (assets minus liabilities). The Statement of Net Position summarizes the financial position of the Town's governmental activities in a single column.

The Town's governmental activities include the activities of the General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds. These funds are serviced by the Town's Internal Service Funds; therefore internal service activities are consolidated with governmental activities after eliminating inter-fund transactions and balances.

The Statement of Activities reports increases and decreases in the Town's net position and is prepared on the full accrual basis of accounting, which means it includes all the Town's revenues and expenses regardless of when cash changed hands. This differs from the "modified accrual" basis of accounting used in the fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities presents the Town's expenses before revenues and by program. Program revenues (revenues generated directly by specific programs) are deducted from program expenses to arrive at the net expense of each governmental program, which is offset by general revenues as listed before the change in net position. From these components, the change in net position is computed and reconciled to the Statement of Net Position.

Both of these statements include the financial activities of the Town.

TOWN OF LOS GATOS, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2022

Item 5.

	Governmental Activities
ASSETS	
Cash and investments	\$ 69,392,044
Restricted cash and investments	819,929
Receivables:	
Accounts	2,319,026
Interest	193,357
Intergovernmental	2,176,777
Other assets	136,908
Long-term leases receivable	1,826,417
Long-term notes receivables	1,437,752
Capital Assets:	
Nondepreciable	26,066,102
Depreciable, net of accumulated depreciation	101,704,464
Total Assets	<u>\$ 206,072,776</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension adjustments	\$ 10,598,492
OPEB adjustments	2,633,787
Total Deferred Outflows of Resources	<u>\$ 13,232,279</u>
LIABILITIES	
Accounts payable	\$ 2,670,371
Accrued payroll and benefits	1,114,106
Due to other governments	162,804
Unearned Revenue	5,312,407
Deposits	6,893,875
Claims payable	1,384,115
Long-term liabilities:	
Due within one year	
Compensated absences	220,293
Loans payable	156,034
Due in more than one year	
Net OPEB liability	2,491,580
Net pension liabilities	27,486,187
Compensated absences	2,818,000
Loans payable	1,196,257
Total Liabilities	<u>\$ 51,906,029</u>
DEFERRED INFLOWS OF RESOURCES	
Leases	1,156,412
Pension adjustments	22,132,955
OPEB adjustments	5,702,678
Total Deferred Inflows of Resources	<u>\$ 28,992,045</u>
NET POSITION	
Net investment in capital assets	\$ 126,418,275
Restricted for:	
Library	555,253
Capital projects	8,357,393
Lighting and landscape repairs and maintenance	174,239
Pensions	690,000
VTA	296,598
Worker's compensation claims	129,929
Total Restricted Net Position	<u>10,203,412</u>
Unrestricted	1,785,294
Total Net Position	<u>\$ 138,406,981</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF LOS GATOS, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 15,681,345	\$ 1,725,857	\$ 2,766,833	\$ 12,205,050	\$ 1,016,395
Public safety	15,093,308	1,596,313	1,144,226	-	(12,352,769)
Parks and public works	12,969,615	5,090,014	1,482,896	10,021,156	3,624,451
Community development	5,827,001	4,129,718	670,929	-	(1,026,354)
Library services	2,969,954	521	114,958	-	(2,854,475)
Sanitation	178,575	231,323	-	-	52,748
Total Governmental Activities	\$ 52,719,798	\$ 12,773,746	\$ 6,179,842	\$ 22,226,206	(11,540,004)
General revenues:					
Taxes:					
Property taxes					21,132,098
Sales taxes					8,483,673
Franchise taxes					2,822,515
Other taxes					2,042,580
Motor vehicle in lieu					35,624
Developer fees					1,735,571
Investment earnings					(1,278,978)
Miscellaneous					755,400
Total general revenues					35,728,483
Change in Net Position					24,188,479
Net Position - Beginning					113,518,100
Prior Period Adjustment, Principal Payments					13,003
Prior Period Adjustment, GASB 87 - Leases					687,399
Net Position - Beginning, Adjusted					114,218,502
Net Position - Ending					\$ 138,406,981

ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

FUND FINANCIAL STATEMENTS &
MAJOR GOVERNMENTAL FUNDS

Fund Financial Statements:

The Fund Financial Statements only present major funds individually while nonmajor funds are combined in a single column. Major funds are generally defined as having significant activities or balances in the current year.

Major Governmental Funds:

The Town determined that the following funds were major funds for the year ended June 30, 2022. Individual non-major funds can be found in the supplemental section.

General Fund is the general operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

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TOWN OF LOS GATOS, CALIFORNIA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2022

Item 5.

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash & investments	\$ 33,524,572	\$ 17,435,006	\$ 9,419,042	\$ 60,378,620
Restricted cash & investments	690,000	-	-	690,000
Receivables:				
Accounts	1,813,336	396,644	63,244	2,273,224
Interest	193,357	-	-	193,357
Intergovernmental	1,938,789	47	237,941	2,176,777
Other assets	136,908	-	-	136,908
Lease receivable	-	331,696	-	331,696
Long term note receivable	1,359,000	-	78,752	1,437,752
Total Assets	\$ 39,655,962	\$ 18,163,393	\$ 9,798,979	\$ 67,618,334
LIABILITIES				
Accounts payable	\$ 1,453,060	\$ 982,744	\$ 4,450	\$ 2,440,254
Accrued payroll and benefits	1,109,010	-	5,096	1,114,106
Due to other governments	62,712	100,000	42	162,754
Unearned revenue	3,240,516	2,007,096	64,795	5,312,407
Deposits	6,893,875	-	-	6,893,875
Total Liabilities	12,759,173	3,089,840	74,383	15,923,396
DEFERRED INFLOWS OF RESOURCES				
Leases	-	327,100	-	327,100
Unavailable revenue	-	505,700	-	505,700
Total Deferred Inflows of Resources	-	832,800	-	832,800
FUND BALANCE				
Nonspendable:				
Loans receivable	159,000	-	-	159,000
Restricted for:				
Library	-	-	555,253	555,253
Capital projects	-	-	8,357,393	8,357,393
Repairs and maintenance	-	-	174,239	174,239
Pensions	690,000	-	-	690,000
VTA	-	296,598	-	296,598
Committed to:				
Budget stabilization	5,991,566	-	-	5,991,566
Catastrophic	5,991,566	-	-	5,991,566
Pensions/OPEB	300,000	-	-	300,000
Special revenue funds	-	-	637,711	637,711
Assigned to:				
Open Space	410,000	152,000	-	562,000
Parking	-	100,000	-	100,000
Sustainability	140,553	-	-	140,553
Capital/Special projects	11,071,231	13,642,155	-	24,713,386
Carryover encumbrances	33,145	-	-	33,145
Comcast PEG	-	50,000	-	50,000
Compensated Absences	1,519,147	-	-	1,519,147
Measure G 2018 district sales tax	590,581	-	-	590,581
Total Fund Balances	26,896,789	14,240,753	9,724,596	50,862,138
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 39,655,962	\$ 18,163,393	\$ 9,798,979	\$ 67,618,334

The notes to the financial statements are an integral part of this statement.

TOWN OF LOS GATOS, CALIFORNIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET
POSITION – GOVERNMENTAL ACTIVITIES
JUNE 30, 2022

Fund Balance - Total Governmental Funds \$ 50,862,138

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds because of the following:

CAPITAL ASSETS

Capital assets used in the Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds. 127,770,566

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

Internal service funds are used by management to charge the cost of management of certain activities such as insurance, central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included as Governmental Activities in the Statement of Net Position. 8,240,282

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The differences from benefit plan assumptions and estimates versus actuals are not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows or deferred outflows of resources in the statement of net position.

Deferred outflows of resources:

PERS Miscellaneous Plan adjustments	\$ 3,663,900	
PERS Safety Plan adjustments	6,934,592	
OPEB plan adjustments	<u>2,633,787</u>	13,232,279

Deferred Inflows of resources:

PERS Miscellaneous Plan adjustments	\$ (10,235,294)	
PERS Safety Plan adjustments	(11,897,661)	
OPEB plan adjustments	<u>(5,702,678)</u>	(27,835,633)

DEFERRED INFLOWS OF RESOURCES

Revenues from grants that are funded in this fiscal year that will not be collected for several months after the Town's fiscal year end are not considered available and are classified as deferred inflows of resources in the governmental funds. 505,700

LONG-TERM LIABILITIES

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.

Loans payable	\$ (1,352,291)	
Net Pension Liabilities	(27,486,187)	
Net OPEB Liability	(2,491,580)	
Compensated absences	<u>(3,038,293)</u>	(34,368,351)

Net Position - Governmental Activities \$ 138,406,981

The notes to the financial statements are an integral part of this statement.

TOWN OF LOS GATOS, CALIFORNIA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 21,129,082	\$ -	\$ 38,640	\$ 21,167,722
Sales Taxes	8,483,673	-	-	8,483,673
Other Taxes	1,909,816	-	66,382	1,976,198
Licenses & Permits	5,096,318	420,055	538,667	6,055,040
Intergovernmental	1,263,352	9,400,918	4,828,712	15,492,982
Charges for Services	5,460,613	1,464,746	-	6,925,359
Fines and Forfeitures	319,170	-	-	319,170
Franchise Fees	2,822,515	-	-	2,822,515
Developer Fees	1,200,000	535,571	-	1,735,571
Interest	(1,404,527)	34,805	90,739	(1,278,983)
Use of Property	32,400	93,001	19,500	144,901
Other	311,040	-	38,105	349,145
Total Revenues	46,623,452	11,949,096	5,620,745	64,193,293
EXPENDITURES				
Current:				
General Government	9,053,968	6,900,000	-	15,953,968
Public Safety	16,451,190	-	-	16,451,190
Parks and Public Works	8,605,457	-	33,671	8,639,128
Community Development	6,313,511	-	-	6,313,511
Library Services	2,752,397	-	74,813	2,827,210
Sanitation and Other	-	-	194,969	194,969
Capital Outlay	-	9,570,780	907,890	10,478,670
Debt service:				
Principal	156,034	-	-	156,034
Total Expenditures	43,332,557	16,470,780	1,211,343	61,014,680
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,290,895	(4,521,684)	4,409,402	3,178,613
OTHER FINANCING SOURCES (USES)				
Gain from sale of assets	2,151	-	-	2,151
Transfers in	4,047,313	4,074,141	32,853	8,154,307
Transfers (out)	(4,358,188)	(427,616)	(3,524,881)	(8,310,685)
Total Other Financing Sources (Uses)	(308,724)	3,646,525	(3,492,028)	(154,227)
NET CHANGES IN FUND BALANCES	2,982,171	(875,159)	917,374	3,024,386
BEGINNING FUND BALANCES	23,914,618	15,115,912	8,807,222	47,837,752
ENDING FUND BALANCES	\$ 26,896,789	\$ 14,240,753	\$ 9,724,596	\$ 50,862,138

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 3,024,386

Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:

CAPITAL ASSET TRANSACTIONS

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets (additions)	\$ 9,180,716	
Current year depreciation	(5,030,087)	
Donated capital assets	12,205,050	16,355,679

Gains and losses from the disposal of capital assets are not considered current financial resources and are not recorded in the governmental fund statement of revenues and expenditures but are recorded in the government-wide statement of activities because they are economic resources. (1,375)

LONG-TERM DEBT PROCEEDS AND PAYMENTS

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Certificates of participation		156,034
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UNAVAILABLE REVENUE

Revenues from grants that are funded in this fiscal year that will not be collected for several months after the Town's fiscal year end are not considered available and are classified as deferred inflows of resources in the governmental funds. 23,997

COMPENSATED ABSENCES

In governmental funds, compensated absences such as vacations and sick leave are expenditures when taken. However, in the Government Wide Statement of Activities, the current year change in the compensated absences liability is reported. 261,542

OPEB PLAN CONTRIBUTIONS AND EXPENSE

In governmental funds, actual contributions to OPEB plans are reported as expenditures in the year incurred. However, in the Government-Wide Statement of Activities, only the current year OPEB expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources. 1,257,776

PENSION PLAN CONTRIBUTIONS AND EXPENSE

In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the Government-Wide Statement of Activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources. 3,168,358

ALLOCATION ON INTERNAL SERVICE FUND ACTIVITY

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service fund is reported with governmental activities. (57,918)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 24,188,479

The notes to the financial statements are an integral part of this statement.

TOWN OF LOS GATOS, CALIFORNIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 20,036,156	\$ 20,138,320	\$ 21,129,082	\$ 990,762
Sales Taxes	8,177,859	8,671,606	8,483,673	(187,933)
Other Taxes	927,040	1,482,000	1,909,816	427,816
Licenses & Permits	3,869,779	4,477,907	5,096,318	618,411
Intergovernmental	3,881,836	1,148,993	1,263,352	114,359
Charges for Services	3,882,490	4,385,547	5,460,613	1,075,066
Fines and Forfeitures	203,450	213,450	319,170	105,720
Franchise Fees	2,597,630	2,514,020	2,822,515	308,495
Developer Fees	-	-	1,200,000	1,200,000
Interest	440,833	440,833	(1,404,527)	(1,845,360)
Use of Property	32,400	32,400	32,400	-
Other	290,898	290,898	311,040	20,142
Total Revenues	44,340,371	43,795,974	46,623,452	2,827,478
EXPENDITURES				
Current:				
General Government:				
Town Council	201,499	202,890	189,569	13,321
Town Attorney	660,229	669,733	629,936	39,797
Administrative Services	5,087,207	5,965,803	5,441,604	524,199
Non-Departmental	3,546,680	3,581,965	2,792,859	789,106
Total General Government	9,495,615	10,420,391	9,053,968	1,366,423
Public Safety	17,239,480	17,390,966	16,451,190	939,776
Parks & Public Works	8,494,629	9,080,666	8,605,457	475,209
Community Development	5,395,864	5,461,713	6,313,511	(851,798)
Library Services	3,016,395	3,062,707	2,752,397	310,310
Debt Service:				
Principal	-	-	156,034	(156,034)
Total Expenditures	43,641,983	45,416,443	43,332,557	2,083,886
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	698,388	(1,620,469)	3,290,895	4,911,364
OTHER FINANCING SOURCES (USES)				
Gain from sale of assets	600	600	2,151	1,551
Transfers In	633,352	4,047,313	4,047,313	-
Transfers Out	(2,801,047)	(3,833,094)	(4,358,188)	(525,094)
Total Other Financing Sources (Uses)	(2,167,095)	214,819	(308,724)	(523,543)
NET CHANGES IN FUND BALANCE	<u>\$ (1,468,707)</u>	<u>\$ (1,405,650)</u>	2,982,171	<u>\$ 4,387,821</u>
BEGINNING FUND BALANCE			23,914,618	
ENDING FUND BALANCE			<u>\$ 26,896,789</u>	

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Item 5.

**PROPRIETARY FUNDS -
INTERNAL SERVICE FUNDS**

Internal service funds account for Town operations financed and operated in a manner similar to a private business enterprise. The intent of the Town is that the cost of providing goods and services to other Town funds be financed through user charges to those funds.

The concept of major funds does not extend to internal service funds because they are used for internal activities only. In the Government-Wide Statement of Activities, the net revenues and expenses of the internal service funds are allocated to the Town Departments or programs that generated them, thus eliminating internal service funds.

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TOWN OF LOS GATOS, CALIFORNIA
PROPRIETARY FUNDS -
STATEMENT OF NET POSITION
JUNE 30, 2022

Item 5.

	Governmental Activities Internal Service Funds
ASSETS	
Current Assets:	
Cash & investments	\$ 9,013,424
Restricted cash & investments	129,929
Accounts Receivable	45,802
Total current assets	<u>9,189,155</u>
Noncurrent Assets:	
Leases receivable	<u>1,494,721</u>
Total Assets	<u><u>\$ 10,683,876</u></u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 230,117
Due to other governments	<u>50</u>
Total current liabilities	<u>230,167</u>
Noncurrent liabilities:	
Claims payable	<u>1,384,115</u>
Total Liabilities	<u><u>\$ 1,614,282</u></u>
DEFERRED INFLOWS OF RESOURCES	
Leases	<u><u>\$ 829,312</u></u>
NET POSITION	
Restricted for workers compensation claims	\$ 129,929
Unrestricted	<u>8,110,353</u>
Total Net Position	<u><u>\$ 8,240,282</u></u>

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
 PROPRIETARY FUNDS -
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

	Governmental Activities Internal Service Funds
OPERATING REVENUES	
Charges for services	\$ 3,680,107
Interest	5
Use of money and property	115,091
Other local taxes	66,382
Other revenue and reimbursements	303,683
	<u>4,165,268</u>
OPERATING EXPENSES	
Insurance expenses	2,116,969
Services and Supplies	2,262,595
	<u>4,379,564</u>
Total Operating Expenses	<u>4,379,564</u>
Operating Income (Loss)	<u>(214,296)</u>
Transfers in	251,194
Transfers out	(94,816)
	<u>156,378</u>
Net transfers	<u>156,378</u>
Change in Net Position	<u>(57,918)</u>
BEGINNING NET POSITION	7,610,801
PRIOR PERIOD ADJUSTMENT GASB 87	687,399
BEGINNING NET POSITION, ADJUSTED	<u>8,298,200</u>
ENDING NET POSITION	<u>\$ 8,240,282</u>

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
PROPRIETARY FUNDS -
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Item 5.

	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 3,227,027
Payments to suppliers	(4,441,834)
Insurance reimbursements	258,472
Claims paid	(192,074)
Net cash provided (used) by operating activities	<u>(1,148,409)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers In	251,194
Transfers Out	(94,816)
Net cash provided (used) by noncapital financing activities	<u>156,378</u>
Net Increase(Decrease) in Cash and Investments	(992,031)
Cash and investments - beginning of year	<u>9,447,985</u>
Cash and investments - end of year	<u>\$ 8,455,954</u>
Reconciliation of Operating Income to Cash Flows from Operating Activities:	
Operating Income	\$ (214,296)
Change in assets and liabilities:	
Accounts receivables	(14,838)
Leases receivable	(1,494,721)
Due from other funds	478
Deferred inflows of resources	829,312
Accounts payable	57,646
Due to other governments	(33)
Claims payable	<u>(311,957)</u>
Cash Flows From Operating Activities	<u>\$ (1,148,409)</u>

The notes to the financial statements are an integral part of this statement.

ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

FIDUCIARY FUNDS

Trust funds are used to account for assets held by the Town as a trustee agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

RDA Successor Agency Private Purpose Trust Fund was established to account for the assets and liabilities transferred from the dissolution of the Town's former Redevelopment Agency and the continuing operations related to existing Redevelopment Agency obligations.

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TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2022

	RDA Successor Agency
ASSETS	
Cash and investments	\$ 1,920,130
Restricted cash and investments	1,964,434
Loans receivable	610,418
Capital assets:	
Depreciable, net of accumulated depreciation	1,220,316
Total Assets	\$ 5,715,298
LIABILITIES	
Accounts payable	\$ 68
Interest payable	236,521
Long-term debt:	
Due within one year	1,355,000
Due in more than one year	11,731,235
Total Liabilities	\$ 13,322,824
NET POSITION	
Restricted for RDA	\$ (7,607,526)
Total Net Position	\$ (7,607,526)

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

	RDA Successor Agency
ADDITIONS	
Property taxes	\$ 1,937,791
Investment earnings	<u>15,562</u>
Total Additions	<u>1,953,353</u>
DEDUCTIONS	
Program expenses of former RDA	5,200
Interest and fiscal agency expenses of RDA	535,361
Depreciation expense	<u>101,693</u>
Total Deductions	<u>642,254</u>
Gain (loss) on sale of property	<u>(5,257,421)</u>
CHANGE IN NET POSITION	(3,946,322)
NET POSITION - BEGINNING OF YEAR	<u>(3,661,204)</u>
NET POSITION - END OF YEAR	<u>\$ (7,607,526)</u>

The notes to the financial statements are an integral part of this statement.

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Notes to Basic Financial Statements

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TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

Item 5.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Financial Reporting Entity

The Town of Los Gatos (the “Town”) operates under a Council-Manager form of government and provides the following services; public safety (including police and emergency management), parks and public works, community development, library, public improvements, planning and zoning, and general administration services. Redevelopment services were provided primary through the Redevelopment Agency of the Town which was dissolved on February 1, 2012.

The Town is largely a residential community located in the foothills of the Santa Cruz Mountains and was incorporated as a municipal corporation in 1887. The Town’s population as of January 1, 2022 was 33,062 (California Department of Finance).

As required by generally accepted accounting principles, these financial statements present the Town as the Primary Government and any component units for which the Town is considered financially accountable.

B. Description of Blended Component Units

The Town did not report any component units as a part of the primary government because the Town Council was not the governing body of any entities and no separate entity provided services entirely to the Town.

C. Description of Joint Ventures and Public Entity Risk Pool

As described in Note 11, the Town participates in two joint ventures and public entity risk pool activities through formally organized separate legal entities. The financial activities of the Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA) and the Local Agency Workers’ Compensation Excess Joint Powers Authority (“LAWCX”) are not included in the accompanying basic financial statements as boards separate from and independent of the Town administer them.

D. Basis of Presentation

The Town’s Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board (“GASB”) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

Item 5.

These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the Town). These statements include the financial activities of the overall Town government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements present *governmental activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meet the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary* and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining governmental are aggregated and reported as nonmajor funds.

Internal service funds of the Town (which provide services primarily to other funds of the Town) are presented, in summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are the Town's governmental activities, financial activities of the internal service funds are presented in the governmental activities column when presented at the government-wide level. The costs of these services are allocated to the appropriate function/program in the Statement of Activities.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

E. Major Funds

GASB defines major funds and requires that the Town's major governmental funds be identified and presented separately in the fund financial statements. All other funds, called nonmajor funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have assets, deferred outflows of resources, liabilities, deferred outflows of resources, revenues, or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The Town may also select other funds it believes should be presented as major funds.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

Item 5.

The Town reported the following major governmental funds in the accompanying financial statements:

General Fund is the general operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

The Town also reports the following fund types:

Internal Service Funds are used to account for services that are provided to other departments on a cost-reimbursement basis. Those services include workers compensation, self-insurance, facilities maintenance, information technology, and equipment fund.

Fiduciary Funds include Private-Purpose Trust Funds and agency funds used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of this fund are excluded from the government-wide financial statement but are presented in a separate Fiduciary Fund financial statement.

The Town reported the following Fiduciary Funds in the accompanying financial statements:

RDA Successor Agency Private Purpose Trust Fund accounts for the assets, liabilities and operations transferred from the dissolution of the Town's Redevelopment Agency, which includes the following:

- Certificates of Participation issued to finance several capital improvement projects throughout the Town.
- Redevelopment projects and related property tax revenue.
- Affordable Housing Set-Aside Program obligations.
- Repayment of obligations incurred by the Town's Redevelopment Agency prior to its dissolution.

F. Basis of Accounting

The government-wide and fiduciary fund (except for agency funds) financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Town considers property tax revenues reported in the governmental funds to be available if the revenues are collected or are reasonably expected to be collected within sixty days after year-end. For revenues other than property taxes, the Town generally applies the

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

Item 5.

sixty-day period rule but would make exceptions considering the *measurable* and *available* criteria. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which is recognized upon becoming due and payable; and except for claims, judgments and compensated absences, which are recognized when estimable and probable. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property and sales taxes, certain intergovernmental revenues, and interest revenue. Fines, forfeitures, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the Town gives or receives value without directly, receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Town may fund programs with a combination of cost-reimbursement grants, categorical block grants and/or general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The Town's policy is to first apply restricted grant resources to such programs followed by general revenues as necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The Town applies all applicable GASB pronouncements for certain accounting and financial reporting guidance including those applicable to accounting and reporting for proprietary operations. In December of 2010, GASB issued *GASB No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

Pensions - For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

Item 5.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Measurement Period	July 1, 2020 to June 30, 2021

Other Post -Employment Benefit (OPEB) Expense -

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the Town's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2021
Measurement Period	July 1, 2020 to June 30, 2021

Cash and Cash Equivalents - The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State of California statutes and the Town's investment policy authorize the Town to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, collateralized, non-negotiable certificates of deposits, commercial paper rated A-1/P-1, medium-term corporate notes rated A or its equivalent or better by Moody's or Standard & Poor's, asset backed corporate notes, bankers' acceptances, mutual funds, and the State Treasurer's investment pool (Local Agency Investment Fund).

The Town does not enter into repurchase or reverse repurchase agreements.

Restricted Cash and Investments - Certain restricted cash and investments are held by fiscal agents for pension stabilization, worker's compensation insurance and Successor Agency debt service obligations.

Investments - Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

Item 5.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

Materials, Supplies and Deposits (Other Assets) - These assets are held for consumption and are stated at cost using the first-in, first-out method. The costs are recorded as expenditures at the time the item is consumed.

Interfund Receivables and Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/advances from other funds". All other outstanding balances between funds are reported as "due to/from other funds."

Advances - Advances between funds and due from/to other funds are offset by a nonspendable fund balance in applicable Town funds to indicate the extent to which they are not available for appropriation and are not expendable available financial resources.

Capital Assets - Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Capital assets, including infrastructure, are recorded if acquisition or construction costs exceeds \$10,000.

As required by GASB, the Town depreciates capital assets with limited useful lives over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. The Town depreciates using the straight-line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Town has assigned the useful lives listed below to capital assets:

Buildings	25-40 years
Improvements	25-40 years
Machinery and equipment	2-20 years
Furniture and fixtures	5-12 years
Software	5-7 years
Infrastructure	20-40 years

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

Item 5.

Major capital outlay for capital assets and improvements are capitalized as projects are constructed.

Capital assets may be acquired using federal and state grants, contributions from developers, and contributions or grants from other governments. GASB 34 requires that these contributed assets be accounted for as revenue at the time they are contributed.

Leases Receivable - In accordance with Government Accounting Standard Board 87, *Leases*, the Town's leases receivable are measured at the present value of lease payments expected to be received during the lease terms. The present value, net of accumulated amortization, is reported as deferred inflows of resources is recorded for leases. Deferred inflows of resources are recorded at the initiation of the leases in an amount equal to the initial recording of the leases receivable, plus incentive payments received. Amounts recorded as deferred inflows of resources from the leases are amortized on a straight-line basis over the term of the lease.

Deferred Compensation Plan - The Town established a deferred compensation plan created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Deferred compensation plans are not reported as part of the Town's assets or liabilities, as the deferred compensation plan trustees hold those funds in trust on behalf of employees until the employees are eligible to receive the benefits.

Compensated Absences - Accumulated Vacation, Sick Pay and Other Employee Benefits are accrued as earned. Upon termination, employees are paid for all unused vacation at their current hourly rates. Sick leave earned is cashed out based on the following schedule for employees with at least 150 hours accrued and up to a maximum amount as specified under labor contract provisions:

For employees under contract 1-59 months	25.0%
For employees under contract 60-119 months	37.5%
For employees under contract 120 months or more	50.0%

The Town's liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as liabilities of each fund; the long-term portion is recorded in the Statement of Net Position. The changes of the compensated absences were as follows:

Beginning Balance	\$ 3,299,835
Additions	1,487,446
Payments	(1,748,988)
Ending Balance	<u>\$ 3,038,293</u>
Compensated Absences Current Portion	<u>\$ 220,293</u>

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

Item 5.

fund. Only compensated absences related to terminated employees are reported in the fund financial statements.

Unearned Revenue - Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unavailable revenue.

Long-Term Liabilities - In the government-wide financial statements and private-purpose trust funds long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Deferred Inflows of Resources - Deferred outflows of resources is a consumption of net position by the Town that is applicable to a future reporting period, for example, contributions to pension and OPEB plans that are after the actuarial measurement date.

Deferred inflows of resources is an acquisition of net position by the Town that is applicable to a future reporting period, for example, unavailable revenue.

Net Position - In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

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Fund Balances - The Town does not have a policy identifying a minimum unassigned fund balance. Because amounts in the nonspendable, restricted, committed, and assigned categories are subject to varying constraints on their use, the remaining fund balances are otherwise unassigned. In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Town classifies governmental fund balances as follows:

Non-spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the Town Council.

Assigned includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Town Manager or the Finance Director.

Unassigned includes fund balances within the funds which have not been classified within the above-mentioned categories. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Town would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the dates of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting periods. Actual results could differ from those estimates.

Subsequent Events - Management has considered subsequent events through November 23, 2022, the date which the financial statements were available to be issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with

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generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require disclosure other than as summarized in Note 16.

Property Tax Levy, Collection and Maximum Rates - State of California Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than 2% per year unless the property is sold, transferred, or substantially improved. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the counties, cities, school districts and other districts.

The County of Santa Clara assesses properties, bills, and collects property taxes on the following schedule:

	<u>Secured</u>	<u>Unsecured</u>
Valuation/lien dates	January 1	January 1
Levy dates	January 1	January 1
Due dates (delinquent as of)	50% on November 1 (December 10) 50% on February 1 (April 10)	March 1 (August 31)

The term "unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed. Property taxes levied are recorded as revenue and receivables when they are collected during the fiscal year of levy or within 60 days of year-end.

Budgets and Budgetary Accounting - The Town follows the procedures below when establishing the budgetary data reflected in the financial statements:

1. The Town Manager must provide budget to the Finance Commission at least twenty (20) business days before the first meeting at which the proposed budget is considered by the Town Council.
2. The Town Manager submits to the Town Council a proposed operating and capital improvement budget for the fiscal year commencing the following July 1. The budgets include the proposed expenditures and the means of financing them.
3. Public hearings are conducted to obtain taxpayer comments.
4. The budget is legally enacted through adoption of Town resolution by Council.
5. The Town Manager is authorized to implement the programs as approved in the adopted budget. Within a specific fund, the Town Manager may transfer appropriations between categories, departments, projects and programs as needed to implement the adopted budget, whereas the Town Council must authorize budget increases and decreases, and transfers between funds.
6. Budgets are adopted on a basis consistent with generally accepted accounting principles except for proprietary funds which budget for capital outlays but not depreciation. Budgets were adopted for the General Fund, Special Revenue Funds, Internal Service Funds and Capital Projects Funds.
7. Budgeted amounts are as originally adopted or as amended by Town Council. Individual amendments were not material in relation to original appropriations.

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Excess of Expenditures over Appropriations - There were no significant expenditures in excess of budget during for the year ended June 30, 2022.

Encumbrances - Under encumbrance accounting, purchase orders, contract and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all funds. Encumbrances outstanding at year-end are reported as commitments or assignments of fund balances since they do not constitute expenditures or liabilities; unexpended and unencumbered appropriations lapse at year end in all funds. Encumbered appropriations are carried forward to the following year.

Reclassifications - Certain accounts in the prior-year financial statements have been reclassified for the presentation in the current-year financial statements.

G. Accounting and Reporting Changes

GASB Statement No. 87, Leases

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. As of June 30, 2022, the Town recognized three contracts as a lease and implemented the applicable accounting and reporting requirements of a lessor under GASB 87. The following schedule summarizes the lease balances and the impact on beginning net position and fund balance:

Description	Lease Receivable	Deferred Inflows of Resources	Prior Period Adjustment
Initial Net Present Value	\$ 2,692,765	\$ 2,692,765	\$ -
Accumulated Amortization	-	(1,333,252)	1,333,252
Other adjustments	-	1,717	(1,717)
Principal Payments	(644,136)	-	(644,136)
Beginning Balances 7/1/2021	2,048,629	1,361,230	687,399
Current Amortization	-	(204,818)	-
Valuation Expense	(133,807)	-	-
Current Principal Payments	(88,405)	-	-
Ending Balances 6/30/2022	\$ 1,826,417	\$ 1,156,412	\$ 687,399
Governmental Funds	\$ 331,696	\$ 327,100	\$ -
Internal Service Funds	1,494,721	829,312	687,399
Total	\$ 1,826,417	\$ 1,156,412	\$ 687,399

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GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

The statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

The requirements of this Statement are effective as follows:

- The requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately
- The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021
- All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021

The Town did not report any significant accounting changes from the implementation of this Statement during the year ended June 30, 2022.

H. Upcoming Accounting and Reporting Changes

The Town is currently analyzing its accounting practices to determine the potential impact on the financial statements of the following recent GASB Statements:

GASB Statement No. 91, Conduit Debt Obligations

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement also clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitment and voluntary commitments extended by issuers and arrangements associated with the debt obligations; and improving required note disclosures. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2020 but have been delayed to periods beginning after December 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged.

GASB Statement No. 94, Public-Private Partnerships and Public-Public Partnerships and Availability Payment Arrangements

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this

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Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are to be effective for financial statements for periods beginning after June 15, 2022. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*

GASB 96 provides guidance on accounting for Subscription-Based Information Technology Arrangements (SBITA) where the government contracts for the right to use another party's software. The standards for SBITAs are based on the standards established in GASB Statement No. 87, *Leases*. GASB 96 is effective for fiscal years beginning after June 15, 2022.

GASB Statement No. 99, *Omnibus 2022*

Omnibus statements are issued by GASB to address practice issues identified after other standards have been approved for implementation. Omnibus statements "clear up the loose ends" for recent prior statements GASB has issued. This Omnibus addresses recent pronouncements, including GASB 87 – *Leases*, GASB 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, and GASB 96 – *Subscription-Based Information Technology Arrangements*.

Effective Date: The requirements of this Statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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Earlier application is encouraged and is permitted by topic.

GASB Statement No. 100, *Accounting Changes and Error Corrections*—an amendment of GASB Statement No. 62

This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. This Statement also prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections in previously issued financial statements. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

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NOTE 2 - CASH AND INVESTMENTS

The Town pools cash from all sources and all funds except Restricted Cash and Investments so that it can be invested at the maximum yield, consistent with safety and liquidity, while existing funds have cash available for expenditures.

Cash and Investments Defined

The Town includes only cash deposits in banks as cash. Investments in LAIF and government securities mutual funds are net in the order of liquidity, since they may be withdrawn without penalty. U.S. Treasuries, U.S. Agencies and Certificates of Deposit are the Town's least liquid investments since they must be held to maturity.

Cash Deposits with Banks and Custodial Credit Risk

California Law requires banks and savings and loan institutions to pledge government securities with a fair value of 110% of the Town's cash on deposit, first trust deed mortgage notes with a value of 150% of the deposit, or letters of credit issued by the Federal Home Loan Bank of San Francisco with a value of 100% of the deposit as collateral. Under California Law this collateral is held in the Town's name and places the Town ahead of general creditors of the institution. The Town's cash deposits are collateralized under this law.

The bank balance of the Town's cash deposits was \$18,986,118 and the carrying amount was \$19,366,398 as of June 30, 2022. The bank balance and the carrying amount differed due to deposits in transit and outstanding checks.

Investments

The Town and its fiscal agent invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called "securities instruments," or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to maximize security, the Town employs the Trust department of a bank as the custodian of all its investments, regardless of their form.

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

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Local Agency Investment Fund (LAIF)

The Town invests in the California State Treasurer's Local Agency Investment Fund. LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day-to-day administration of the State Treasurer. As of June 30, 2022, LAIF had approximately \$232 billion in investments. Of that amount, 99.96% was invested in non-derivative financial products and 0.04% in structured notes and asset-backed securities. These investments are described as follows:

1. Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and / or that have embedded forwards or options.
2. Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

Risk Disclosures

Interest Rate Risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. One of the ways that the Town manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is provided in the summary of cash and investments table on the following page that shows the distribution of the Town's investments by maturity.

Credit Risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The summary of cash and investments table on the following page shows the minimum rating under the actual rating of the Town's investments at year end.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town's investment in money market fund and LAIF is not categorized as to custodial credit risk. Its U.S. Government Agency Securities investment is held by a third party financial institution under the third party's trust department's name and thus not exposed to custodial credit risk.

Concentration of Credit Risk is the risk that the Town's investments are exposed because the types of investments have been too limited. The Town's Policy states that, with the exception of US Treasury securities and LAIF, no more than 50% of the Town's total investment portfolio will be invested in one single security type or with a single financial institution. The Town was in compliance with this policy as of June 30, 2022.

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The following table summarizes the Town's policy related to maturities and concentration of investments:

Investment Type	Maximum Maturity	Maximum Portfolio Percentage
US Treasury Obligations	5 years	None
US Agency Obligations	5 years	None
Bankers Acceptances	180 days	30%
Commercial Paper	270 days	25%
Medium Term Notes	5 years	30%
Collateralized CD's	5 years	30%
CA LAIF	NA	\$65 million
Money Market Funds	NA	20%

The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2022:

Description	Available for Operations	Restricted	Total	Concentration of Credit Risk	Rating	Input Level	Time to Mature (Years)	Weighted Average Maturity
US Treasury Securities	\$ 15,212,639	\$ -	\$ 15,212,639	29.29%	n/a	2	0-3	1.35
Government Agencies	15,995,919	-	15,995,919	30.79%	n/a	2	0-4	1.52
Corporate Bonds	13,664,652	-	13,664,652	26.31%	A3	2	0-3	1.33
Market Mutual Funds	253,599	-	253,599	0.49%	Not Rated	2	n/a	n/a
LAIF	6,816,565	-	6,816,565	13.12%	Not Rated	n/a	n/a	n/a
Total Investments	51,943,374	-	51,943,374	100.00%				
Cash Deposits with Banks	19,349,009	2,094,363	21,443,372					
Money Market Accounts	17,391	-	17,391					
Pension Trust	-	690,000	690,000					
Cash on Hand at Town	2,400	-	2,400					
Total Cash and Investments	\$ 71,312,174	\$ 2,784,363	\$ 74,096,537					

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted by Town debt or Agency agreements.

Description	Total Town	Fiduciary Funds	Totals
Cash and Investments Available for Operations	\$ 69,392,044	\$ 1,920,130	\$ 71,312,174
Restricted Cash and Investments	819,929	1,964,434	2,784,363
Total Cash and Investments	\$ 70,211,973	\$ 3,884,564	\$ 74,096,537

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NOTE 3 - LONG-TERM NOTES RECEIVABLE

The Town had the following long-term notes receivable as of June 30, 2022:

Description	Interest Rate	Maturity	Balance
General Fund:			
Rehab Loan to Charities	Various	Various	\$ 159,000
BMP Loans	Various	Various	1,200,000
Total General Fund			<u>1,359,000</u>
Community Development Block Grant Fund (CDBG):			
Housing Conservation	0-5%	Various	78,752
Total CDBG			<u>78,752</u>
Total Long-Term Notes Receivable - Government-Wide Statement of Net Position			<u>1,437,752</u>
Successor Agency Affordable Housing:			
Project Match	Various	Various	610,418
Total Long-Term Notes Receivable			<u>\$ 2,048,170</u>

BMP Loans - The purpose of the Below Market Price (BMP) Housing Program is to provide adequate housing for Los Gatos residents, regardless of age, income, race, or ethnic background. As required by the State, the Town plans and facilitates the construction of housing adequate for future populations consistent with environmental limitations and in a proper relationship to community facilities, open space, transportation, and small-town character.

Active Home Loans and Housing Conservation Loans - The Town used Community Development Block Grant Funds (a federal grant) to assist low and moderate income homeowners to improve their homes and to fund low income housing rental properties acquisition and rehabilitation. These loans are secured by deeds of trust.

Project Match - The Successor Agency has a loan agreement with Project Match, a nonprofit benefit corporation, to acquire and rehabilitate four or five bedroom single-family homes. The property is to provide affordable housing rental to very low-income senior households. The loan receivable is evidenced by a promissory note and secured by a deed of trust. From inception of the loan through June 30, 2022, no interest or principal payments have been made.

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NOTE 4 - LEASES RECEIVABLE

In January of 2010, the Town entered into a twenty-year lease with the Los Gatos Saratoga Recreation (LGS) allowing LGS to use the property at 123 East Main Street. Under the lease, LGS paid the Town \$19,950 per year at the beginning of the lease. After cumulative CPI adjustments, the payment in the final year of the lease will be \$30,216. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 6.6%. The outstanding balance on the lease at year end was \$165,056.

In January of 2010, the Town entered into a twenty-year lease with the Los Gatos Saratoga Recreation (LGS) allowing LGS to use the property at 208 East Main Street. Under the lease, LGS paid the Town \$90,000 per year at the beginning of the lease. After cumulative CPI adjustments, the payment in the final year of the lease will be \$243,435. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 6.6%. The outstanding balance on the lease at year end was \$1,329,665.

In March of 2021, the Town entered into a five-year lease with Tesla Motor Cars (Tesla) allowing Tesla to use the property at 10065 Donner Pass Road. Under the lease, Tesla pays the Town \$96,000 per year during the term of the lease. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 2%. The outstanding balance on the lease at year end was \$331,696.

The following summarizes the leases as of June 30, 2022:

Description	Tesla		LGS 123 E. Main St	
	Lease Receivable	Deferred Inflows of Resources	Lease Receivable	Deferred Inflows of Resources
Beginning Balance	420,101	418,384	179,329	109,393
Current Amortization	-	(91,284)	-	(12,997)
Valuation Expense	-	-	-	-
Current Principal Payments	(88,405)	-	(14,273)	-
Ending Balance	\$ 331,696	\$ 327,100	\$ 165,056	\$ 96,396

Description	LGS 208 E. Main St		Totals	
	Lease Receivable	Deferred Inflows of Resources	Lease Receivable	Deferred Inflows of Resources
Beginning Balance	1,449,199	831,736	2,048,629	1,359,513
Current Amortization	-	(98,820)	-	(203,101)
Valuation Expense	-	-	-	-
Current Principal Payments	(119,534)	-	(222,212)	-
Ending Balance	\$ 1,329,665	\$ 732,916	\$ 1,826,417	\$ 1,156,412

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NOTE 5 - INTERFUND TRANSACTIONS

Inter-fund Receivables and Payables - Amounts due to or due from other funds reflect inter-fund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances to or from other funds are long-term loans between funds that are to be repaid in their entirety over several years. As of June 30, 2022, there were no interfund receivables or payables.

Transfers - With Council approval resources may be transferred from one fund to another. Transfers routinely reimburse funds that have made an expenditure on behalf of another fund. Transfers may also be made to pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects. Transfers between funds during the fiscal year ended June 30, 2022 were as follows:

	Transfers In	Transfers Out
General Fund	\$ 4,047,313	\$ 4,358,188
Appropriated Reserves Fund	4,074,141	427,616
Nonmajor Gov't Funds	32,853	3,524,881
Internal Service Funds	251,194	94,816
Total Transfers	<u>\$ 8,405,501</u>	<u>\$ 8,405,501</u>

NOTE 6 - CAPITAL ASSETS

Changes in the Town's capital assets during the fiscal year are shown as follows:

	Balance at June 30, 2021	Adjustments and Additions	Transfers and Retirements	Balance at June 30, 2022
Capital Assets not Being Depreciated:				
Land	\$ 20,254,950	\$ 5,811,153	\$ -	\$ 26,066,103
Construction in Progress	5,452,048	3,747,677	(1,421,650)	7,778,075
Total Capital assets not Being Depreciated	<u>25,706,998</u>	<u>9,558,830</u>	<u>(1,421,650)</u>	<u>33,844,178</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	31,741,121	7,697,000	175,502	39,613,623
Equipment & Vehicle	12,394,588	345,811	(184,782)	12,555,617
Infrastructure - All Other	26,362,567	710,706	461,227	27,534,500
Infrastructure - Streets	77,988,356	3,073,418	130,578	81,192,352
Total capital Assets Being Depreciated	<u>148,486,632</u>	<u>11,826,935</u>	<u>582,525</u>	<u>160,896,092</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	9,312,289	819,412	-	10,131,701
Equipment & Vehicle	9,619,882	612,396	(187,534)	10,044,744
Infrastructure - All Other	8,013,205	811,283	-	8,824,488
Infrastructure - Streets	35,831,991	2,786,996	(650,216)	37,968,771
Total Accumulated Depreciation	<u>62,777,367</u>	<u>5,030,087</u>	<u>(837,750)</u>	<u>66,969,704</u>
Net Capital Assets Being Depreciated	<u>85,709,265</u>	<u>6,796,848</u>	<u>1,420,275</u>	<u>93,926,388</u>
Governmental Activity Capital Assets, Net	<u>\$ 111,416,263</u>	<u>\$ 16,355,678</u>	<u>\$ (1,375)</u>	<u>\$ 127,770,566</u>

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Depreciation expense is charged to functions and programs based on their usage of the related assets. The amount allocated to each function or program is as follows:

Governmental Activities	Depreciation Expense
General Government	\$ 355,685
Public Safety	432,622
Parks & Public Works	3,804,766
Community Development	52,600
Library	384,159
Sanitation	255
Total Governmental Activities	<u>\$ 5,030,087</u>

Changes in the RDA Successor Agency trust fund capital assets during the fiscal year are shown as follows:

	Balance at June 30, 2021	Adjustments and Additions	Retirements	Balance at June 30, 2022
Capital Assets not Being Depreciated:				
Land	\$ 5,257,422	\$ -	\$ (5,257,422)	\$ -
Capital Assets Being Depreciated:				
Buildings and Improvements	4,067,708	-	-	4,067,708
Less Accumulated Depreciation for:				
Buildings and Improvements	2,745,700	101,692	-	2,847,392
Net Capital Assets Being Depreciated	1,322,008	(101,692)	-	1,220,316
Successor Agency Capital Assets, Net	<u>\$ 6,579,430</u>	<u>\$ (101,692)</u>	<u>\$ (5,257,422)</u>	<u>\$ 1,220,316</u>

NOTE 7 - LONG-TERM OBLIGATIONS

The Town generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt.

The following summarizes the changes in long-term debt in the Town during the fiscal year ended June 30, 2022:

Long-Term Debt	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Additions/ Adjustments	Deletions	Ending Balance
Direct Borrowings:							
PG& Loan	0%	2031	<u>\$ 1,560,336</u>	<u>\$ 1,521,328</u>	<u>\$ (13,003)</u>	<u>\$ 156,034</u>	<u>\$ 1,352,291</u>
Due Within One Year							<u>156,034</u>
Due in More Than One Year							<u>\$ 1,196,257</u>

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Future debt service requirements of the PG&E loan were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2023	\$ 156,034	\$ -	\$ 156,034
2024	156,034	-	156,034
2025	156,034	-	156,034
2026	156,034	-	156,034
2027	156,034	-	156,034
2028-2032	572,121	-	572,121
Total Debt Service	\$ 1,352,291	\$ -	\$ 1,352,291

The following summarizes the changes in long-term debt in the Successor Agency trust fund during the fiscal year ended June 30, 2022:

Long-Term Debt	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Deletions	Ending Balance
2002 COP	2.5-5%	2031	\$ 10,725,000	\$ 5,680,000	\$ 400,000	\$ 5,280,000
2010 COP	2.5-4.25%	2028	15,675,000	8,405,000	900,000	7,505,000
Subtotal COP's			26,400,000	14,085,000	1,300,000	12,785,000
Premiums			753,095	338,892	37,657	301,235
Total Long-Term Debt			\$ 27,153,095	\$ 14,423,892	\$ 1,337,657	\$ 13,086,235
Due Within One Year						1,355,000
Due in More Than One Year						\$ 11,731,235

2002 Certificates of Participation (2002 COPs) - On July 18, 2002, the Town and the Los Gatos Redevelopment Agency issued \$10,725,000 in 2002 COPs, Series A, to finance the acquisition, construction, rehabilitation, equipping and improvement of several capital improvement projects. The Town had pledged lease payments of real property and facilities comprised of the Parks and Public Works Service Center and Baseball Field, as well as Parking Lot No. 1, 2, and 3, as collateral for the repayment of the Certificates. Principal payments are due annually on August 1st, with interest payments due semi-annually on February 1st and August 1st.

2010 Certificates of Participation (2010 COPs) - On June 1, 2010, \$15,675,000 of 2010 COPs were issued to finance the acquisition, construction, and improvement of a library on the Town's Civic Center campus, to be owned and operated by the Town. Principal payments are due annually on August 1, with interest payments due semi-annually on February 1 and August 1.

To assist the Town in paying the cost of acquisition and construction of various projects, the Town and its Redevelopment Agency entered into lease and reimbursement agreements in 2002 and 2010. Under the agreements, the Agency will use available net tax increment revenues resulting from the projects' effect on land values to repay the Town for all lease payments made by the Town to the Agency under the lease agreements for the projects. Net tax increment revenues are all taxes allocated to and paid into the Successor Agency private-purpose trust fund.

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Future debt service requirements of the Certificates of Participation were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2023	\$ 1,355,000	\$ 538,713	\$ 1,893,713
2024	1,415,000	479,550	1,894,550
2025	1,485,000	417,300	1,902,300
2026	1,550,000	351,850	1,901,850
2027	1,625,000	283,375	1,908,375
2028-2032	5,355,000	486,475	5,841,475
Total Debt Service	\$ 12,785,000	\$ 2,557,263	\$ 15,342,263

The Successor Agency must maintain a required amount of cash and investments with the trustee under the terms of the COPs issues. These funds are pledged as reserves to be used if the Successor Agency fails to meet its obligations under the COPs issue and totaled 1,964,434 as of June 30, 2022. The California Government Code requires these funds to be invested in accordance with Town ordinance, bond indentures or State statutes. All these funds have been invested as permitted under the Code.

NOTE 8 - SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT COMMITMENT

Special assessment districts are established in various parts of the Town to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements. These assessments are payable over the term of the debt issued to finance the improvements and are used to pay debt service on debt issued to fund the improvements.

The Town is acting only as an agent and has no legal liability with respect to the payment of any indebtedness of the Downtown Parking Assessment District. There was no non-obligated debt outstanding as of June 30, 2022.

NOTE 9 - FUND BALANCES

Fund balance for governmental funds is reported in classifications (nonspendable, restricted, committed, assigned, and unassigned) that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

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As of June 30, 2022, fund balances were classified as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Nonspendable				
Loans Receivable	\$ 159,000	\$ -	\$ -	\$ 159,000
Restricted:				
Library	552,877	77,189	(74,813)	555,253
Capital projects	7,544,097	1,827,186	(1,013,890)	8,357,393
Repairs and maintenance	172,356	40,476	(38,593)	174,239
Pensions	-	690,000	-	690,000
VTA	293,323	3,275	-	296,598
Total Restricted	8,562,653	2,638,126	(1,127,296)	10,073,483
Committed:				
Budget stabilization and catastrophes	5,460,485	531,081	-	5,991,566
Catastrophic	5,460,485	531,081	-	5,991,566
Pension/OPEB Reserve	300,000	300,000	(300,000)	300,000
Special revenue funds	537,892	294,788	(194,969)	637,711
Total Committed	11,758,862	1,656,950	(494,969)	12,920,843
Assigned:				
Open Space	562,000	-	-	562,000
Parking	1,460,210	100,000	(1,460,210)	100,000
Sustainability	140,553	-	-	140,553
Capital/Special projects	20,125,734	6,347,187	(1,759,535)	24,713,386
Carryover encumbrances	-	33,145	-	33,145
Comcast PEG	50,000	-	-	50,000
Sale of property	1,200,000	-	(1,200,000)	-
Market Fluctuations	438,333	-	(438,333)	-
Compensated Absences	1,649,917	-	(130,770)	1,519,147
Measure G 2018 District Sales Tax - Residual	590,581	-	-	590,581
Measure G 2018 District Sales Tax - Capital	1,139,909	1,306,076	(2,445,985)	-
Total Assigned	27,357,237	7,786,408	(7,434,833)	27,708,812
Total Fund Balance - Gov't Funds	\$ 47,837,752	\$ 12,081,484	\$ (9,057,098)	\$ 50,862,138

Restricted

Library reflects fund balance from donations and bequests held in trust for the benefit of the Town's library.

Capital Outlay funded from storm drain fees, construction taxes and debt proceeds are legally restricted for major capital projects.

Repairs and Maintenance reflects legally restricted balances for repairs and maintenance of lighting and landscape property and open space property that are financed with special tax assessments on the benefiting property.

VTA are funds provided by the Valley Transportation Authority's Measure B restricted for the pavement/crack seal rehabilitation project.

Pension restricted are amounts paid into a separate legal trust for the Town's Miscellaneous and Safety pension plans administered by CALPERS.

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Committed

Budget Stabilization and Catastrophic fund balance has been committed per Town Council resolution. The Town Council has established by resolution the budget stabilization arrangement and the catastrophe arrangement. The total balances in these arrangements are to be maintained at 25% of annual General Fund ongoing, operating expenditures, excluding one-time expenditures, divided equally between both arrangements. When either arrangement 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 onetime expenditures.

The arrangements can be used when:

- Unforeseen emergencies, such as a disaster or catastrophic event occur.
- Significant decrease in property or sales tax, or other economically sensitive revenues.
- Loss of businesses considered to be significant sales tax generators.
- Reductions in revenue 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
- One-time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.

Should any of the events listed above 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 or budget stabilization arrangement appropriations. The Town Manager or designee shall then present to the Town Council a budget amendment confirming the nature of the event and authorizing the appropriation of reserve funds.

Pension/OPEB Reserve committed fund balance will be used to fund net pension liabilities for the Town's Miscellaneous and Safety pension plans administered by CALPERS. Town policy provides, to the extent possible, that additional annual deposits be calculated committed with the goal of moving the payment of the unfunded pension liability from a 29-year to a 20-year amortization period.

Special Revenue Fund committed fund balance will be used for the activities of the respective special revenue funds.

Assigned

Open Space assigned fund balance will be used to make selective open space acquisitions.

Parking assigned fund balance will be used to mitigate parking issues within the Town.

Sustainability assigned fund balance will be used to fund ongoing sustainability initiatives and programs.

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Capital/Special Projects assigned fund balance will be used for the acquisition and construction of capital facilities as well as special projects or activities as directed by the Town Council.

Comcast PEG assigned fund balance will be used to fund capital improvements linked to the televising of council and planning commission meetings.

Sale of Property is intended to be spent on capital projects.

Market Fluctuations assigned fund balance is used to represent fund balance amounts for unrealized investment gains that have been recorded as investment income in the financial statements in accordance with the requirements of GASB 31.

Compensated Absences assigned fund balance will be used for vacation and sick-pay benefits owed to employees as of June 30, 2022 that were not an obligation of the General Fund because of their long-term nature.

Measure G 2018 District Sales Tax assigned fund balances for operational and capital will be used to track receipt and use of the 1/8 cents District tax funds collected by the Town for operational and capital expenditures.

NOTE 10 - EMPLOYEES' RETIREMENT PLAN

The following summarizes the pension balances as of year-end:

	Defined Benefit Plans		Total
	Misc	Safety	
Deferred outflows of resources	\$ 3,663,900	\$ 6,934,592	\$ 10,598,492
Deferred inflows of resources	\$ 10,235,294	\$ 11,897,661	\$ 22,132,955
Net pension liabilities	\$ 10,723,589	\$ 16,762,598	\$ 27,486,187
Pension expense (credit)	\$ (2,782,619)	\$ (385,739)	\$ (3,168,358)

Plan Descriptions

All qualified employees are eligible to participate in the Town's pooled Safety Plan, a cost-sharing multiple-employer defined benefit pension plan and the Town's Miscellaneous (all other) Plan, an agent Multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Town resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Audited financial statements of CalPERS can be obtained from its website <https://www.calpers.ca.gov/page/formspublications>. The Town relies upon actuarial and investment data provided by CalPERS for inclusion and analysis in this report.

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Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, Lump Sum, or the 1959 Survivor Benefit. The cost-of-living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect on June 30, 2022, are summarized as follows:

	Miscellaneous			Safety (Police)	
	Tier 1	Tier 2	PEPRA	Tier 1	PEPRA
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62	3.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 Years	5 Years	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	55	62	50	57
Monthly benefits as a					
% of eligible compensation	2.0% to 2.5%	1% to 2.5%	1.5% to 2.5%	3.00%	2-2.70%
Required employee contribution rates	8.00%	7% to 8%	7.25%	9.000%	13.75%
Required employer contribution rates	10.37%	10.37%	14.43%	25.59%	13.98%
Required payment of unfunded liability	\$2,515,583	\$2,515,583	\$2,515,583	\$2,317,133	\$19,258

Employees Covered

At June 30, 2022, the following employees were covered by the benefit terms for the Plans:

	Miscellaneous	Safety
Active	120	35
Transferred	101	13
Separated	88	2
Retired	247	84
Total	556	134

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rates are the estimated amount necessary to finance the costs of benefits earned by employees during the year. The Town is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. In addition, the Town is solely responsible for any annual costs associated with payments toward any unfunded accrued liability.

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For the year ended June 30, 2022, the contributions recognized as part of pension expense for the Plans were as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Contributions - employer	\$ 3,472,727	\$ 3,072,032

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions Pension Liability

As of June 30, 2022, the Town reported net pension liabilities for each plan as follows:

	<u>Net Pension Liability/(Asset)</u>
Miscellaneous	\$ 10,723,589
Safety	16,762,598
Total	<u>\$ 27,486,187</u>

The Town's net pension liability for the Safety Plan is measured as the proportionate share of the net pension liability while the Miscellaneous plan's net pension liability is a direct calculation based on its actuarial study and is not proportionate. The net pension liability of all the Plans are measured as of June 30, 2021, and the total pension liability for the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020. The Town's proportion of the net pension liability for the Safety Plan was based on a projection of the Town's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Town's proportionate share of the net pension liability for the Safety Plan as of June 30, 2021 and 2022 was as follows:

	<u>Safety</u>
Proportion - June 30, 2021	0.40751%
Proportion - June 30, 2022	0.47764%
Change - Increase/(Decrease)	<u>0.07012%</u>

For the year ended June 30, 2022, the Town recognized a pension credit of \$3,168,358. It should be noted that the net pension obligation varies annually depending upon the plan's actual investment earnings compared to the assumed rate of return during the plan's measurement periods. The Net Pension Obligation (NPO) reported in the Town's ACFRs has experienced a high degree of variability in recent years.

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The following is a summary of the changes in the total pension liability, fiduciary net position and net pension liability of the Town's Miscellaneous Plan as of June 30, 2022:

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
Beginning Balance	\$ 113,816,919	\$ 82,943,586	\$ 30,873,333
Service Costs	2,062,486	-	2,062,486
Interest on Total Pension Liability	7,943,404	-	7,943,404
Difference Between Actual and Expected Experience	(581,801)	-	(581,801)
Employer Contributions	-	9,160,680	(9,160,680)
Employee Contributions	-	889,649	(889,649)
Net Investment Income	-	19,606,360	(19,606,360)
Employee Contribution Refunds and Benefit Payments	(6,339,615)	(6,339,615)	-
Administrative Expenses	-	(82,856)	82,856
Net Changes	3,084,474	23,234,218	(20,149,744)
Ending Balance	\$ 116,901,393	\$ 106,177,804	\$ 10,723,589

At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous		Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ -	\$ -	\$ -	\$ -
Differences between Expected and Actual Experience	191,173	339,384	2,863,875	-
Differences between Projected and Actual Investment Earnings	-	9,895,910	-	9,976,968
Differences between Employer's Contributions and Proportionate Share of Contributions	-	-	-	1,920,693
Change in Employer's Proportion	-	-	998,684	-
Pension Contributions Made Subsequent to Measurement Date	3,472,727	-	3,072,032	-
Total	\$ 3,663,900	\$ 10,235,294	\$ 6,934,592	\$ 11,897,661

The Town reported \$6,544,759 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2023.

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources		Total
	Miscellaneous	Safety	
2023	\$ (2,551,456)	\$ (1,423,116)	\$ (1,423,116)
2024	(2,399,281)	(1,701,049)	(1,701,049)
2025	(2,383,639)	(2,165,414)	(2,165,414)
2026	(2,709,745)	(2,745,523)	(2,745,522)
2027	-	-	-
Thereafter	-	-	-
Total	<u>\$ (10,044,121)</u>	<u>\$ (8,035,102)</u>	<u>\$ (8,035,101)</u>

Actuarial Assumptions

The total pension liabilities in the June 30, 2020 actuarial valuations were determined using the following actuarial assumptions:

	Safety	Miscellaneous
Valuation Date	June 30, 2020	June 30, 2020
Measurement Date	June 30, 2021	June 30, 2021
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.50%	2.50%
Payroll Growth	2.75%	2.75%
Projected Salary Increase	(1)	(1)
Investment Rate of Return	7.00% (2)	7.00% (2)
Mortality	(3)	(3)

- (1) Varies by entry age and service
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2020 valuation were based on the results of a December 2017 actuarial experience study for the period 1997 to 2016. Further details of the Experience Study can found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent for the Plans. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plans, CalPERS stress tested plans that would most likely result in a discount rate that would be

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different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

- (a) In the System's ACFR, Fixed Income is included in Global Debt Securities; Liquidity Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
- (b) An expected inflation of 2.0% used for this period.
- (c) An expected inflation of 2.92% used for this period.

In addition to the expected returns by asset class, the table below reflects the short-term, Long-term, and blended expected rate of return for the total PERF asset allocation as of the 2017 ALM.

Expected Compound Return (1 to 10 years)	6.1%
Long Term Expected Return (11 to 60 years)	8.3%
Blended Return (1 to 60 years)	7.0%

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Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's net pension liability for the Plans, calculated using the discount rate for the Plans, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.15%	6.15%
Net Pension Liability \$	25,600,877	30,483,178
Current	7.15%	7.15%
Net Pension Liability \$	10,723,589	16,762,598
1% Increase	8.15%	8.15%
Net Pension Liability \$	(1,563,756)	5,492,836

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plans

As of June 30, 2022, the Town reported a payable of \$14,548 and \$14,796 for the outstanding amount of contributions to the Miscellaneous Agent Multiple Employer Plan and the Safety Cost Sharing Plan.

IRS Section 115 Trust

During the fiscal year ending June 30, 2020, the Town established an IRS Section 115 Trust with the CalPERS California Employers' Pension Prefunding Trust (CEPPT) program. In fiscal year 2022, the Town transferred \$690,000 which is reported as restricted cash with fiscal agent within the General Fund. Per GASB, amounts placed in trusts for CalPERS plans are treated as side trusts that do not directly reduce the net pension liability.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Town makes contributions to California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit healthcare plan administered by CalPERS. The purpose of the CERBT Fund is to provide California government employers with a trust through which they may prefund retiree medical costs and Other Post-Employment Benefits (OPEB). The Town uses CERBT 1 as its investment vehicle and requests disbursements on an as needed basis to reimburse the Town for the cost of retiree health insurance benefits. Benefit provisions and all other requirements are established by state statute and Town ordinance. Copies of CalPERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

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In accordance with the Public Employees' Medical and Hospital Care Act (PEMHCA), employees qualify for retiree health benefits upon five (5) years of service if they meet the vesting requirements as set forth by CalPERS and take a service or disability retirement from Town employment. Additionally, the employee must actually draw a CalPERS pension within ninety (90) days of separation from the Town, provided the employee remains with the Town's health plan through COBRA. For employees who retire on or after February 1, 2016, at Medicare eligibility, the Town will align contributions to the full cost of the employee's enrollment, including enrollment of family members, in a health benefits plan or plans up to a maximum of 100% Single Party and 90% Dependents for Kaiser Bay Area Basic/Medicare/Combo per month. During negotiations in fiscal year 2018/19, the Town's discretionary retiree medical benefit contribution was eliminated for all future hires.

Upon retirement, employees have the option to roll over their sick leave accrual into a Town managed fund. Employees can request reimbursement of medical expenses from the fund up to the value of their sick leave at retirement.

Employees Covered by Benefit Terms

At June 30, 2022 (the measurement date), the benefit terms covered the following employees:

Active employees	150
Inactive employees - receiving benefits	142
Inactive employees - not receiving benefits	42
Total employees	<u>334</u>

Contributions

The contribution requirements of Plan members and the Town are established and may be amended by the Town. The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the Town Council. For the fiscal year ended June 30, 2022, the Town contributed \$1,754,922 from the General Fund. During the measurement period ended June 30, 2021, the Town contributed \$2,096,847 to the Plan and benefit payments were \$1,494,906. Plan members receiving benefits contributed did not make any contributions.

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Actuarial Assumptions

The following summarized the actuarial assumptions for the OPEB plan included in this fiscal year:

Valuation Date:	June 30, 2021
Measurement Date:	June 30, 2021
Actuarial Cost Method:	Entry-Age Normal
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	6.25%
Inflation	2.50%
Salary Increases	3.00%
Investment Rate of Return	6.75%
Healthcare Trend Rate	Non-Medicare - 7.25% for 2021, decreasing to an ultimate rate of 4% in 2076 Medicare - 6.3% for 2021, decreasing to an ultimate rate of 4% in 2076
Mortality	CalPERS 2000-2019 Experience Study Mortality projected fully generational with Scale MP-2021
Retirement	CalPERS 2000-2019 Experience Study Tier 1 Actives in insurance program: 100% Tier 1 Actives in cash allocation program: 80% Tier 2 Actives in insurance program: 60% Tier 2 Actives in cash allocation program: Agency service < 3 months: 60% Agency service ≥ 3 months: 40% Waived retirees aged <65: 20% Waived retirees aged ≥65: 0%

Assumption Changes:

Discount rate was updated based on newer capital market assumptions
Decreased medical trend rate for Kaiser Senior Advantage
Demographic assumptions updated to CalPERS 2000-2019 Experience Study
Inflation rate decreased 25 basis points, decreasing discount rate, medical trend, and salary increases
Retiree and family participation rates at retirement updated
Implicit subsidy added for Tier 1 Medicare eligible
Mortality improvement scale was updated to Scale MP-2021

Discount Rate

The discount rate used to measure the total OPEB liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that Town contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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Net OPEB Liability

The Town's net OPEB liability was measured as of June 30, 2021 (measurement date) and was determined by an actuarial valuation as of June 30, 2021 (valuation date) for the fiscal year ended June 30, 2022 (reporting date).

Changes in the Net OPEB Liability

The following summarizes the changes in the net OPEB liability during the year ended June 30, 2022:

Fiscal Year Ended June 30, 2022 (Measurement Date June 30, 2021)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2021	\$ 28,610,428	\$ 20,115,214	\$ 8,495,214
Service cost	1,115,309	-	1,115,309
Interest in Total OPEB Liability	1,956,034	-	1,956,034
Employer contributions	-	2,096,847	(2,096,847)
Balance of diff between actual and exp experience	(2,521,500)	-	(2,521,500)
Balance of diff between actual and exp earnings	-	-	-
Balance of changes in assumptions	1,054,638	-	1,054,638
Net investment income	-	5,529,824	(5,529,824)
Administrative expenses	-	(18,556)	18,556
Benefit payments	(1,494,906)	(1,494,906)	-
Net changes	109,575	6,113,209	(6,003,634)
Balance at June 30, 2022	\$ 28,720,003	\$ 26,228,423	\$ 2,491,580
Covered Employee Payroll	\$ 17,982,237		
Total OPEB Liability as a % of Covered Employee Payroll	159.71%		
Plan Fid. Net Position as a % of Total OPEB Liability	91.32%		
Service Cost as a % of Covered Employee Payroll	6.20%		
Net OPEB Liability as a % of Covered Employee Payroll	13.86%		
Contributions as a % of Cov. Emp. Payroll	11.66%		

Deferred Inflows and Outflows of Resources

At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ -	\$ 2,174,632
Difference between actual and expected earnings	-	2,982,166
Change in assumptions	878,865	545,880
OPEB contribution subsequent to measurement date	1,754,922	-
Totals	\$ 2,633,787	\$ 5,702,678

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Of the total amount reported as deferred outflows of resources related to OPEB, \$1,754,922 were the result of Town contributions subsequent to the measurement date and before the end of the fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2023	\$ (1,158,834)
2024	(1,125,775)
2025	(1,134,439)
2026	(1,160,288)
2027	(244,477)
Thereafter	-
Total	\$ (4,823,813)

Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the table below.

Asset Class	Percentage of Portfolio	Long-Term Expected Rate of Return
Global Equity	59.00%	4.560%
Fixed Income	25.00%	78.000%
TIPS	5.00%	-8.0%
Commodities	3.00%	1.220%
REITs	8.00%	4.060%
Total	100.00%	

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2022:

Service cost	\$ 1,115,309
Interest in TOL	1,956,034
Expected investment income	(1,357,919)
Difference between actual and expected experience	(445,555)
Difference between actual and expected earnings	(808,017)
Change in assumptions	18,738
Administrative expenses	18,556
OPEB Expense	\$ 497,146

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The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2022:

Net OPEB liability ending	\$ 2,491,580
Net OPEB liability beginning	<u>(8,495,214)</u>
Change in net OPEB liability	(6,003,634)
Changes in deferred outflows	(497,143)
Changes in deferred inflows	4,901,076
Employer contributions and implicit subsidy	<u>2,096,847</u>
OPEB Expense	<u>\$ 497,146</u>

Sensitivity to Changes in the Discount Rate

The net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher, is as follows:

	Discount Rate		
	(1% Decrease)	6.25%	(1% Increase)
Net OPEB Liability (Asset)	\$ 5,965,597	\$ 2,491,580	\$ (406,616)

Sensitivity to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates, is as follows:

	Trend Rate		
	(1% Decrease)	Current	(1% Increase)
Net OPEB Liability (Asset)	\$ 170,134	\$ 2,491,580	\$ 5,107,398

NOTE 12 - RISK MANAGEMENT

The Town participates in the following public entity risk pools through formally organized and separate legal entities. The Town does not have an equity interest in the joint ventures. These entities exercise full powers and authority within the scope of the related agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the separate entities are not those of the Town, although the Town retains an ongoing financial interest or an ongoing financial responsibility.

Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA)

The Town participates in PLAN, which covers general liability claims in the amount up to \$5,000,000 plus \$25,000,000 in excess liability for total coverage of \$30,000,000 per occurrence. The Town has a deductible or uninsured liability of up to \$50,000 per claim. PLAN also provides all risk property coverage of \$1,000,000,000, excluding flood and earthquake coverage. The Town has a \$5,000 deductible for property and vehicle damage. Once the Town's deductible is met, PLAN becomes

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responsible for payment of all claims up to the limit. Financial statements may be obtained from PLAN at 1750 Creekside Drive, Suite 200, Sacramento, CA, 95833.

Local Agency Workers' Compensation Joint Powers Authority (LAWCX)

The Town is a member of LAWCX for workers compensation claims coverage. The Town has a \$250,000 self-insured retention level or uninsured liability for all employees. Once the Town's deductible is met, LAWCX becomes responsible for claims up to \$5,000,000. For claims greater than \$5,000,000, LAWCX has a commercial policy providing coverage. Financial statements may be obtained from LAWCX at 1750 Creekside Oaks Dr., Suite 200, Sacramento, California, 95833. The Town has not significantly reduced its insurance coverage from the prior year and settlements have not exceeded insurance coverage for the past three years.

Liability for Uninsured Claims

The Town is required to record its liability for uninsured claims and to reflect the current portion of this liability as an expenditure in its financial statements. As discussed above, the Town has coverage for such claims, but it has retained the risk for the deductibles, or uninsured portion of these claims.

The change in Workers' Compensation and Self-Insurance Service Funds' claims liabilities, is based on historical trend information provided by its third party administrator and was computed as follows as of June 30, 2022:

	Workers' Compensation Internal Service Fund	Self- Insurance Internal Service Fund	Total
Claims payable balance - June 30, 2020	\$ 1,191,386	\$ 57,025	\$ 1,248,411
Claims incurred	511,800	143,565	655,365
Claims paid	(207,704)	-	(207,704)
Claims payable balance - June 30, 2021	1,495,482	200,590	1,696,072
Claims incurred/adjustments	-	(119,883)	(119,883)
Claims paid	(130,924)	(61,150)	(192,074)
Claims payable balance - June 30, 2022	\$ 1,364,558	\$ 19,557	\$ 1,384,115

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Federal and State Grants - The Town participates in several federal and state grant programs. These are subject to examination by grantors and the amount, if any, of disallowed expenditures cannot be determined at this time. The Town expects such amounts, if any, to be immaterial.

Litigation - The Town is subject to litigation arising from the normal course of business. The Town Attorney believes there is no pending litigation which is likely to have a material adverse effect on the financial position of the Town.

Successor Agency - As of June 30, 2022, the Successor Agency trust fund reported a net deficit of \$7,607,526.

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Encumbrances - As of June 30, 2022, the town had the following encumbered balances that were carried into the next fiscal year:

General Fund	\$ 996,124
Appropriated Reserves Fund	6,604,021
Nonmajor Governmental Funds	1,676,361
Internal Service Funds	559,151
Total Encumbrances	<u>\$ 9,835,657</u>

NOTE 14 - TOWN/SUCCESSOR AGENCY GRANTS, COOPERATIVE AGREEMENTS

Public Improvement Grants and Cooperative Agreements

In January of 2011, the Redevelopment Agency entered into a public improvement grant and cooperative agreement with the Town for the purpose of funding the acquisition of public land and designing and constructing various public improvements to be owned by the Town provided that the projects were in accordance with the Redevelopment Agency's five year implementation plan and redevelopment plan.

The improvement plan, as identified in the agreement, called for approximately \$24 million to be granted to the Town for the following projects:

- a. Expansion and improvement of current and new downtown parking
- b. Highway 9 improvements from Highway 17 to Monte Sereno
- c. Almond Grove Area street, sidewalk and other improvements
- d. Downtown Los Gatos gateways, signage, banners and art
- e. Storm drain, retaining wall, street and other improvements
- f. New Los Gatos library building

During the fiscal year ended June 30, 2012, the rights and obligations resulting from this cooperative agreement were transferred to the Successor Agency Trust Fund as a part of the Town's dissolution of its Redevelopment Agency.

Affordable Housing Cooperative Agreement

In March of 2011, the Redevelopment Agency entered into an affordable housing cooperative agreement with the Town for the purpose of funding affordable housing projects and programs to be developed and/or administered by the Town in accordance with the Redevelopment Agency's five-year implementation plan and redevelopment plan. The improvement plan, as identified in the agreement, called for approximately \$16 million to be granted to the Town for the following projects:

- a. Development of affordable housing at 224 Main St.
- b. Development of affordable housing at Dittos Lane
- c. Partnership with Senior Housing Solutions for the creation of senior housing in Los Gatos

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- d. Partnerships for the conversion of existing residential developments dedicated to affordable housing
- e. Grants to the Santa Clara County Housing Trust for the development of affordable housing.

During the fiscal year ended June 30, 2012, the rights and obligations resulting from this cooperative agreement were transferred to the Successor Agency Trust Fund as a part of the Town's dissolution of its Redevelopment Agency.

NOTE 15 - COVID-19 PANDEMIC PROGRAMS

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law by President Biden. The \$1.9 trillion package (the Act) provided financial aid to families, governments, businesses, schools, nonprofits and others impacted by the COVID19 public health crisis. Of the \$1.9 trillion, \$350 billion is being directed toward state and local governments. All 19,000 municipal governments are entitled to a direct, noncompetitive federal formula grant from the U.S. Treasury Department. The portion allocated to cities, towns, and villages totals \$65.1 billion of which \$19.5 billion is obligated toward cities with less than 50,000 residents. The Act will allocate \$7,229,744 to the Town over a two-year period. The first tranche payment of \$3,614,862 was received on July 13, 2021, and the second payment no earlier than 12 months after the first payment.

Section 603. CORONAVIRUS LOCAL FISCAL RECOVERY FUND of the Act identified four eligible uses for funding, as follows:

- A. Respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19) or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
- B. Respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of the metropolitan city, nonentitlement unit of local government, or county that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;
- C. Provide government services to the extent of the reduction in revenue of such metropolitan city, nonentitlement unit of local government, or county due to the COVID-19 public health emergency relative to revenues collected in the most recent full fiscal year of the metropolitan city, nonentitlement unit of local government, or county prior to the emergency;
or
- D. Make necessary investments in water, sewer, or broadband infrastructure.

During the fiscal year ended June 30, 2022, the Town recognized \$3,413,961 as operating grant revenue in the ARPA special revenue fund and transferred \$3,413,961 to other funds, reimbursing the Town for qualifying expenditures under the provisions of the Act.

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NOTE 16 - FRANCHISE FEES

The California Supreme Court recently issued an opinion in a case challenging the franchise fees that the city of Oakland charges to certain waste hauling companies. In *Zolly v. City of Oakland*, the court concluded that it did not have enough evidence to rule as a matter of law that the fees are exempt from the voter approval requirements that apply to taxes under Proposition 26, Article XIII C of the California Constitution.

However, there are several exceptions to the general rule that a tax must be approved by the voters. One exception (Article IIIC, section 1 (e)(1)) is for “a charge imposed for a specific benefit conferred or privileged granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.” In the event the Town is unable to utilize one of the exceptions, the potential impact is a loss of approximately \$2.4 million.

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Required Supplementary Information

DRAFT

ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

BENEFIT PLAN SCHEDULES

Schedule of Pension Plan Contributions

Schedule of Proportionate Share of Net Pension Liability – CalPERS Safety Cost Sharing Plan

Schedule of Proportionate Share of Net Pension Liability – CalPERS Misc. Agent-Multiple Employer Plan

Schedule of OPEB Contribution

Schedule of Changes in Net OPEB Liability

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ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2022

SCHEDULE OF PENSION PLAN CONTRIBUTIONS

Miscellaneous Agent Multiple-Employer Plan

Plan Measurement Date	2014	2015	2016	2017	2018	2019	2020	2021
Fiscal Year Ended	2015	2016	2017	2018	2019	2020	2021	2022
Contractually Required Contributions	\$ 1,941,765	\$ 2,223,782	\$ 2,407,496	\$ 2,669,133	\$ 3,049,748	\$ 3,366,304	\$ 3,529,373	\$ 3,472,727
Contributions in Relation to Contractually Required Contributions	1,941,765	2,223,782	2,407,496	2,669,133	3,049,748	8,146,791	9,160,680	3,472,727
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (4,780,487)	\$ (5,631,307)	\$ -
Covered Payroll	\$ 8,487,940	\$ 9,198,318	\$ 9,024,370	\$ 9,576,157	\$ 10,211,967	\$ 11,188,927	\$ 12,082,520	\$ 11,970,102
Contributions as a % of Covered Payroll	22.88%	24.18%	26.68%	27.87%	29.86%	72.81%	75.82%	29.01%

Safety Cost Sharing Plan

Plan Measurement Date	2014	2015	2016	2017	2018	2019	2020	2021
Fiscal Year Ended	2015	2016	2017	2018	2019	2020	2021	2022
Contractually Required Contributions	\$ 1,999,757	\$ 1,586,129	\$ 1,738,150	\$ 1,951,711	\$ 2,325,357	\$ 2,565,205	\$ 2,853,764	\$ 3,072,032
Contributions in Relation to Contractually Required Contributions	1,999,757	1,586,129	1,738,150	1,951,711	2,325,357	2,565,205	2,853,764	3,072,032
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 4,897,104	\$ 5,022,498	\$ 4,941,138	\$ 5,079,440	\$ 4,445,061	\$ 4,928,821	\$ 5,178,418	\$ 5,831,703
Contributions as a % of Covered Payroll	40.84%	31.58%	35.18%	38.42%	52.31%	52.05%	55.11%	52.68%

Notes to Schedule:

Valuation Date: June 30, 2020

Assumptions Used: Entry Age Method used for Actuarial Cost Method

Level Percentage of Payroll and Direct Rate Smoothing

3.8 Years Remaining Amortization Period

Inflation Assumed at 2.50%

Investment Rate of Returns set at 7.00%

CalPERS mortality table based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

Fiscal year 2015 was the first year of implementation, therefore only eight years are shown.

The CalPERS discount rate was increased from 7.50% to 7.65% in fiscal year 2016, then to 7.15% in 2018.

The CalPERS mortality assumptions was adjusted in fiscal year 2019.

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
CALPERS SAFETY COST SHARING PLAN**

Safety Cost Sharing Plan	2014	2015	2016	2017	2018	2019	2020	2021
Plan Measurement Date	2015	2016	2017	2018	2019	2020	2021	2022
Fiscal Year Ended								
Proportion of Net Pension Liability (Safety and Misc)	0.28588%	0.14860%	0.22394%	0.22603%	0.23583%	0.24100%	0.24953%	0.30994%
Proportionate Share of Net Pension Liability	\$ 17,788,690	\$ 10,199,904	\$ 19,377,843	\$ 22,415,954	\$ 22,725,267	\$ 24,695,687	\$ 27,149,916	\$ 16,762,598
Covered Payroll	\$ 4,916,535	\$ 4,897,104	\$ 5,022,498	\$ 4,941,138	\$ 5,079,440	\$ 4,445,061	\$ 4,928,821	\$ 5,178,418
Proportionate Share of NPL as a % of Covered Payroll	361.81%	208.28%	385.82%	453.66%	447.40%	555.58%	550.84%	323.70%
Plan's Fiduciary Net Position as a % of the TPL	75.66%	74.89%	74.89%	73.87%	74.52%	73.61%	72.46%	83.55%

Fiscal year 2015 was the first year of implementation, therefore only eight years are shown.
The CalPERS discount rate was increased from 7.50% to 7.65% in fiscal year 2016, then to 7.15% in 2018.
The CalPERS mortality assumptions was adjusted in fiscal year 2019.

ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2022

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY CALPERS MISCELLANEOUS AGENT-MULTIPLE EMPLOYER PLAN

Measurement Date	2014	2015	2016	2017	2018	2019	2020	2021
Total Pension liability								
Service cost	\$ 1,579,547	\$ 1,491,925	\$ 1,560,679	\$ 1,651,550	\$ 1,700,438	\$ 1,771,368	\$ 1,930,090	\$ 2,062,486
Interest	6,268,015	6,483,032	6,697,247	6,820,536	7,073,843	7,381,846	7,729,269	7,943,404
Diff. between expected and actual exp.	-	(623,495)	(357,870)	(892,479)	994,994	1,082,289	1,465,653	(581,801)
Changes of assumptions	-	(1,513,132)	-	5,481,432	(655,541)	-	-	-
Benefit payments (including refunds)	(4,241,487)	(4,748,786)	(4,953,756)	(5,138,083)	(5,448,374)	(5,720,232)	(5,958,101)	(6,339,615)
Net change in Total Pension Liability	3,606,075	1,089,544	2,946,300	7,922,956	3,665,360	4,515,271	5,166,911	3,084,474
Total Pension Liability - beginning	84,904,502	88,510,577	89,600,121	92,546,421	100,469,377	104,134,737	108,650,008	113,816,919
Total Pension Liability - ending	\$ 88,510,577	\$ 89,600,121	\$ 92,546,421	\$ 100,469,377	\$ 104,134,737	\$ 108,650,008	\$ 113,816,919	\$ 116,901,393
Plan fiduciary net position								
Employer contributions	\$ 1,796,079	\$ 1,941,765	\$ 2,223,782	\$ 2,407,496	\$ 2,669,104	\$ 3,049,748	\$ 8,146,791	\$ 9,160,680
Employee contributions	668,167	679,796	691,770	682,891	761,705	846,125	834,145	889,649
Plan to plan resource movement	-	22,561	(28,866)	-	(170)	-	-	-
Projected investment earnings	4,328,173	-	-	-	-	-	-	-
Diff. between est. and actual earnings	5,831,718	-	-	-	-	-	-	-
Net investment income	-	1,470,873	369,185	7,171,443	5,883,868	4,759,034	3,913,294	19,606,360
Benefit payments (including refunds)	(4,241,487)	(4,748,786)	(4,953,756)	(5,138,083)	(5,448,374)	(5,720,232)	(5,958,101)	(6,339,615)
Administrative expense	-	(74,706)	(40,462)	(95,455)	(108,582)	(52,260)	(107,303)	(82,856)
Adjustments	-	-	-	-	(206,199)	170	-	-
Net change in plan fiduciary net position	8,382,650	(708,497)	(1,738,347)	5,028,292	3,551,352	2,882,585	6,828,826	23,234,218
Plan fiduciary net position - beginning	58,716,725	67,099,375	66,390,878	64,652,531	69,680,823	73,232,175	76,114,760	82,943,586
Plan fiduciary net position - ending	\$ 67,099,375	\$ 66,390,878	\$ 64,652,531	\$ 69,680,823	\$ 73,232,175	\$ 76,114,760	\$ 82,943,586	\$ 106,177,804
Net Pension liability (asset)	\$ 21,411,202	23,209,243	27,893,890	30,788,554	30,902,562	32,535,248	30,873,333	10,723,589
Plan fiduciary net position as a percentage of the total Pension liability	75.81%	74.10%	69.86%	69.36%	70.32%	70.05%	72.87%	90.83%
Covered Payroll	\$ 8,406,315	\$ 8,487,940	\$ 9,198,318	\$ 9,024,370	\$ 9,576,157	\$ 10,211,967	\$ 11,188,927	\$ 12,082,520
Net Pension liability % of covered payroll	254.70%	273.44%	303.25%	341.17%	322.70%	318.60%	275.93%	88.75% ¹

Other Notes

Fiscal year 2015 was the first year of implementation, therefore only eight years are shown.

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

SCHEDULE OF OPEB CONTRIBUTIONS

Fiscal Year Ended	2018	2019	2020	2021	2022
Actuarially determined contribution (ADC)	\$ 2,129,000	\$ 2,108,000	\$ 2,172,000	\$ 1,859,000	\$ 1,860,000
Less: actual contribution in relation to ADC	(2,935,000)	(2,406,636)	(2,508,306)	(2,096,847)	(1,754,922)
Contribution deficiency (excess)	\$ (806,000)	\$ (298,636)	\$ (336,306)	\$ (237,847)	\$ 105,078
 Covered employee payroll	 \$ 16,192,060	 \$ 17,338,201	 \$ 17,406,541	 \$ 17,982,237	 \$ 16,987,042
Contrib. as a % of covered employee payroll	18.13%	13.88%	14.41%	11.66%	10.33%

Notes to Schedule:*Assumptions and Methods*

Valuation Date:	June 30, 2021
Measurement Date:	June 30, 2021
Actuarial Cost Method:	Entry-Age Normal Cost
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	6.25%
Inflation	2.50%
Salary Increases	3.00%
Investment Rate of Return	6.75%
Healthcare Trend Rate	Non-Medicare - 7.25% for 2021, decreasing to an ultimate rate of 4% in 2076
Mortality	CalPERS 2000-2019 Experience Study
Retirement	CalPERS 2000-2019 Experience Study

Other Notes

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

Discount rate was updated based on newer capital market assumptions

Decreased medical trend rate for Kaiser Senior Advantage

Demographic assumptions updated to CalPERS 2000-2019 Experience Study

Inflation rate decreased 25 basis points, decreasing discount rate, medical trend, and salary increases

Retiree and family participation rates at retirement updated

Implicit subsidy added for Tier 1 Medicare eligible

Mortality improvement scale was updated to Scale MP-2021

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

SCHEDULE OF CHANGES IN NET OPEB LIABILITY

Measurement Date	2017	2018	2019	2020	2021
Total OPEB liability					
Service cost	\$ 1,134,000	\$ 1,168,227	\$ 1,203,274	\$ 1,159,152	\$ 1,115,309
Interest	1,607,000	1,706,270	1,814,072	1,887,105	1,956,034
Differences between expected & actual exp.	-	-	(149,297)	-	(2,521,500)
Changes of assumptions	-	-	(392,681)	(533,825)	1,054,638
Benefit payments	(1,269,000)	(1,326,313)	(1,298,623)	(1,399,933)	(1,494,906)
Net change in Total OPEB Liability	1,472,000	1,548,184	1,176,745	1,112,499	109,575
Total OPEB Liability - beginning	23,301,000	24,773,000	26,321,184	27,497,929	28,610,428
Total OPEB Liability - ending	\$ 24,773,000	\$ 26,321,184	\$ 27,497,929	\$ 28,610,428	\$ 28,720,003
Plan fiduciary net position					
Employer contributions	\$ 3,878,000	\$ 2,935,313	\$ 2,406,636	\$ 2,508,306	\$ 2,096,847
Net investment income	1,049,000	1,082,977	1,009,315	652,656	5,529,824
Benefit payments	(1,269,000)	(1,326,313)	(1,298,623)	(1,399,933)	(1,494,906)
Administrative expense	(14,000)	(34,261)	(11,502)	(17,357)	(18,556)
Net change in plan fiduciary net position	3,644,000	2,657,716	2,105,826	1,743,672	6,113,209
Plan fiduciary net position - beginning	9,964,000	13,608,000	16,265,716	18,371,542	20,115,214
Plan fiduciary net position - ending	\$ 13,608,000	\$ 16,265,716	\$ 18,371,542	\$ 20,115,214	\$ 26,228,423
Net OPEB liability (asset)	\$ 11,165,000	10,055,468	9,126,387	8,495,214	2,491,580
Plan fiduciary net position as a percentage of the total OPEB liability	54.93%	61.80%	66.81%	70.31%	91.32%
Covered Employee Payroll	\$ 14,985,716	\$ 16,192,060	\$ 17,338,201	\$ 17,406,541	\$ 17,982,237
NOL as a % of cov. emp. payroll	74.50%	62.10%	52.64%	48.80%	13.86%

Other Notes

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

Supplementary Information

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**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

**MAJOR GOVERNMENTAL FUND SCHEDULES
(OTHER THAN THE GENERAL FUND) AND
NONMAJOR GOVERNMENTAL FUNDS**

Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP):

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

Capital Projects Funds:

Storm Drain Basin Funds were established to account for fees paid in conjunction with the development in specified drainage areas.

Construction Tax Funds were established to account for tax levies on building additions or alterations including capital improvements, underground utilities and parks.

Gas Tax Fund was established to account for revenue and expenditures under the State of California Streets and Highways Code Sections 2106, 2107 and 2107.5. The revenues must be used for the maintenance and construction of streets.

Special Revenue Funds:

Community Development Block Grant Fund was established to account for grant funds received and expended under the Community Development Act of 1974.

Non-Point Source Maintenance Fund was established to comply with obligations under the National Pollutant Discharge Elimination system permit issued by the California Regional Water Quality Control Board.

Lighting and Landscape Fund was established to account for maintenance of trees, landscaping, irrigation systems and lighting within the boundaries of Tract No. 8439.

ARPA Fund was established to account for monies received under the American Rescue Plan Act of 2021 to respond to the COVID19 emergency.

LG Theatre Fund was established to account for monies received from rents on donated property and related expenditures.

Library Trust Fund was established to provide for the servicing of donations and bequests to the Town's Library Program.

**TOWN OF LOS GATOS
APPROPRIATED RESERVES FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Licenses & permits	160,000	160,000	420,055	260,055
Intergovernmental	1,691,069	16,912,649	9,400,918	(7,511,731)
Charges for services	755,676	2,693,556	1,464,746	(1,228,810)
Developer fees	20,000	20,000	535,571	515,571
Interest	-	-	34,805	34,805
Use of Property	-	-	93,001	93,001
Total Revenues	2,626,745	19,786,205	11,949,096	(7,837,109)
EXPENDITURES				
Current:				
General government	-	7,000,000	6,900,000	100,000
Capital outlay	5,414,872	10,894,632	9,570,780	1,323,852
Total Expenditures	5,414,872	17,894,632	16,470,780	1,423,852
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,788,127)	1,891,573	(4,521,684)	(6,413,257)
OTHER FINANCING SOURCES (USES)				
Transfers in	2,841,047	3,584,047	4,074,141	490,094
Transfers (out)	(427,616)	(427,616)	(427,616)	-
Total Other Financing Sources (Uses)	2,413,431	3,156,431	3,646,525	490,094
CHANGE IN FUND BALANCE	<u>\$ (374,696)</u>	<u>\$ 5,048,004</u>	<u>(875,159)</u>	<u>\$ (5,923,163)</u>
BEGINNING FUND BALANCE			<u>15,115,912</u>	
ENDING FUND BALANCE			<u>\$ 14,240,753</u>	

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2022**

	CAPITAL PROJECTS FUNDS			
	Storm Drains	Construction Tax	Gas Tax	Total Capital Projects Funds
ASSETS				
Cash & investments	\$ 3,218,811	\$ 3,302,514	\$ 1,656,712	\$ 8,178,037
Receivables:				
Accounts	-	-	-	-
Intergovernmental receivable	-	-	179,356	179,356
Long term notes receivable	-	-	-	-
Total Assets	\$ 3,218,811	\$ 3,302,514	\$ 1,836,068	\$ 8,357,393
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued payroll and benefits	-	-	-	-
Due to other governments	-	-	-	-
Unearned revenue	-	-	-	-
Total Liabilities	-	-	-	-
FUND BALANCE				
Restricted for:				
Library	-	-	-	-
Repairs and maintenance	-	-	-	-
Capital projects	3,218,811	3,302,514	1,836,068	8,357,393
Committed to:				
Special revenue funds	-	-	-	-
Total Fund Balances	3,218,811	3,302,514	1,836,068	8,357,393
Total Liabilities and Fund Balances	\$ 3,218,811	\$ 3,302,514	\$ 1,836,068	\$ 8,357,393

(Continued)

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2022

	SPECIAL REVENUE FUNDS			
	Community Development	Non-Point Source Maintenance	Lighting and Landscaping	ARPA
ASSETS				
Cash & investments	\$ 94,412	\$ 394,310	\$ 176,334	\$ -
Receivables:				
Accounts	-	63,244	-	-
Intergovernmental receivable	58,344	-	241	-
Long term notes receivable	78,752	-	-	-
Total Assets	\$ 231,508	\$ 457,554	\$ 176,575	\$ -
LIABILITIES				
Accounts payable	\$ 60	\$ 900	\$ 2,336	\$ -
Accrued payroll and benefits	-	5,096	-	-
Due to other governments	-	-	-	-
Unearned revenue	64,795	-	-	-
Total Liabilities	64,855	5,996	2,336	-
FUND BALANCE				
Restricted for:				
Library	-	-	-	-
Repairs and maintenance	-	-	174,239	-
Capital projects	-	-	-	-
Committed to:				
Special revenue funds	166,653	451,558	-	-
Total Fund Balances	166,653	451,558	174,239	-
Total Liabilities and Fund Balances	\$ 231,508	\$ 457,554	\$ 176,575	\$ -

(Continued)

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2022

SPECIAL REVENUE FUNDS				
	LG Theatre	Library Trust	Total Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash & investments	\$ 19,500	\$ 556,449	\$ 1,241,005	\$ 9,419,042
Receivables:				
Accounts	-	-	63,244	63,244
Intergovernmental receivable	-	-	58,585	237,941
Long term notes receivable	-	-	78,752	78,752
Total Assets	\$ 19,500	\$ 556,449	\$ 1,441,586	\$ 9,798,979
LIABILITIES				
Accounts payable	\$ -	\$ 1,154	\$ 4,450	\$ 4,450
Accrued payroll and benefits	-	-	5,096	5,096
Due to other governments	-	42	42	42
Unearned revenue	-	-	64,795	64,795
Total Liabilities	-	1,196	74,383	74,383
FUND BALANCE				
Restricted for:				
Library	-	555,253	555,253	555,253
Repairs and maintenance	-	-	174,239	174,239
Capital projects	-	-	-	8,357,393
Committed to:				
Special revenue funds	19,500	-	637,711	637,711
Total Fund Balances	19,500	555,253	1,367,203	9,724,596
Total Liabilities and Fund Balances	\$ 19,500	\$ 556,449	\$ 1,441,586	\$ 9,798,979

(Concluded)

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

	CAPITAL PROJECTS FUNDS			
	Storm Drain	Construction Tax	Gas Tax	Total Capital Projects Funds
REVENUES				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	66,382	-	66,382
License and permits	307,344	-	-	307,344
Intergovernmental	-	-	1,370,786	1,370,786
Interest	33,025	35,248	14,401	82,674
Use of property	-	-	-	-
Other	-	-	-	-
Total Revenues	340,369	101,630	1,385,187	1,827,186
EXPENDITURES				
Current:				
Parks and public works	-	-	-	-
Library services	-	-	-	-
Sanitation and other	-	-	-	-
Capital Outlay	39,248	427	868,215	907,890
Total Expenditures	39,248	427	868,215	907,890
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	301,121	101,203	516,972	919,296
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers (out)	-	-	(106,000)	(106,000)
Total Other Financing Sources (Uses)	-	-	(106,000)	(106,000)
Changes in Fund Balances	301,121	101,203	410,972	813,296
Fund Balances - Beginning of year	2,917,690	3,201,311	1,425,096	7,544,097
Fund Balances - End of year	\$ 3,218,811	\$ 3,302,514	\$ 1,836,068	\$ 8,357,393

(Continued)

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

	SPECIAL REVENUE FUNDS			
	Community Development	Non-Point Source Maintenance	Lighting and Landscaping	ARPA
REVENUES				
Property Taxes	\$ -	\$ -	\$ 38,640	\$ -
Other Taxes	-	-	-	-
License and permits	-	231,323	-	-
Intergovernmental	-	43,965	-	3,413,961
Interest	-	-	1,834	-
Use of property	-	-	-	-
Other	-	-	-	-
Total Revenues	-	275,288	40,474	3,413,961
EXPENDITURES				
Current:				
Parks and public works	-	-	33,671	-
Library services	-	-	-	-
Sanitation and other	-	194,969	-	-
Capital Outlay	-	-	-	-
Total Expenditures	-	194,969	33,671	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	80,319	6,803	3,413,961
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers (out)	-	-	(4,920)	(3,413,961)
Total Other Financing Sources (Uses)	-	-	(4,920)	(3,413,961)
Changes in Fund Balances	-	80,319	1,883	-
Fund Balances - Beginning of year	166,653	371,239	172,356	-
Fund Balances - End of year	\$ 166,653	\$ 451,558	\$ 174,239	\$ -

(Continued)

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

	SPECIAL REVENUE FUNDS			Total
	LG Theatre	Library Trust	Total Special Revenue Funds	
REVENUES				
Property Taxes	\$ -	\$ -	\$ 38,640	\$ 38,640
Other Taxes	-	-	-	66,382
License and permits	-	-	231,323	538,667
Intergovernmental	-	-	3,457,926	4,828,712
Interest	-	6,231	8,065	90,739
Use of property	19,500	-	19,500	19,500
Other	-	38,105	38,105	38,105
Total Revenues	19,500	44,336	3,793,559	5,620,745
EXPENDITURES				
Current:				
Parks and public works	-	-	33,671	33,671
Library services	-	74,813	74,813	74,813
Sanitation and other	-	-	194,969	194,969
Capital Outlay	-	-	-	907,890
Total Expenditures	-	74,813	303,453	1,211,343
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	19,500	(30,477)	3,490,106	4,409,402
OTHER FINANCING SOURCES (USES)				
Transfers in	-	32,853	32,853	32,853
Transfers (out)	-	-	(3,418,881)	(3,524,881)
Total Other Financing Sources (Uses)	-	32,853	(3,386,028)	(3,492,028)
Changes in Fund Balances	19,500	2,376	104,078	917,374
Fund Balances - Beginning of year	-	552,877	1,263,125	8,807,222
Fund Balances - End of year	\$ 19,500	\$ 555,253	\$ 1,367,203	\$ 9,724,596

(Concluded)

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	STORM DRAIN			CONSTRUCTION TAX		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	30,000	66,382	36,382
License and permits	92,500	307,344	214,844	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest	12,580	33,025	20,445	22,490	35,248	12,758
Use of property	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total Revenues	105,080	340,369	235,289	52,490	101,630	49,140
EXPENDITURES						
Current:						
Parks and public works	-	-	-	-	-	-
Library services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital outlay	102,547	39,248	63,299	427	427	-
Total Expenditures	102,547	39,248	63,299	427	427	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,533	301,121	298,588	52,063	101,203	49,140
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-
CHANGE IN FUND BALANCE	\$ 2,533	301,121	\$ 298,588	\$ 52,063	101,203	\$ 49,140
BEGINNING FUND BALANCE		2,917,690			3,201,311	
ENDING FUND BALANCE		\$ 3,218,811			\$ 3,302,514	

(Continued)

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	GAS TAX			COMMUNITY DEVELOPMENT		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
License and permits	-	-	-	-	-	-
Intergovernmental	1,446,438	1,370,786	(75,652)	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest	1,271	14,401	13,130	-	-	-
Use of property	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total Revenues	1,447,709	1,385,187	(62,522)	-	-	-
EXPENDITURES						
Current:						
Parks and public works	-	-	-	-	-	-
Library services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital outlay	868,215	868,215	-	-	-	-
Total Expenditures	868,215	868,215	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	579,494	516,972	(62,522)	-	-	-
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	(106,000)	(106,000)	-	-	-	-
Total Other Financing Sources (Uses)	(106,000)	(106,000)	-	-	-	-
CHANGE IN FUND BALANCE	<u>\$ 473,494</u>	<u>410,972</u>	<u>\$ (62,522)</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
BEGINNING FUND BALANCE		<u>1,425,096</u>			<u>166,653</u>	
ENDING FUND BALANCE		<u>\$ 1,836,068</u>			<u>\$ 166,653</u>	

(Continued)

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	NON-POINT SOURCE MAINTENANCE			LIGHTING AND LANDSCAPING		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ 38,220	\$ 38,640	\$ 420
Other taxes	-	-	-	-	-	-
License and permits	231,323	231,323	-	-	-	-
Intergovernmental	-	43,965	43,965	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest	-	-	-	1,460	1,834	374
Use of property	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total Revenues	231,323	275,288	43,965	39,680	40,474	794
EXPENDITURES						
Current:						
Parks and public works	-	-	-	95,279	33,671	61,608
Library services	-	-	-	-	-	-
Sanitation and other	221,044	194,969	26,075	-	-	-
Capital outlay	-	-	-	-	-	-
Total Expenditures	221,044	194,969	26,075	95,279	33,671	61,608
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	10,279	80,319	70,040	(55,599)	6,803	62,402
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	-	-	-	(4,920)	(4,920)	-
Total Other Financing Sources (Uses)	-	-	-	(4,920)	(4,920)	-
CHANGE IN FUND BALANCE	<u>\$ 10,279</u>	<u>80,319</u>	<u>\$ 70,040</u>	<u>\$ (60,519)</u>	<u>1,883</u>	<u>\$ 62,402</u>
BEGINNING FUND BALANCE		<u>371,239</u>			<u>172,356</u>	
ENDING FUND BALANCE		<u>\$ 451,558</u>			<u>\$ 174,239</u>	

(Continued)

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	ARPA			LG Theatre		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
License and permits	-	-	-	-	-	-
Intergovernmental	3,413,961	3,413,961	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Use of property	-	-	-	-	19,500	19,500
Other	-	-	-	-	-	-
Total Revenues	3,413,961	3,413,961	-	-	19,500	19,500
EXPENDITURES						
Current:						
Parks and public works	-	-	-	-	-	-
Library services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total Expenditures	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,413,961	3,413,961	-	-	19,500	19,500
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	(3,413,961)	(3,413,961)	-	-	-	-
Total Other Financing Sources (Uses)	(3,413,961)	(3,413,961)	-	-	-	-
CHANGE IN FUND BALANCE	\$ -	-	\$ -	\$ -	19,500	\$ 19,500
BEGINNING FUND BALANCE		-			-	
ENDING FUND BALANCE		\$ -			\$ 19,500	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

	Library Trust			TOTALS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ 38,220	\$ 38,640	\$ 420
Other taxes	-	-	-	30,000	66,382	36,382
License and permits	-	-	-	323,823	538,667	214,844
Intergovernmental	35,000	-	(35,000)	4,895,399	4,828,712	(66,687)
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest	4,100	6,231	2,131	41,901	90,739	48,838
Use of property	-	-	-	-	19,500	19,500
Other	35,000	38,105	3,105	35,000	38,105	3,105
Total Revenues	74,100	44,336	(29,764)	5,364,343	5,620,745	256,402
EXPENDITURES						
Current:						
Parks and public works	-	-	-	95,279	33,671	61,608
Library services	93,955	74,813	19,142	-	74,813	-
Sanitation and other	-	-	-	221,044	194,969	26,075
Capital outlay	-	-	-	971,189	907,890	63,299
Total Expenditures	93,955	74,813	19,142	1,287,512	1,211,343	150,982
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(19,855)	(30,477)	(10,622)	4,076,831	4,409,402	332,571
OTHER FINANCING SOURCES (USES)						
Operating transfers in	32,853	32,853	-	32,853	32,853	-
Operating transfers (out)	-	-	-	(3,524,881)	(3,524,881)	-
Total Other Financing Sources (Uses)	32,853	32,853	-	(3,492,028)	(3,492,028)	-
CHANGE IN FUND BALANCE	<u>\$ 12,998</u>	<u>2,376</u>	<u>\$ (10,622)</u>	<u>\$ 584,803</u>	<u>917,374</u>	<u>\$ 332,571</u>
BEGINNING FUND BALANCE		<u>552,877</u>			<u>8,807,222</u>	
ENDING FUND BALANCE		<u>\$ 555,253</u>			<u>\$ 9,724,596</u>	

(Concluded)

ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

PROPRIETARY FUNDS
INTERNAL SERVICE FUNDS

Internal service funds are used to finance and account for special activities and service performed by a designed department for other departments in the Town on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they are used for internal activities only. In the Government-Wide Statement of Activities, the net revenues and expenses of the internal service funds are allocated to the Town departments or programs that generated them, thus eliminating internal service funds.

However, internal service funds are still presented separately in the fund financial statements and include the following funds:

Equipment Fund was established to account for the replacement of major Town equipment and all vehicle replacement.

Workers' Compensation Fund was established to account for future claims that may occur related to workers compensation injuries.

Self-Insurance Fund was established to account for future general liability claims against the Town.

Information Technology Fund was established to account for the replacement of management information computer systems and components.

Facilities Maintenance Fund was established to account for preventative maintenance and repair for all Town buildings.

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2022

	Equipment Replacement	Worker's Comp	Self Insurance	Information Technology	Facilities Maintenance	Total
ASSETS						
Cash & Investments	\$ 2,237,647	\$ 2,535,115	\$ 863,995	\$ 3,043,739	\$ 332,928	\$ 9,013,424
Restricted Cash & Investments	-	129,929	-	-	-	129,929
Receivables:						
Accounts	4,553	-	-	16,396	24,853	45,802
Leases receivable	-	-	-	-	1,494,721	1,494,721
Total Assets	\$ 2,242,200	\$ 2,665,044	\$ 863,995	\$ 3,060,135	\$ 1,852,502	\$ 10,683,876
LIABILITIES						
Accounts Payable	\$ 19,805	\$ 5,302	\$ 41,146	\$ 69,204	\$ 94,660	\$ 230,117
Due to Other Governments	-	-	-	-	50	50
Claims Payable	-	1,364,558	19,557	-	-	1,384,115
Total Liabilities	\$ 19,805	\$ 1,369,860	\$ 60,703	\$ 69,204	\$ 94,710	\$ 1,614,282
Deferred Inflows of Resources						
Leases	\$ -	\$ -	\$ -	\$ -	\$ 829,312	\$ 829,312
NET POSITION						
Restricted for:						
Workers compensation claims	\$ -	\$ 129,929	\$ -	\$ -	\$ -	\$ 129,929
Unrestricted	2,222,395	1,165,255	803,292	2,990,931	928,480	8,110,353
Total Net Position	\$ 2,222,395	\$ 1,295,184	\$ 803,292	\$ 2,990,931	\$ 928,480	\$ 8,240,282

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Equipment Replacement	Worker's Comp	Self Insurance	Information Technology	Facilities Maintenance	Total
OPERATING REVENUES						
Charges for services	\$ 540,957	\$ 896,732	\$ 366,133	\$ 998,158	\$ 878,127	\$ 3,680,107
Interest	-	5	-	-	-	5
Use of money and property	3,274	-	-	-	111,817	115,091
Other local taxes	-	-	-	-	66,382	66,382
Other revenue & reimbursements	45,211	258,472	-	-	-	303,683
Total Operating Revenues	589,442	1,155,209	366,133	998,158	1,056,326	4,165,268
OPERATING EXPENSES						
Insurance expenses	-	1,533,045	583,924	-	-	2,116,969
Services and supplies	161,767	-	-	878,049	1,222,779	2,262,595
Total Operating Expenses	161,767	1,533,045	583,924	878,049	1,222,779	4,379,564
Operating Income (loss)	427,675	(377,836)	(217,791)	120,109	(166,453)	(214,296)
Transfers (in)	-	-	-	-	251,194	251,194
Transfers (out)	(94,816)	-	-	-	-	(94,816)
Net Transfers	(94,816)	-	-	-	251,194	156,378
Change in Net Position	332,859	(377,836)	(217,791)	120,109	84,741	(57,918)
BEGINNING NET POSITION	1,889,536	1,673,020	1,021,083	2,870,822	156,340	7,610,801
PRIOR PERIOD ADJUSTMENT, GASB 87 - LEASES	-	-	-	-	687,399	687,399
BEGINNING NET POSITION, ADJUSTED	1,889,536	1,673,020	1,021,083	2,870,822	843,739	8,298,200
ENDING NET POSITION	\$ 2,222,395	\$ 1,295,184	\$ 803,292	\$ 2,990,931	\$ 928,480	\$ 8,240,282

**TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

	Equipment Replacement	Worker's Comp	Self Insurance	Information Technology	Facilities Maintenance	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 586,745	\$ 896,737	\$ 366,133	\$ 986,495	\$ 390,917	\$ 3,227,027
Payments to suppliers and providers	(141,962)	(1,550,272)	(664,201)	(848,854)	(1,236,545)	(4,441,834)
Insurance reimbursements	-	258,472	-	-	-	258,472
Claims paid	-	(130,924)	(61,150)	-	-	(192,074)
Net Cash Provided (Used) by Operating Activities	444,783	(525,987)	(359,218)	137,641	(845,628)	(1,148,409)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers In	-	-	-	-	251,194	251,194
Transfers Out	(94,816)	-	-	-	-	(94,816)
Net Cash Provided (Used) by Noncapital Financing Activities	(94,816)	-	-	-	251,194	156,378
Net Increase(Decrease) in Cash and Investments	349,967	(525,987)	(359,218)	137,641	(594,434)	(992,031)
Cash and investments - beginning of year	1,887,680	3,191,031	1,223,213	2,906,098	239,963	9,447,985
Cash and investments - end of year	\$ 2,237,647	\$ 2,665,044	\$ 863,995	\$ 3,043,739	\$ (354,471)	\$ 8,455,954
Reconciliation of Operating Income to Cash Flows from Operating Activities:						
Operating Income	\$ 427,675	\$ (377,836)	\$ (217,791)	\$ 120,109	\$ (166,453)	\$ (214,296)
Change in assets and liabilities:						
Accounts receivable	(2,697)	-	-	(12,141)	-	(14,838)
Leases receivable	-	-	-	-	(1,494,721)	(1,494,721)
Due from other funds	-	-	-	478	-	478
Deferred inflows of resources	-	-	-	-	829,312	829,312
Accounts payable	19,805	(17,227)	39,606	29,195	(13,733)	57,646
Due to other governments	-	-	-	-	(33)	(33)
Claims payable	-	(130,924)	(181,033)	-	-	(311,957)
Cash Flows From Operating Activities	\$ 444,783	\$ (525,987)	\$ (359,218)	\$ 137,641	\$ (845,628)	\$ (1,148,409)

Statistical Section

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STATISTICAL (UNAUDITED)

This part of the Town of Los Gatos Annual Comprehensive Financial Report (“ACFR”) presents the detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town’s overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how Town’s financial performance and well-being have changed over time. (Schedule 1, Schedule 2, Schedule 3, and Schedule 4).

Revenue Capacity

These schedules contain information to help the reader assess one of the Town’s most significant local revenue source, the property tax (Schedule 5, Schedule 6, Schedule 7, and Schedule 8).

Debt Capacity

These schedules present information to help the reader assess the affordability of the Town’s current levels of outstanding debt and its ability to issue additional debt in the future (Schedule 9, Schedule 10, and Schedule 11)

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town’s financial activities take place (Schedule 12, Schedule 13, and schedule 14).

Operating Information

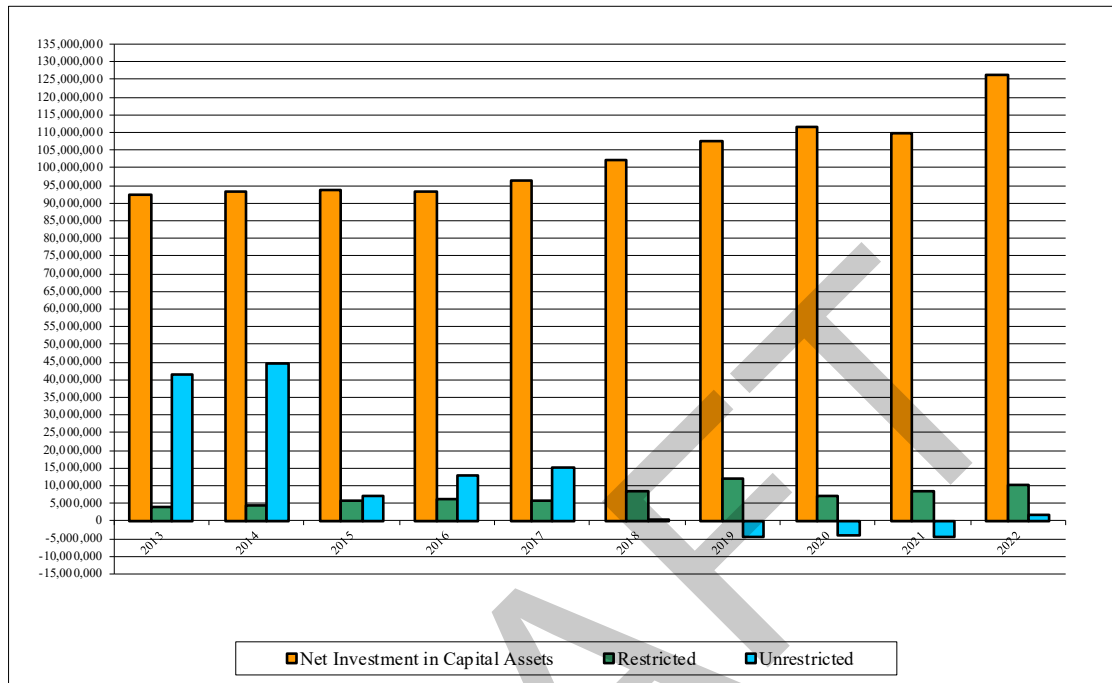
These schedules contain service and infrastructure data to help the reader understand how the information in the Town’s ACFR relates to the services the Town provides and activities it performs (Schedule 15 and Schedule 16).

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Town of Los Gatos
Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)

Schedule 1



Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2013	92,558,523	3,949,583	41,480,377	137,988,483
2014	93,251,117	4,485,246	44,393,265	142,129,628
2015	93,687,029	5,663,182	7,180,919	106,531,130 (1)
2016	93,383,855	6,386,014	12,744,637	112,514,506
2017	96,265,652	5,627,707	15,134,420	117,027,779
2018	102,098,729	8,199,598	170,590	110,468,917 (2)
2019	107,542,588	11,918,688	-4,642,167	114,819,109 (3)
2020	111,700,225	7,117,984	-3,967,178	114,851,031
2021	109,894,936	8,358,267	-4,735,103	113,518,100
2022	126,418,275	10,203,412	1,785,294	138,406,981

(1) The decrease in Restricted Net Position GASB 68 Implementation of Unfunded Pension Liability of Statement of Net Position.

(2) Net position was restated for FY 2018 for amounts placed into fiduciary funds, reclassified to General Fund Restricted Asset.

(3) The decrease in unrestricted net position resulted largely from the use of approximately \$8.0 million in unrestricted cash balances in the Town's GFAR fund during the year to invest in the Town's infrastructure and

Town of Los Gatos
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

Schedule 2

	Fiscal Year				
	2012/13	2013/14	2014/15	2015/16	2016/17
Expenses					
Governmental Activities:					
General Government	\$ 6,564,768	\$ 6,955,804	\$ 6,465,852	\$ 6,993,661	\$ 6,771,628
Public Safety	13,731,754	14,119,786	12,644,221	12,825,688	14,587,597
Parks and Public Works	7,829,315	8,154,616	8,069,352	8,320,623	9,502,707
Community Development	4,094,188	4,424,040	4,047,738	3,227,224	5,093,459
Library Services	2,128,823	2,234,431	2,553,414	2,522,142	2,868,748
Sanitation	393,205	363,180	491,359	528,580	466,762
Redevelopment	1,277,063	21,687	-	-	-
Total Governmental Activities	36,019,116	36,273,544	34,271,936	34,417,918	39,290,901
Program Revenues					
Charges for Services:					
General Government	1,416,593	2,179,077	1,888,213	1,517,012	1,669,020
Public Safety	2,450,630	3,206,579	3,529,166	3,278,585	2,076,688
Parks and Public Works	3,044,401	1,550,867	2,206,765	1,516,108	2,155,841
Community Development	4,649,444	5,156,061	5,027,497	4,359,146	3,803,626
Library Services	50,696	51,775	53,123	46,192	46,746
Sanitation	403,294	328,648	328,868	368,813	410,626
Operating Grants and Contributions:					
General Government	8,406	-	-	15,291	-
Public Safety	91,360	42,661	24,838	98,138	837,329
Parks and Public Works	835,724	994,096	907,745	749,300	665,779
Community Development	-	-	-	-	-
Library Services	40	14,662	4,062	12,228	-
Capital Grants and Contributions:					
General Government	169,270	-	176,705	-	-
Public Safety	-	-	-	-	-
Parks and Public Works	2,757,660	2,274,879	2,338,154	1,610,657	770,600
Community Development	-	19,360	-	-	9,280
Total Program Revenues	15,877,518	15,818,665	16,485,136	13,571,470	12,445,535
General Revenues					
Property Taxes	11,968,377	11,712,312	12,931,603	13,763,458	14,756,214
Sales Taxes	8,757,428	8,029,571	8,202,678	7,501,175	8,925,276
Franchise Taxes	-	-	2,215,430	2,258,892	2,366,908
Other Taxes	3,324,791	3,718,405	2,062,893	1,997,497	2,351,223
Motor Vehicle in Lieu	15,790	13,068	-	12,308	14,056
Developer Fees	-	-	-	-	-
Investment Earnings	(133,375)	772,200	428,772	698,324	192,260
Sale of Property	54,425	-	-	-	-
Miscellaneous	1,154,647	350,468	813,324	598,170	528,946
Extraordinary Gain (Loss) Dissolution of RDA	295,101	-	-	-	-
Total General Revenues	25,437,184	24,596,024	26,654,700	26,829,824	29,134,883
Change in Net Position	<u>\$ 5,295,586</u>	<u>\$ 4,141,145</u>	<u>\$ 8,867,900</u>	<u>\$ 5,983,376</u>	<u>\$ 2,289,517</u>

Continued

Town of Los Gatos
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

Schedule 2

	Fiscal Year				
	2017/18	2018/19	2019/20	2020/21	2021/22
Expenses					
Governmental Activities:					
General Government	\$ 7,948,918	\$ 8,163,991	\$ 7,405,368	\$ 7,086,377	\$ 15,681,345
Public Safety	15,545,521	16,635,726	20,446,188	19,808,230	15,093,308
Parks and Public Works	10,047,003	10,627,716	11,803,005	13,141,034	12,969,615
Community Development	4,667,609	5,064,637	5,001,958	6,846,834	5,827,001
Library Services	3,087,684	3,059,294	3,347,523	3,496,153	2,969,954
Sanitation	536,296	684,673	3,041	185,981	178,575
Redevelopment	-	-	-	-	-
Total Governmental Activities	41,833,031	44,236,037	48,007,083	50,564,609	52,719,798
Program Revenues					
Charges for Services:					
General Government	1,701,146	1,562,683	1,470,324	1,894,080	1,725,857
Public Safety	1,888,359	1,745,889	1,549,207	1,288,358	1,596,313
Parks and Public Works	4,150,068	2,910,936	3,674,222	4,209,048	5,090,014
Community Development	3,456,390	4,155,231	3,351,753	4,063,776	4,129,718
Library Services	14,702	9,476	11,522	-	521
Sanitation	771,442	966,130	231,323	299,478	231,323
Operating Grants and Contributions:					
General Government	-	-	12,290	-	2,766,833
Public Safety	895,730	826,643	952,045	1,061,344	1,144,226
Parks and Public Works	953,294	1,301,152	2,824,638	1,547,102	1,482,896
Community Development	-	-	15,864	223,129	670,929
Library Services	57,200	47,482	49,351	55,181	114,958
Capital Grants and Contributions:					
General Government	-	-	8,258	2,365	12,205,050
Public Safety	-	-	9,100	-	-
Parks and Public Works	348,437	146,792	832,755	843,980	10,021,156
Community Development	-	-	-	-	-
Total Program Revenues	14,236,768	13,672,414	14,992,652	15,487,841	41,179,794
General Revenues					
Property Taxes	15,958,406	17,321,347	18,330,426	19,878,835	21,132,098
Sales Taxes	7,466,253	8,158,152	7,531,425	7,933,604	8,483,673
Franchise Taxes	2,474,814	2,475,916	2,495,792	2,499,463	2,822,515
Other Taxes	2,667,840	2,726,743	1,911,774	1,126,887	2,042,580
Motor Vehicle in Lieu	16,483	14,689	24,526	23,058	35,624
Developer Fees	-	-	-	-	1,735,571
Investment Earnings	333,120	1,809,128	2,428,470	227,136	(1,278,978)
Sale of Property	-	-	-	-	-
Miscellaneous	622,105	2,407,840	323,940	1,528,039	755,400
Extraordinary Gain (Loss) Dissolution of RDA	-	-	-	-	-
Total General Revenues	29,539,021	34,913,815	33,046,353	33,217,022	35,728,483
Change in Net Position	\$ 1,942,758	\$ 4,350,192	\$ 31,922	\$ (1,859,746)	\$ 24,188,479

Concluded

Town of Los Gatos
Fund Balance, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

Schedule 3

	Fiscal Year				
	2012/13	2013/14	2014/15	2015/16	2016/17
General Fund					
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-
Committed				20,019,187	15,129,925
Assigned	20,758,156	23,791,749	24,121,256	9,555,085	14,050,699
Unassigned	7,502,446	1,363,376	-	-	-
Total General Fund	<u>\$ 28,260,602</u>	<u>\$ 25,155,125</u>	<u>\$ 24,121,256</u>	<u>\$ 29,574,272</u>	<u>\$ 29,180,624</u>
All Other Governmental Funds					
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	3,949,583	4,485,246	5,663,182	6,386,014	5,627,707
Committed	-	-	-	3,696,000	10,354,584
Assigned	6,097,182	8,191,823	15,346,558	11,099,076	7,928,994
Unassigned	157,208	183,045	206,875	-	-
Total All Other Governmental Funds	<u>\$ 10,203,973</u>	<u>\$ 12,860,114</u>	<u>\$ 21,216,615</u>	<u>\$ 21,181,090</u>	<u>\$ 23,911,285</u>
Total Fund Balances	<u>\$ 38,464,575</u>	<u>\$ 38,015,239</u>	<u>\$ 45,337,871</u>	<u>\$ 50,755,362</u>	<u>\$ 53,091,909</u>

Continued

Town of Los Gatos
Fund Balance, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

Schedule 3

	Fiscal Year				
	2017/18	2018/19	2019/20	2020/21	2021/22
General Fund					
Nonspendable	\$ -	\$ -	\$ -	\$ 159,000	\$ 159,000
Restricted	1,206,851	5,015,316	669,978	-	690,000
Committed	12,953,399	15,070,944	15,387,706	11,220,970	12,283,132
Assigned	17,475,285	18,256,895	13,277,813	12,534,648	13,764,657
Unassigned	-	-	-	-	-
Total General Fund	<u>\$ 31,635,535</u>	<u>\$ 38,343,155</u>	<u>\$ 29,335,497</u>	<u>\$ 23,914,618</u>	<u>\$ 26,896,789</u>
All Other Governmental Funds					
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	6,992,747	6,903,372	6,448,006	8,562,653	9,383,483
Committed	5,571,087	2,579,997	-	-	637,711
Assigned	6,361,403	6,180,930	14,181,679	15,360,481	13,944,155
Unassigned	-	-	-	-	-
Total All Other Governmental Funds	<u>\$ 18,925,237</u>	<u>\$ 15,664,299</u>	<u>\$ 20,629,685</u>	<u>\$ 23,923,134</u>	<u>\$ 23,965,349</u>
Total Fund Balances	<u>\$ 50,560,772</u>	<u>\$ 54,007,454</u>	<u>\$ 49,965,182</u>	<u>\$ 47,837,752</u>	<u>\$ 50,862,138</u>

Concluded

Town of Los Gatos
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

Schedule 4

	Fiscal Year				
	2012/13	2013/14	2014/15	2015/16	2016/17
Revenues:					
Taxes	\$ 24,596,799	\$ 23,475,393	\$ 23,208,820	\$ 23,269,892	\$ 25,945,129
Licenses & Permits	4,015,871	5,343,265	6,467,771	5,442,133	5,075,503
Intergovernmental	2,615,191	2,440,127	2,921,002	2,573,475	1,715,580
Charges for Services	6,529,234	5,837,581	5,794,386	4,773,001	4,210,174
Fines and Forfeitures	688,125	795,720	868,564	879,277	917,105
Franchise Fees	-	-	2,215,430	2,258,892	2,366,908
Developer Fees	-	-	-	-	-
Investment Income	(133,380)	772,164	428,735	698,308	192,978
Use of Property	38,910	37,741	32,209	31,723	32,096
Other	4,577,584	3,648,277	3,130,975	2,396,992	1,011,939
Total Revenues	42,928,334	42,350,268	45,067,892	42,323,693	41,467,412
Expenditures:					
Current					
General Government	8,331,444	8,499,854	8,647,451	9,144,797	8,390,959
Public Safety	13,370,032	13,742,189	13,747,198	13,763,316	13,251,288
Parks and Public Works	5,616,197	5,611,283	5,840,097	6,307,266	6,633,748
Community Development	4,235,832	4,335,599	4,218,500	3,695,504	3,793,930
Library Services	2,055,069	2,131,438	2,268,844	2,332,268	2,508,677
Sanitation & Other	359,725	322,817	411,863	452,726	466,762
Capital Outlay	6,568,653	4,097,662	3,800,478	3,241,657	6,867,034
Debt Service					
Principal Repayment	-	-	-	-	-
Total Expenditures	40,536,952	38,740,842	38,934,431	38,937,534	41,912,398
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,391,382	3,609,426	6,133,461	3,386,159	(444,986)
Other Financing Sources(Uses):					
Transfers In	2,841,881	3,418,872	8,977,220	3,315,846	7,907,692
Transfers Out	(2,463,850)	(2,921,409)	(7,788,049)	(1,284,514)	(7,612,012)
Gain from Sale of Property	-	-	-	-	-
Issuance of Debt	-	-	-	-	4,435
Total Other Financing Sources(Uses)	378,031	497,463	1,189,171	2,031,332	300,115
Special Item:					
Extraordinary Gain (Loss) RDA Dissolution	295,913	-	-	-	-
Prepayment of Pension Obligations	-	(4,534,538)	-	-	-
Net Change in Fund Balances	\$ 2,769,413	\$ 4,106,889	\$ 7,322,632	\$ 5,417,491	\$ (144,871)
Debt Service as a Percentage of Non Capital Expenditures	0.00%	0.00%	0.00%	0.00%	0.00%

Continued

Town of Los Gatos
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

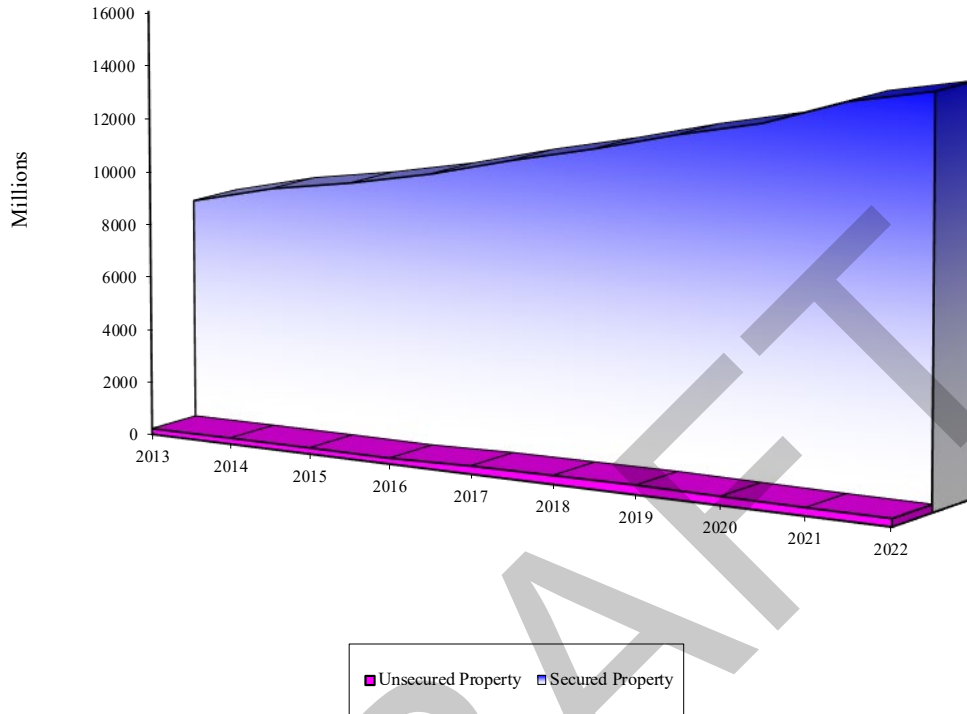
Schedule 4

	Fiscal Year				
	2017/18	2018/19	2019/20	2020/21	2021/22
Revenues:					
Taxes	\$ 26,253,026	\$ 28,244,329	\$ 27,811,665	\$ 28,977,919	\$ 31,627,593
Licenses & Permits	5,937,044	5,173,876	4,818,671	5,212,831	6,055,040
Intergovernmental	2,124,903	2,310,655	4,498,153	3,746,587	15,492,982
Charges for Services	5,395,057	5,584,504	5,309,470	6,035,659	6,925,359
Fines and Forfeitures	676,212	510,266	271,117	103,468	319,170
Franchise Fees	2,474,814	2,475,916	2,495,792	2,499,463	2,822,515
Developer Fees	-	-	-	-	1,735,571
Investment Income	332,938	1,809,164	2,428,453	227,940	(1,278,983)
Use of Property	32,206	32,960	31,039	40,372	144,901
Other	640,844	579,755	376,922	423,115	349,145
Total Revenues	43,867,044	46,721,425	48,041,282	47,267,354	64,193,293
Expenditures:					
Current					
General Government	8,770,082	8,004,254	13,024,146	14,040,134	15,953,968
Public Safety	14,423,554	14,945,407	15,793,815	16,570,836	16,451,190
Parks and Public Works	7,125,686	7,962,135	8,168,599	8,229,944	8,639,128
Community Development	4,192,165	4,577,495	4,473,790	5,195,302	6,313,511
Library Services	2,529,017	2,493,617	2,700,802	2,847,988	2,827,210
Sanitation & Other	521,147	628,240	162,837	166,173	194,969
Capital Outlay	9,778,058	7,888,914	7,861,972	5,707,439	10,478,670
Debt Service					
Principal Repayment	-	-	-	39,008	156,034
Total Expenditures	47,339,709	46,500,062	52,185,961	52,796,824	61,014,680
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,472,665)	221,363	(4,144,679)	(5,529,470)	3,178,613
Other Financing Sources(Uses):					
Transfers In	3,176,760	4,264,131	8,935,260	4,053,535	8,154,307
Transfers Out	(3,880,131)	(3,323,756)	(8,628,719)	(3,940,015)	(8,310,685)
Gain from Sale of Property	378,219	1,912,316	1,566	1,201,369	2,151
Issuance of Debt	-	-	-	1,560,336	-
Total Other Financing Sources(Uses)	(325,152)	2,852,691	308,107	2,875,225	(154,227)
Special Item:					
Extraordinary Gain (Loss) RDA Dissolution	-	-	-	-	-
Prepayment of Pension Obligations	-	-	-	-	-
Net Change in Fund Balances	\$ (3,797,817)	\$ 3,074,054	\$ (3,836,572)	\$ (2,654,245)	\$ 3,024,386
Debt Service as a Percentage of Non Capital Expenditures	0.00%	0.00%	0.00%	0.08%	0.31%

Concluded

Town of Los Gatos
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Schedule 5

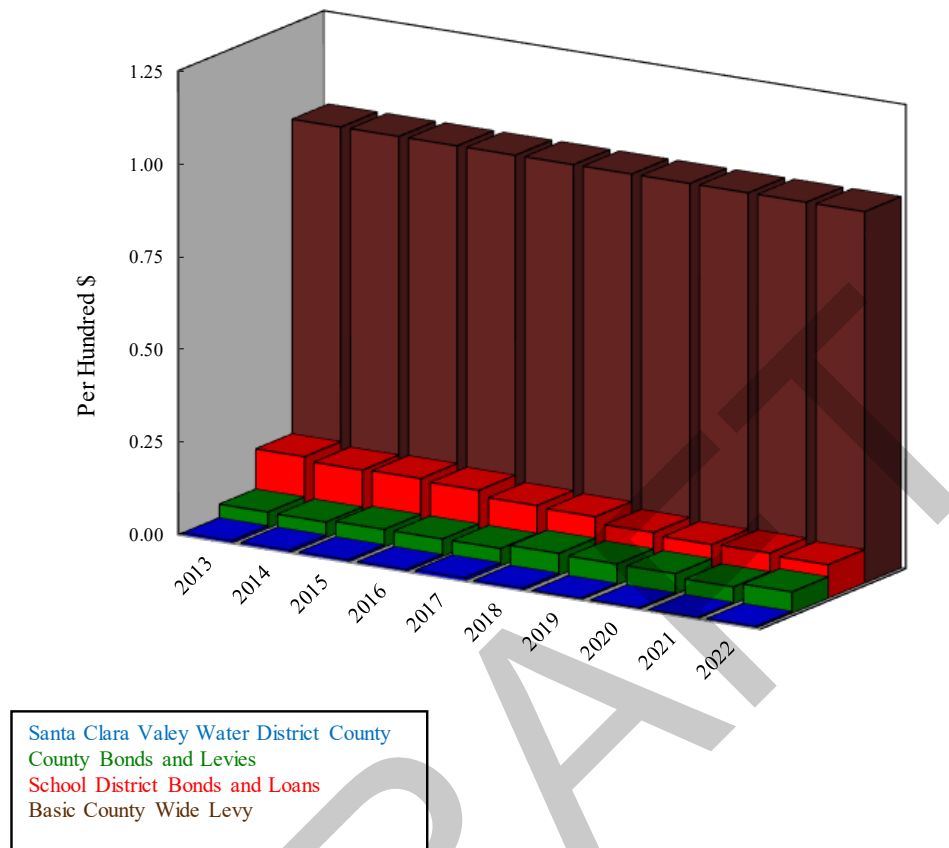


Fiscal Year	Utility and Unsecured Property	Percent Change	Secured Property	Percent Change	Total Assessed	Estimated Full Market	Total Direct Tax Rate
2013	211,268,609	-2.77%	8,465,420,032	3.84%	8,676,688,641	33,861,680,128	1.0508
2014	224,079,502	6.06%	9,238,816,900	9.14%	9,462,896,402	36,955,267,600	1.0493
2015	227,331,042	1.45%	9,767,782,505	5.73%	9,995,113,547	39,071,130,020	1.0544
2016	217,035,545	-4.53%	10,417,804,357	6.65%	10,634,839,902	41,671,217,428	1.0533
2017	304,443,013	40.27%	11,240,554,198	7.90%	11,544,997,211	44,962,216,792	1.0560
2018	330,504,877	8.56%	11,969,049,272	6.48%	12,299,554,149	47,876,197,088	1.0659
2019	359,276,665	8.71%	12,795,393,103	6.90%	13,154,669,768	51,181,572,412	1.0607
2020	331,517,212	-7.73%	13,510,676,336	5.59%	13,842,193,548	54,042,705,344	1.0598
2021	308,749,655	-6.87%	14,599,669,332	8.06%	14,908,418,987	58,398,677,328	1.0494
2022	304,460,199	-1.39%	15,255,884,284	4.49%	15,560,344,483	61,023,537,136	1.0627

Source: Santa Clara County Assessed Value Report

Town of Los Gatos
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years

Schedule 6



Fiscal Year	Basic County Wide Levy	County Bonds and Levies	Santa Clara Valley Water District	School District Bonds and Loans	Total
2013	1.0000	0.0439	0.0069	0.1523	1.2031
2014	1.0000	0.0423	0.0070	0.1417	1.1910
2015	1.0000	0.0479	0.0065	0.1442	1.1986
2016	1.0000	0.0476	0.0057	0.1381	1.1914
2017	1.0000	0.0474	0.0086	0.1223	1.1783
2018	1.0000	0.0597	0.0062	0.1177	1.1836
2019	1.0000	0.0565	0.0042	0.1006	1.1613
2020	1.0000	0.0557	0.0041	0.0935	1.1533
2021	1.0000	0.0457	0.0037	0.0959	1.1453
2022	1.0000	0.0576	0.0051	0.0902	1.1529

Source: Santa Clara County Book of Tax Rates

Town of Los Gatos
Principle Property Tax Payers
Last Ten Fiscal Years *

Schedule 7

ASSEESSEE NAME	2012/13		2013/14		2014/15		2015/16		2016/17	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
750 University LLC	\$ 12,137,999	0.14%	\$ 18,600,000	0.20%	\$ 19,000,000	0.19%	\$ 19,379,620	0.19%	\$ 19,675,159	0.18%
980 JR LLC										
140 Toll House Hotel LLC										
Alberto Way Holdings LLC	23,145,064	0.27%	23,607,964	0.26%	23,715,141	0.24%	24,188,966	0.23%	24,557,845	0.22%
Ann R. Desantis			13,823,779	0.15%						
Boccardo Corporation	37,550,368	0.44%	38,617,912	0.42%	38,772,905	0.40%	21,617,318	0.21%	21,918,921	0.20%
CH Realty IV Downing LP	19,525,927	0.23%	19,916,443	0.22%						
CHL Ventures LP	20,671,962	0.24%	-	0.00%						
D&K Los Gatos LLC	15,590,010	0.18%	15,901,809	0.17%	15,974,003	0.16%	16,293,163	0.16%		
David A. and Shari Flick Trustee	15,018,971	0.18%			15,388,884	0.16%				
Donahue Schriber Realty Group LP										
DS Downing Los Gatos LLC					20,006,861	0.20%	21,980,568	0.21%	22,315,770	0.20%
DS Village Square									22,799,599	0.20%
El Camino Hospital					20,803,609	0.21%	26,477,160	0.25%	26,880,933	0.24%
Equestrian 3 Investments LLC										
Fox Creek Fund LLC										
Good Samaritan Hospital LP	19,530,183	0.23%	19,710,897	0.21%	19,602,584	0.20%	19,880,366	0.19%	22,402,756	0.20%
Grade Way Associations VI	14,798,651	0.17%	15,094,623	0.16%	15,163,152	0.16%				
Green Eyes LLC	12,542,555	0.15%	12,793,404	0.14%						
Grosvenor USA Ltd.	22,437,962	0.27%	22,886,720	0.25%	22,990,624	0.24%	23,449,975	0.23%		
Health Care REIT Inc.	19,223,348	0.23%	20,671,960	0.22%	20,765,810	0.21%	20,089,903	0.19%	20,396,274	0.18%
Hercules Holding II LLC										
International Hotel										
Kay K. & Go Sasaki Sr., Trustee			22,752,809	0.25%			24,744,983	0.24%	25,122,131	0.22%
Knowles Los Gatos LLC	47,045,934	0.56%	47,986,850	0.52%	48,204,708	0.49%	49,167,836	0.47%	49,917,644	0.44%
LSL Capital Partners	42,532,721	0.50%	43,383,370	0.47%	43,580,326	0.45%	30,134,614	0.29%	30,105,945	0.27%
Leland E Lester, Trustee									29,004,169	0.26%
LG Business Park Bldg 3 LLC							61,947,284	0.59%		
LG Business Park Bldg 4 LLC										
LG Business Park LLC			47,276,977	0.51%	39,347,485	0.40%	17,507,261	0.17%	31,070,572	0.28%
LG Hotel LLC					15,448,057	0.16%	15,497,395	0.15%		
Los Gatos Hotel Corp.	15,617,134	0.18%	18,134,182	0.20%	15,573,314	0.16%	15,676,113	0.15%		
Lyon Baytree Apartments LLC	14,430,123	0.17%	14,674,716	0.16%						
Paul H. Roskoph	13,416,452	0.16%								
Preylock Los Gatos LLC										
Safeway Inc.										
San Jose Water Works	30,882,009	0.36%	33,626,381	0.36%	36,693,453	0.38%	37,081,049	0.36%	38,710,728	0.34%
Serramonte Corporate Center LLC										
SI 32 LLC					150,563,119	1.54%	141,348,894	1.36%	143,442,269	1.28%
SI Los Gatos LLC										
Sobrato Interests IV LLC	157,559,245	1.86%	169,809,676	1.84%	20,869,338	0.21%	44,930,482	0.43%	42,240,994	0.38%
SRI Old Town LLC	30,374,286	0.36%	30,981,771	0.34%	31,122,427	0.32%	31,744,252	0.30%	32,228,351	0.29%
Summerhill N40 LLC										
Summerhill Prospect Avenue LLC									18,274,508	0.16%
Wealthcap Los Gatos 121									109,100,000	0.97%
Wealthcap Los Gatos 31									84,000,000	0.75%
Total - Principal taxpayers	\$ 584,030,904	6.90%	\$ 650,252,243	7.68%	\$ 394,337,473	6.49%	\$ 1,296,723,012	6.37%	\$ 814,164,568.00	7.24%
Total - All real properties assessed by the Town (1)	\$8,464,491,112		\$9,237,887,980		\$9,766,765,025		\$10,416,786,877		\$11,239,536,718	

(1) Assessed value includes only net secured real properties.

(2) Excludes the value of tax-exempt properties

Source Data: California Municipal Statistics, Inc.

Continued

Town of Los Gatos
Principle Property Tax Payers
Last Ten Fiscal Years *

Schedule: 7

	2017/18		2018/19		2019/20		2020/21		2021/22	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
ASSEESSEE NAME										
150 University LLC	\$ 25,241,863	0.21%	\$ 25,746,699	0.20%	\$ 26,261,632	0.19%	\$ 26,786,863	0.18%	\$ 27,064,374	0.19%
180 JR LLC			19,277,879	0.15%						
140 Toll House Hotel LLC							35,043,180	0.24%	35,499,104	0.24%
Alberto Way Holdings LLC	25,048,998	0.21%	25,549,975	0.20%	24,158,350	0.18%	24,641,514	0.17%	24,896,799	0.17%
Ann R. Desantis										
Boccardo Corporation	22,211,650	0.19%	22,651,732	0.18%	23,099,314	0.17%				
CH Realty IV Downing LP										
CHL Ventures LP										
CHK Los Gatos LLC										
David A. and Shari Flick Trustee										
Donahue Schriber Realty Group LP	53,872,083	0.45%	56,370,186	0.44%	57,497,587	0.43%	58,647,535	0.40%	59,255,121	0.41%
DS Downing Los Gatos LLC										
DS Village Square										
El Camino Hospital	23,353,576	0.20%	28,596,104	0.22%	30,789,155	0.23%	42,611,768	0.29%	50,456,560	0.35%
Equestrian 3 Investments LLC	29,584,251	0.25%	28,563,864	0.22%	25,525,880	0.19%	26,036,395	0.18%	26,306,130	0.18%
Fox Creek Fund LLC			21,558,664	0.17%					27,231,335	0.19%
Good Samaritan Hospital LP	22,516,823	0.19%	22,934,274	0.18%	23,391,289	0.17%	23,846,402	0.16%	24,111,608	0.17%
Grade Way Associations VI										
Green Eyes LLC										
Grosvenor USA Ltd.										
Health Care REIT Inc.										
Hercules Holding II LLC										
International Hotel	30,144,617	0.25%	30,747,509	0.24%	31,362,458	0.23%	31,989,706	0.22%		
May K. & Go Sasaki Sr., Trustee	25,624,027	0.21%	26,135,962	0.20%	28,864,942	0.21%	27,190,951	0.19%	27,471,495	0.19%
Knowles Los Gatos LLC	50,915,995	0.43%	51,934,313	0.41%	52,972,998	0.39%	54,032,455	0.37%	54,592,229	0.37%
LSL Capital Partners	25,893,946	0.22%	26,411,820	0.21%	33,069,058	0.24%	33,118,759	0.23%	33,037,818	0.23%
Leland E Lester, Trustee										
LG Business Park Bldg 3 LLC	53,465,724	0.45%								
LG Business Park Bldg 4 LLC	43,937,857	0.37%								
LG Business Park LLC										
LG Hotel LLC										
Los Gatos Hotel Corp.										
Lyon Baytree Apartments LLC										
Paul H. Roskoph										
Preylock Los Gatos LLC					89,141,472	0.66%	95,880,000	0.66%	96,873,316	0.66%
Safeway Inc.	24,394,468	0.20%			25,752,231	0.19%	25,577,034	0.18%		
San Jose Water Works	41,202,805	0.34%	46,150,577	0.36%	47,777,432	0.35%	49,649,154	0.34%	53,320,614	0.37%
Serramonte Corporate Center LLC			200,844,610	1.57%	204,861,501	1.52%	208,958,729	1.43%	211,123,540	1.45%
SI 32 LLC	146,317,944	1.22%	149,208,182	1.17%	152,166,578	1.13%	155,181,793	1.06%	158,132,236	1.08%
SI Los Gatos LLC									33,214,527	0.23%
Sobrato Interests IV LLC	43,071,837	0.36%	43,919,879	0.34%	44,781,377	0.33%	45,682,006	0.31%	46,155,127	0.32%
SRI Old Town LLC	32,872,917	0.27%	33,530,374	0.26%	34,200,980	0.25%	34,884,999	0.24%	35,246,406	0.24%
Summerhill N40 LLC					56,244,782	0.42%	57,369,661	0.39%	59,462,462	0.41%
Summerhill Prospect Avenue LLC										
Wealthcap Los Gatos 121	111,282,000	0.93%	113,507,640	0.89%	115,777,792	0.86%	118,093,347	0.81%	119,316,793	0.82%
Wealthcap Los Gatos 31	85,680,000	0.72%	87,393,600	0.68%						
Total - Principal taxpayers	\$ 916,633,381	7.66%	\$ 1,061,033,843	8.29%	\$ 1,127,696,808	8.35%	\$ 1,175,222,251	8.05%	\$ 1,202,767,594	8.24%
Total - All real properties assessed by the Town (1)	\$11,968,031,792		\$12,793,751,423		\$13,509,034,656		\$14,598,027,652		\$15,254,242,604	

(1) Assessed value includes only net secured real properties

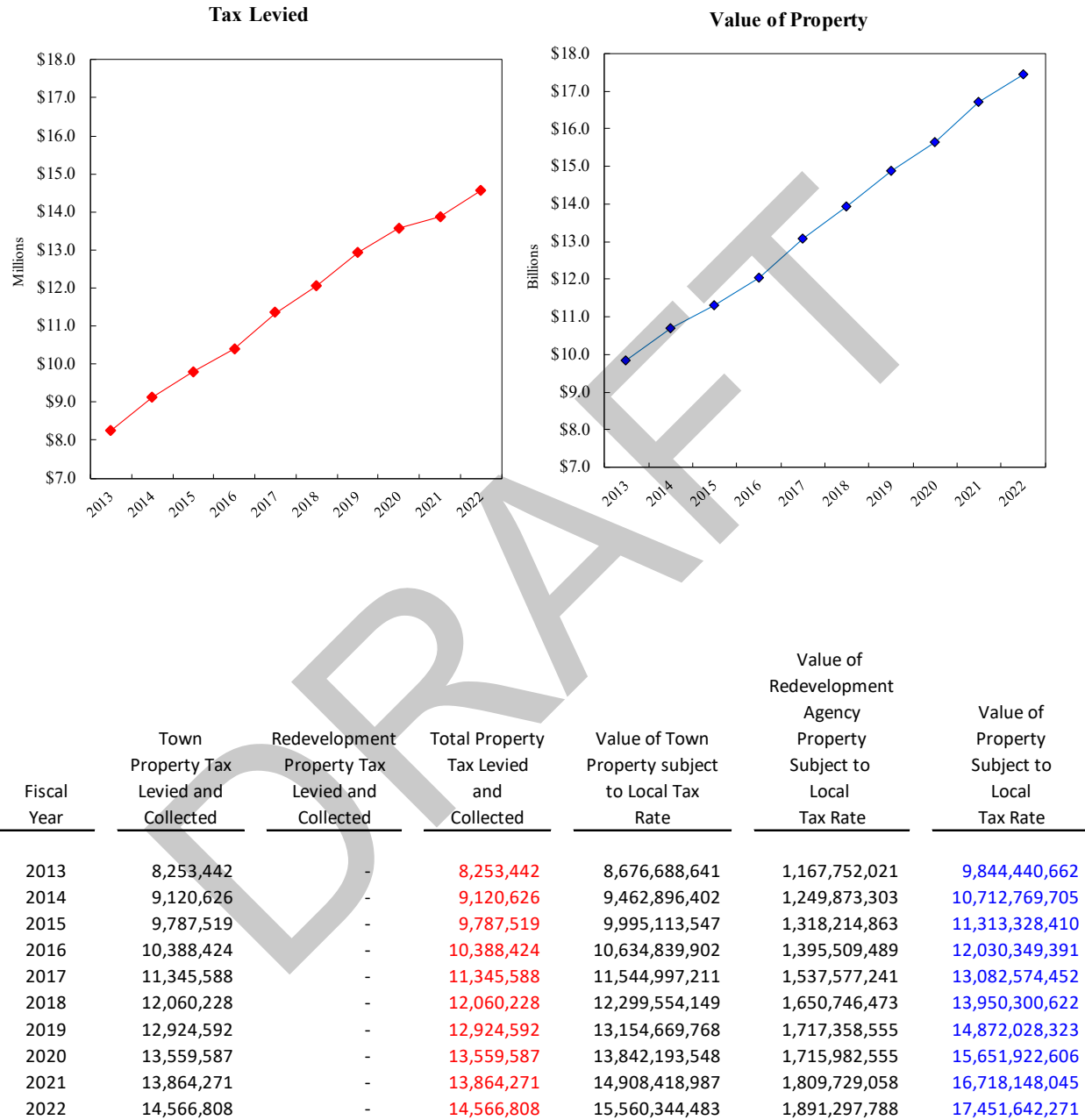
(2) Excludes the value of tax-exempt properties

Source Data: California Municipal Statistics, Inc.

Concluded

Town of Los Gatos
Property Tax Levies and Collections
Last Ten Fiscal Years

Schedule 8



Sources: Santa Clara County Auditor-Controller Office and the Town of Los Gatos

Town of Los Gatos
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Schedule 9

Governmental Activities					
Fiscal Year	PG&E Loan	Total Governmental Activities	Total Primary Government	Percentage of Personal Income	Per Capita
2013	-	-	-	0.0%	0.00
2014	-	-	-	0.0%	0.00
2015	-	-	-	0.0%	0.00
2016	-	-	-	0.0%	0.00
2017	-	-	-	0.0%	0.00
2018	-	-	-	0.0%	0.00
2019	-	-	-	0.0%	0.00
2020	-	-	-	0.0%	0.00
2021	\$ 1,508,325	\$ 1,508,325	\$ 1,508,325	56.2%	48.91
2022	\$ 1,352,291	\$ 1,352,291	\$ 1,352,291	44.3%	40.90

Debt was transferred to the Successor Agency Trust Fund as a part of the RDA dissolution in FY 2011

Town of Los Gatos
Direct and Overlapping Governmental Activities Debt
As of June 30, 2022

2021/22 Assessed Valuation:

\$15,560,344,483

Estimated Share

DIRECT AND OVERLAPPING BONDED DEBT:

Overlapping Tax & Assessment Debt

	% Applicable ⁽¹⁾	Total Debt at June 30, 2022	Estimated Share of Direct and Overlapping Debt at June 30, 2022
Santa Clara County	2.700%	\$ 1,130,850,000	\$ 30,532,950
West Valley-Mission Community College District	9.435%	\$ 732,500,000	\$ 69,111,375
Campbell Union High School District	7.738%	\$ 371,390,000	\$ 28,738,158
Los Gatos-Saratoga Joint Union High School District	36.310%	\$ 84,030,000	\$ 30,511,293
Cambrian School District	0.441%	\$ 60,969,944	\$ 268,877
Campbell Union High School District	7.587%	\$ 223,499,324	\$ 16,956,894
Los Gatos Union School District	74.114%	\$ 67,035,000	\$ 49,682,320
Saratoga Union School District	0.033%	\$ 17,243,915	\$ 5,690
Union School District	20.254%	\$ 105,359,439	\$ 21,339,501
Midpeninsula Regional Open Space District	4.402%	\$ 84,575,000	\$ 3,722,992
Santa Clara Valley Water District Benefit Assessment District	2.700%	\$ 48,150,000	\$ 1,300,050
Total Overlapping Tax and Assessment Debt			\$ 252,170,100

Overlapping General Fund Debt

Santa Clara County General Fund Obligations	2.700%	\$ 1,210,694,365	\$ 32,688,748
Santa Clara County Pension Obligations	2.700%	\$ 335,638,470	\$ 9,062,239
Santa Clara County Board of Education Certificates of Participation	2.700%	\$ 1,820,000	\$ 49,140
West Valley-Mission Community College District General Fund Obligations	9.435%	\$ 12,000,000	\$ 1,132,200
Campbell Union High School District General Fund Obligations	7.738%	\$ 15,500,000	\$ 1,199,390
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	36.310%	\$ 755,000	\$ 274,141
Campbell Union School District General Fund Obligations	7.587%	\$ 1,890,000	\$ 143,394
Saratoga Union School District Certificates of Participation	0.033%	\$ 2,335,000	\$ 771
Santa Clara County Vector Control District Certificates of Participation	2.700%	\$ 1,505,000	\$ 40,635
Midpeninsula Regional Open Space Park District General Fund Obligations	4.402%	\$ 99,705,600	\$ 4,389,041
Total Gross Overlapping General Fund Debt			\$ 48,979,699
Less: Santa Clara County Supported Obligations			\$ 488,127
Total Overlapping General Fund Debt			\$ 48,491,572

Overlapping Tax Increment Debt (Successor Agency)

Town of Los Gatos Certificated of Participations			\$ 12,785,000
Total of Overlapping Tax Increment Debt			\$ 12,785,000

Total Direct Debt

Total Gross Overlapping Debt			\$ 313,934,799
Total Net Overlapping Debt			\$ 313,446,672

Gross Combined Total Debt			\$ 313,934,799 ⁽²⁾
Net Combined Total Debt			\$ 313,446,672

⁽¹⁾ The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue bonds and non-bonded capital lease obligations.

Ratios to 2021/22 Assessed Valuation:

Total Overlapping Tax and Assessment Debt: 1.62%
Total Direct Debt: 0.00%
Gross Combined Total Debt: 2.02%
Net Combined Total Debt: 2.01%

Ratios to Redevelopment Incremental Valuation (\$1,639,262,076):

Total Overlapping Tax Increment Debt: 0.78%

Source Data: California Municipal Statistics, Inc.

Town of Los Gatos
Legal Debt Margin Information,
Last Ten Fiscal Years
(In Thousands of Dollars)

Schedule 11

	Fiscal Year				
	2012/13	2013/14	2014/15	2015/16	2016/17
Debt Limit	\$ 1,216,131	\$ 1,263,138	\$ 1,379,254	\$ 1,444,943	\$ 1,556,252
Debt Applicable to Limit	-	-	-	-	-
Legal Debt Margin	\$ 1,216,131	\$ 1,263,138	\$ 1,379,254	\$ 1,444,943	\$ 1,556,252
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	0.00%	0.00%	0.00%	0.00%	0.00%

Continued

Notes:

- (1) The Town of Los Gatos is a general law city and has a debt limit of 15%.
(2) Excludes RDA assessed valuation and debt transferred to the Successor Agency trust as a part of the RDA dissolution.

Town of Los Gatos
Legal Debt Margin Information
Last Ten Fiscal Years
(In Thousands of Dollars)

Schedule 11

Legal Debt Margin Calculation
for Fiscal Year 2021/22

Assessed Value	\$	15,560,344,483
Debt Limit		2,334,051,672
Debt Applicable to Limit:		
Legal Debt Margin	\$	<u>2,334,051,672</u>

	Fiscal Year				
	2017/18	2018/19	2019/20	2020/21	2021/22
Debt Limit	\$ 1,679,736	\$ 1,789,097	\$ 2,076,329	\$ 2,236,263	\$ 2,334,052
Debt Applicable to Limit	-	-	-	1,508	1,352
Legal Debt Margin	\$ 1,679,736	\$ 1,789,097	\$ 2,076,329	\$ 2,234,755	\$ 2,332,699

Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	0.00%	0.00%	0.00%	0.07%	0.06%
					Concluded

Town of Los Gatos
Demographic and Economic Statistics
Last Ten Fiscal Years

Schedule 12

Fiscal Year Ended	Population (1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income (3)	Median Age (4)	Public School Enrollment (5)	County Unemployment Rate (6)
2012	29,808	\$ 1,854,892	62,228	42.64	6,352	8.7%
2013	30,247	\$ 2,140,641	70,772	45.8	6,420	6.8%
2014	30,443	\$ 2,267,912	74,497	45.80	6,522	5.7%
2015	30,505	\$ 2,197,885	72,050	46.10	6,622	3.8%
2016	31,376	\$ 2,286,087	72,861	46.30	6,646	3.5%
2017	31,314	\$ 2,281,569	72,861	46.50	6,631	3.8%
2018	30,601	\$ 2,290,638	74,855	46.81	6,588	2.6%
2019	30,998	\$ 2,365,178	76,301	46.72	6,544	2.6%
2020	31,439	\$ 2,546,748	81,006	46.83	6,520	10.7%
2021	30,836	\$ 2,686,155	87,111	46.83	6,180	5.2%
2022	33,062	\$ 3,055,987	92,432	46.67	6,000	2.2%

Source:

- (1) California State Dept. of Finance - Population Research Unit (January 2019)
(2) California State Dept. of Finance - Estimate equals county per capita average times population
(3) US Census Bureau - QuickFacts
(4) Claritas demographic snapshot report
(5) Los Gatos Saratoga Joint Union and Los Gatos Union Elementary School Districts
(6) State of California, Employment Development Dept., Labor Market Info. Div.

Town of Los Gatos
Principal Employers
Last Ten Fiscal Years

Schedule 13

Principal Employers	2012/13		2013/14		2014/15		2015/16		2016/17	
	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment
Columbia Health Care Assoc/Mission Oaks Hospital	2,000	13.29%	2,000	13.52%	-	0.00%	-	0.00%	-	0.00%
El Camino Hospital, Los Gatos	700	4.65%	700	4.73%	560	3.73%	560	3.53%	560	3.49%
Los Gatos Union School District	275	1.83%	237	1.60%	273	1.82%	280	1.76%	274	1.71%
Los Gatos-Saratoga High School District	270	1.79%	256	1.73%	157	1.05%	157	0.99%	370	2.30%
Netflix	900	5.98%	825	5.58%	1,530	10.19%	1,976	12.45%	1,864	11.61%
Safeway	250	1.66%	250	1.69%	314	2.09%	314	1.98%	314	1.95%
Alain Pinel Realtors	150	1.00%	156	1.05%	156	1.04%	146	0.92%	148	0.92%
Courtside Tennis Club	200	1.33%	295	1.99%	440	2.93%	440	2.77%	468	2.91%
Town of Los Gatos	138	0.92%	144	0.97%	157	1.05%	158	1.00%	160	1.00%
Whole Foods	-	0.00%	-	0.00%	179	1.19%	179	1.13%	179	1.11%
Vasona Creek Health Care Center	-	0.00%	-	0.00%	233	1.55%	233	1.47%	233	1.45%
Good Samaritan Regional Cancer Center	-	0.00%	-	0.00%	200	1.33%	200	1.26%	200	1.25%
Roku	-	0.00%	-	0.00%	-	0.00%	487	3.07%	554	3.45%
Terraces of Los Gatos	-	0.00%	-	0.00%	-	0.00%	228	1.44%	228	1.42%

Source: Town of Los Gatos, Finance
Department and Muniservices

Continued

Town of Los Gatos
Principal Employers
Last Ten Fiscal Years

Schedule 13

	2017/18		2018/19		2019/20		2020/21		2021/22	
	Percentage of Total Town		Percentage of Total Town		Percentage of Total Town		Percentage of Total Town		Percentage of Total Town	
<u>Principal Employers</u>	Emp.	Employment	Emp.	Employment	Emp.	Employment	Emp.	Employment	Emp.	Employment
Columbia Health Care Assoc/Mission Oaks Hospital		0.00%		0.00%		0.00%		0.00%		0.00%
El Camino Hospital, Los Gatos	560	3.43%	560	3.49%	560	3.49%	560	3.35%	517	3.20%
Los Gatos Union School District	267	1.64%	281	1.75%	281	1.75%	281	1.68%	281	1.74%
Los Gatos-Saratoga High School District	367	2.25%	367	2.28%	367	2.28%	320	1.92%	320	1.98%
Netflix	2,117	12.98%	2,314	14.41%	2,314	14.41%	2,524	15.11%	2,278	14.10%
Safeway	314	1.92%	314	1.95%	314	1.95%	314	1.88%	314	1.94%
Alain Pinel Realtors	131	0.80%	131	0.82%	131	0.82%		0.00%		0.00%
Courtside Tennis Club	542	3.32%	542	3.37%	542	3.37%	542	3.24%	542	3.36%
Town of Los Gatos	159	0.97%	160	1.00%	160	1.00%	161	0.96%	165	1.02%
Whole Foods	179	1.10%	125	0.78%	125	0.78%	125	0.75%	180	1.11%
Vasona Creek Health Care Center	233	1.43%	233	1.45%	233	1.45%	250	1.50%	250	1.55%
Good Samaritan Regional Cancer Center	200	1.23%	200	1.25%	200	1.25%	200	1.20%	200	1.24%
Roku	664	4.07%	516	3.21%	516	3.21%		0.00%		0.00%
Terraces of Los Gatos	228	1.40%	228	1.42%	228	1.42%	228	1.36%	200	1.24%

Source: Town of Los Gatos, Finance
Department and Muniservices

Concluded

Town of Los Gatos
 Full-time-Equivalent Employees by Function/Program
 Last Ten Fiscal Years

Schedule 14

Function/Program	Full-time-Equivalent Employees as of June 30									
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
General Government	20.40	20.73	20.97	20.97	21.35	21.97	22.16	21.80	21.80	22.06
Police	58.00	57.50	60.00	59.00	59.00	59.00	59.00	60.00	60.00	60.00
Economic Development	-	0.50	0.63	0.63	0.63	0.75	0.75	0.75	0.75	0.75
Library	8.60	10.30	10.80	11.00	12.25	12.25	12.50	12.50	12.50	12.50
Planning	17.50	17.50	19.50	19.00	19.26	19.63	20.08	20.08	20.20	20.20
Public Works	31.00	31.50	32.00	33.50	33.50	34.50	34.50	34.50	34.75	34.75
Total	135.50	138.03	143.90	144.10	145.98	148.10	148.99	149.63	150.00	150.26

Full-time equivalent employment is calculated as one or more employee positions totaling one full year of service or approximately 2,080 hours a year.

Page C-45 of Town Budget FY 2021/22

Town of Los Gatos
Operating Indicators
Last Ten Fiscal Years

Schedule 15

FUNCTION/PROGRAM

	Fiscal Year				
	2012/13	2013/14	2014/15	2015/16	2016/17
General government					
Building Permits Issued					
Residential Permits Issued	738	813	805	899	744
Residential Permits Value	75,227,889	87,307,822	76,896,111	85,000,754	53,625,891
Commercial Permits Issued	137	139	133	147	135
Commercial Permits Value	46,855,615	138,676,507	178,195,997	20,185,884	50,024,177
Publicly Owned Permits Issued	-	-	-	-	-
Publicly Owned Permits Value	-	-	-	-	-
Residential Parking Permits					
Number of Special Event Permits Issued	125	133	127	107	118
Number of Annual Permits Issued	1,320	1,376	1,570	1,363	1,251
City Clerk					
Number of Council Resolutions Passed	74	86	72	61	69
Number of Ordinances Passed	20	16	9	11	5
Number of Contracts Passed	220	196	222	283	240
General Services					
Number of Purchase Orders Issued	318	301	277	334	331
Police					
Physical Arrests	648	641	695	987	1,030
Parking Violations	11,991	14,421	13,321	13,975	12,863
Traffic Violations	3,333	4,747	4,633	5,400	4,634
DUI Arrests	86	62	48	58	60
Library					
Number of Library Visits	-	-	-	-	-
Annual Circulation	-	-	-	-	-
Number of Library Card holders	-	-	-	-	-
Circulated e-audiobooks	4,774	2,414	5,867	7,761	10,006
Other Public Works					
Street Resurfacing/Overlay/Reconstruction (miles)	8.0	10.0	1.8	8.0	10.0
ADA Compliance: Curb Ramps	19	19	23	11	30
Traffic Circles	1	-	1	1	1
Street Poles	1,611	1,611	1,609	1,609	1,609
Planning and Development Department					
Building & Safety Inspections Performed	11,902	12,764	11,652	8,655	14,722
Redevelopment: Number of active projects	-	-	-	-	-

Source: Town of Los Gatos, Finance Department

Continued

Town of Los Gatos
Operating Indicators
Last Ten Fiscal Years

Schedule 15

FUNCTION/PROGRAM

	Fiscal Year				
	2017/18	2018/19	2019/20	2020/21	2021/22
General government					
Building Permits Issued					
Residential Permits Issued	849	814	898	1,128	1,144
Residential Permits Value	63,083,249	80,030,846	47,961,529	111,242,724	132,784,439
Commercial Permits Issued	105	122	92	68	117
Commercial Permits Value	16,626,196	13,295,999	12,389,688	37,285,259	23,442,964
Publically Owned Permits Issued	-	-	-	-	-
Publically Owned Permits Value	-	-	-	-	-
Residential Parking Permits					
Number of Special Event Permits Issued	113	78	-	-	- (2)
Number of Annual Permits Issued	1,342	1,395	1,400	1,568	1,958
City Clerk					
Number of Council Resolutions Passed	69	59	57	50	64
Number of Ordinances Passed	17	11	24	9	14
Number of Contracts Passed	262	245	242	205	296
General Services					
Number of Purchase Orders Issued	322	343	359	376	306
Police					
Physical Arrests	1,164	1,138	616	360	504
Parking Violations	11,784	6,817	4,023	1,584	4,678
Traffic Violations	4,757	2,877	1,225	764	1,245
DUI Arrests	51	70	64	23	49
Library					
Number of Library Visits	-	-	-	-	150,198 (4)
Annual Circulation	-	-	-	-	432,707 (4)
Number of Library Card holders	-	-	-	-	29,322 (4)
Circulated e-audiobooks	8,844	12,130	57,839	54,614	- (3)
Other Public Works					
Street Resurfacing/Overlay/Reconstruction (miles)	2.6	5.8	16.2	10.0	9.9
ADA Compliance: Curb Ramps	68	49	68	91	59
Traffic Circles	1	1	1	1	1
Street Poles	1,762	1,830	1,830	1,830	1,830
Planning and Development Department					
Building & Safety Inspections Performed	13,918	13,966	13,633	13,806	16,906
Redevelopment: Number of active projects	-	-	-	-	-

(1) July 2013 the Library separated from Northern CA Digital Library, Patrons had no longer access to collections of multiple libraries. By 2014 the Library has expanded its contents giving patrons access to more materials.

(2) The Town streamlined the special event application where multiple events require only one permit.

(3) Changed operating indicators to fully reflect Department's efficiency metrics starting FY 2021/22.

(4) New metrics being presented in FY 2021/22.

Source: Town of Los Gatos, Finance Department

Concluded

Town of Los Gatos
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Schedule 16

Function/Program	Fiscal Year									
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Police										
Number of Stations	2	2	2	2	2	2	2	2	2	2
Number of Patrol Units	14	14	14	14	14	14	14	14	14	14
Parking Enforcement Vehicles	2	2	2	2	2	2	2	2	2	2
Other Public Works										
Streets (miles)	132	132	132	132	132	132	132	132	132	132
Streetlights	2,116	2,109	1,609	1,609	1,609	1,762	1,830	1,830	1,830	1,830
Traffic Signals	29	29	29	30	30	30	31	31	31	31
Parks and Recreation										
Number of Parks	12	12	12	12	12	12	N/A	N/A	N/A	N/A
Number of Community Centers	1	1	1	1	1	1	1	1	1	1
Number of Parks & Open Spaces	N/A	N/A	N/A	N/A	N/A	N/A	17	17	17	17
Parking										
Number of Parking Garages	1	1	1	1	1	1	1	1	1	1
Number of Parking Lots	22	22	22	22	22	22	22	22	22	22
Number of Off Street Parking Garage Spaces	1,126	1,126	1,126	1,126	1,126	1,126	N/A	N/A	N/A	N/A
Number of Downtown Off-Street Parking Spaces	N/A	N/A	N/A	N/A	N/A	N/A	1,269	1,269	1,269	1,269

Source: Town of Los Gatos, Finance Department

Other Independent Auditor's Reports

DRAFT



Chavan and Associates, llp
Certified Public Accountants

**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 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 year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 6, 2022.

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. However, material weaknesses may exist that have not been identified.

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
December 6, 2022

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**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 12/12/2022

Item 5.

ITEM NO: 5

DESK ITEM

DATE: December 12, 2022
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review the Draft Annual Comprehensive Financial Report (ACFR) for the
Preceding Fiscal Year and Provide Written Comments and Recommendations
Prior to Presenting to the Town Council

REMARKS:

Attachment 2 contains public comments received 11:01 a.m. December 9 to 11:00 a.m.
December 12, 2022.

Attachment previously received with the Staff Report:

1. Draft FY 2021/22 Annual Comprehensive Financial Report

Attachment received with this Desk Item:

2. Public Comment received 11:01 a.m. December 9 to 11:00 a.m. December 12, 2022.

PREPARED BY: Gitta Ungvari
Finance Director

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

From: [Phil Koen](#)
To: [Ron Dickel](#); [Kyle Park](#); [Laurel Prevetti](#); [Arn Andrews](#)
Cc: [Matthew Hudes](#); [Rob Rennie](#)
Subject: General Fund - budget vs sctual FY 21.pdf
Date: Saturday, December 10, 2022 3:22:40 PM
Attachments: [General Fund - budget vs sctual FY 21.pdf](#)

EXTERNAL SENDER

Hello Ron,

Could you please ask Staff to provide detail explanations for the variance between the original budget (please ignore the final budget) and actual results for the following line items -

Other Taxes
Intergovernmental Revenues
Charges for Services
Developer Fees
Non departmental expenditures
Community Development expenditures
Transfer In
Transfer Out

Please be explicit about the source of the variances which are material.

In the case of developer fees, was the assumption there wouldn't be any developer fee revenue for FY 21?

Also, it appears there is a budget to actual favorable variance of approximately \$2.2m arising from position vacancies during the year. Could you please confirm the amount of the variance.

Thank you.

Phil Koen

TOWN OF LOS GATOS, CALIFORNIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 20,036,156	\$ 20,138,320	\$ 21,129,082	\$ 990,762
Sales Taxes	8,177,859	8,671,606	8,483,673	(187,933)
Other Taxes	927,040	1,482,000	1,909,816	427,816
Licenses & Permits	3,869,779	4,477,907	5,096,318	618,411
Intergovernmental	3,881,836	1,148,993	1,263,352	114,359
Charges for Services	3,882,490	4,385,547	5,460,613	1,075,066
Fines and Forfeitures	203,450	213,450	319,170	105,720
Franchise Fees	2,597,630	2,514,020	2,822,515	308,495
Developer Fees	-	-	1,200,000	1,200,000
Interest	440,833	440,833	(1,404,527)	(1,845,360)
Use of Property	32,400	32,400	32,400	-
Other	290,898	290,898	311,040	20,142
Total Revenues	44,340,371	43,795,974	46,623,452	2,827,478
EXPENDITURES				
Current:				
General Government:				
Town Council	201,499	202,890	189,569	13,321
Town Attorney	660,229	669,733	629,936	39,797
Administrative Services	5,087,207	5,965,803	5,441,604	524,199
Non-Departmental	3,546,680	3,581,965	2,792,859	789,106
Total General Government	9,495,615	10,420,391	9,053,968	1,366,423
Public Safety	17,239,480	17,390,966	16,451,190	939,776
Parks & Public Works	8,494,629	9,080,666	8,605,457	475,209
Community Development	5,395,864	5,461,713	6,313,511	(851,798)
Library Services	3,016,395	3,062,707	2,752,397	310,310
Debt Service:				
Principal	-	-	156,034	(156,034)
Total Expenditures	43,641,983	45,416,443	43,332,557	2,083,886
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	698,388	(1,620,469)	3,290,895	4,911,364
OTHER FINANCING SOURCES (USES)				
Gain from sale of assets	600	600	2,151	1,551
Transfers In	633,352	4,047,313	4,047,313	-
Transfers Out	(2,801,047)	(3,833,094)	(4,358,188)	(525,094)
Total Other Financing Sources (Uses)	(2,167,095)	214,819	(308,724)	(523,543)
NET CHANGES IN FUND BALANCE	\$ (1,468,707)	\$ (1,405,650)	2,982,171	\$ 4,387,821
BEGINNING FUND BALANCE			23,914,618	
ENDING FUND BALANCE			\$ 26,896,789	

The notes to the financial statements are an integral part of this statement.

From: [Phil Koen](#)
To: [Ron Dickel](#); [Kyle Park](#); [Laurel Prevetti](#); [Arn Andrews](#)
Subject: Explanation of variance
Date: Saturday, December 10, 2022 3:38:34 PM
Attachments: [GAFR - budget vs actual.pdf](#)

EXTERNAL SENDER

Hello Ron,

Could you please have Staff explain the variance between the original budget and actuals for the following line items -

Intergovernmental revenues
Charges for services
General Government expenditures
Capital outlay
Transfers In

Please provide as much detail as possible so the public understands the changes that occurred vs what was originally planned.

Thank you,

Phil koen

TOWN OF LOS GATOS
APPROPRIATED RESERVES FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Licenses & permits	160,000	160,000	420,055	260,055
Intergovernmental	1,691,069	16,912,649	9,400,918	(7,511,731)
Charges for services	755,676	2,693,556	1,464,746	(1,228,810)
Developer fees	20,000	20,000	535,571	515,571
Interest	-	-	34,805	34,805
Use of Property	-	-	93,001	93,001
Total Revenues	2,626,745	19,786,205	11,949,096	(7,837,109)
EXPENDITURES				
Current:				
General government	-	7,000,000	6,900,000	100,000
Capital outlay	5,414,872	10,894,632	9,570,780	1,323,852
Total Expenditures	5,414,872	17,894,632	16,470,780	1,423,852
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,788,127)	1,891,573	(4,521,684)	(6,413,257)
OTHER FINANCING SOURCES (USES)				
Transfers in	2,841,047	3,584,047	4,074,141	490,094
Transfers (out)	(427,616)	(427,616)	(427,616)	-
Total Other Financing Sources (Uses)	2,413,431	3,156,431	3,646,525	490,094
CHANGE IN FUND BALANCE	<u>\$ (374,696)</u>	<u>\$ 5,048,004</u>	<u>(875,159)</u>	<u>\$ (5,923,163)</u>
BEGINNING FUND BALANCE			<u>15,115,912</u>	
ENDING FUND BALANCE			<u>\$ 14,240,753</u>	

From: [Phil Koen](#)
To: [Ron Dickel](#); [Kyle Park](#); [Laurel Prevetti](#); [Arn Andrews](#)
Cc: [Matthew Hudes](#); [Rob Rennie](#)
Subject: Pages from MEET-Packet-53da3574fd424623bbf1df17f5cf5d20(4).pdf
Date: Sunday, December 11, 2022 5:29:43 AM
Attachments: [Pages from MEET-Packet-53da3574fd424623bbf1df17f5cf5d20\(4\).pdf](#)

EXTERNAL SENDER

Hello Ron,

I have two questions regarding this footnote:

1. If the Town received \$3.6m in the first tranche payment, why was only \$3.4m recognized as operating grant income and not the entire amount? How was the remaining \$200k treated? In what fund is the \$200k balance ?
2. I can see the \$3.6m was transferred out of the ARPA Special Revenue Fund. Please disclose all subsequent funds that received the transfer out and how the \$3.4m was ultimately used. For example was any ARPA funds used by the General Fund?

I would suggest the Staff modify this footnote to increase transparency of how the ARPA money was used and by which funds.

Thank you.

Phil Koen

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

Item 5.

- d. Partnerships for the conversion of existing residential developments dedicated to affordable housing
- e. Grants to the Santa Clara County Housing Trust for the development of affordable housing.

During the fiscal year ended June 30, 2012, the rights and obligations resulting from this cooperative agreement were transferred to the Successor Agency Trust Fund as a part of the Town's dissolution of its Redevelopment Agency.

NOTE 15 - COVID-19 PANDEMIC PROGRAMS

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law by President Biden. The \$1.9 trillion package (the Act) provided financial aid to families, governments, businesses, schools, nonprofits and others impacted by the COVID19 public health crisis. Of the \$1.9 trillion, \$350 billion is being directed toward state and local governments. All 19,000 municipal governments are entitled to a direct, noncompetitive federal formula grant from the U.S. Treasury Department. The portion allocated to cities, towns, and villages totals \$65.1 billion of which \$19.5 billion is obligated toward cities with less than 50,000 residents. The Act will allocate \$7,229,744 to the Town over a two-year period. The first tranche payment of \$3,614,862 was received on July 13, 2021, and the second payment no earlier than 12 months after the first payment.

Section 603. CORONAVIRUS LOCAL FISCAL RECOVERY FUND of the Act identified four eligible uses for funding, as follows:

- A. Respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19) or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
- B. Respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of the metropolitan city, nonentitlement unit of local government, or county that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;
- C. Provide government services to the extent of the reduction in revenue of such metropolitan city, nonentitlement unit of local government, or county due to the COVID-19 public health emergency relative to revenues collected in the most recent full fiscal year of the metropolitan city, nonentitlement unit of local government, or county prior to the emergency; or
- D. Make necessary investments in water, sewer, or broadband infrastructure.

During the fiscal year ended June 30, 2022, the Town recognized \$3,413,961 as operating grant revenue in the ARPA special revenue fund and transferred \$3,413,961 to other funds, reimbursing the Town for qualifying expenditures under the provisions of the Act.

3,614,862
3,413,961

200,901

where?

From: [Phil Koen](#)
To: [Ron Dickel](#); [Kyle Park](#); [Laurel Prevetti](#); [Arn Andrews](#)
Subject: MDA analysis of year over year increases
Date: Monday, December 12, 2022 6:26:41 AM
Attachments: [MDA - govt funds.pdf](#)

EXTERNAL SENDER

Hello Ron,

In reading the explanation for the \$16.9m increase in total Governmental Funds revenues (note elsewhere in the explanation \$15.1m is also reported) and \$8.2m increase in total Governmental Funds expenditures, there are unexplained gaps for both revenue and expenditures increases. Could you please have Staff provide additional detail which explains the following:

1. There is a \$1.5m unexplained increase in intergovernmental revenue beyond the ARPA proceeds and wildfire grant. Could you please provide additional detail regarding the increase so the entire \$11.8m is fully explained. Disclosure as to how much is non-recurring would also be helpful.
2. Total Governmental Expenditures increased \$8.2m year over year. Taking into account the \$6.9m wildfire grant, the \$5.5m reduction in the year over year non-recurring contribution toward pensions (\$.1 less \$5.6m) and the \$1.2m expensing of the affordable housing BMP loan there is still \$5.6m of incremental expenditures unexplained. A portion of this is from increases in salary and benefit expense reduced by staff vacancies throughout the year. Could you please provide additional explanation for the gross increase in salary and benefit expenditures during FY 22 and the offsetting reduction from staff vacancies so the reader has a better understanding of the net incremental expenses from salary and benefits incurred in FY 22. Additionally please provide more detail for the \$4.8m increase in total capital outlay year over year for total Governmental Funds. We note that the original FY 22 GFAR budget for capital outlay was \$5.4m and the actual was \$9.6m. Therefore the majority of the \$4.8m increase appears to be non-planned capital outlays. Please provide more transparency so readers can understand the material increase in year over year capital outlays.
3. The Total Governmental Funds shows total capital outlays for FY 22 were \$10.5m. However the reconciliation of Governmental Funds Statement reports total capital expenditures were \$9.2m. Can you please reconcile the two numbers? What accounts for the \$1.3m difference?
4. Please also provide an explanation of the increases in funds transferred in and out of Governmental Funds from the prior year. I suspect a large portion is the double counting of the \$3.4m ARPA funds being transferred into and out of the General Fund. It would be helpful if there was more transparency to the transfers of the ARPA money across the various funds.

Thank you for your assistance in providing the reader more transparency.

Phil Koen

TOWN OF LOS GATOS
TOTAL GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2022

REVENUES	2022	2021	2020
Property Taxes	\$ 21,167,722	\$ 19,917,428	\$ 18,368,466
Sales Taxes	8,483,673	7,933,604	7,531,425
Other Taxes	1,976,198	1,126,887	1,911,774
Licenses & Permits	6,055,040	5,212,831	4,818,671
Intergovernmental	15,492,982	3,746,587	4,292,453
Charges for Services	6,925,359	6,035,659	5,309,470
Fines and Forfeitures	319,170	103,468	271,117
Franchise Fees	2,822,515	2,499,463	2,495,792
Developer Fees	1,735,571		
Interest	(1,278,983)	227,940	2,428,453
Use of Property	144,901	40,372	31,039
Other	349,145	423,115	376,922
Total Revenues	\$ 64,193,293	\$ 47,267,354	\$ 47,835,582
Δ 16.9m			
EXPENDITURES			
Current:			
Public Safety	\$ 16,451,190	\$ 16,570,836	\$ 15,793,815
General Government	15,953,968	14,040,134	13,024,146
Parks and Public Works	8,639,128	8,229,944	8,168,599
Community Development	6,313,511	5,195,302	4,473,790
Library Services	2,827,210	2,847,988	2,700,802
Sanitation and Other	194,969	166,173	162,837
Capital Outlay	10,478,670	5,746,447	7,861,972
Debt Service			
Principal	156,034		
Total Expenditures	\$ 61,014,680	\$ 52,796,824	\$ 52,185,961
Excess Revenues over Expenditures	\$ 3,178,613	\$ (5,529,470)	\$ (4,350,379)
Proceeds from sales of assets	2,151	1,201,369	1,566
Proceeds from issuance of debt	-	1,560,336	
Transfers in	8,154,307	4,053,535	8,935,260
Transfers out	(8,310,685)	(3,940,015)	(8,628,719)
Total Other Financing Sources (Uses)	\$ (154,227)	\$ 2,875,225	\$ 308,107
Net Changes in Fund Balances	3,024,386	(2,654,245)	(4,042,272)
Beginning/Ending Fund Balances As Restated	\$ 47,837,752	50491997	54,007,454
Ending Fund Balances	\$ 50,862,138	\$ 47,837,752	\$ 49,965,182

Overall, Total Governmental Funds revenues finished \$16.9 million or 35.8% higher than the prior year, while total expenditures finished \$8.2 million or 15.6% higher than the prior year. One of the major driving forces in increased revenues and expenditures is the one-time State pass-through wildfire grant in the amount of \$6.9 million. The approximate \$3.0 million increase in total governmental fund balance is the net result. The majority of excess revenues over

expenditures was due to an increase in property taxes, sales taxes, other taxes, licenses and permits, charges for services and franchise fees of \$4.7 million over the prior year. This was offset by lower mark-to-market values which are recognized as decreases to interest income in FY 2021/22.

General Fund revenues totaled \$46.6 million or nearly 72.6% of the total \$64.2 million in Total Governmental Fund revenues.

Total Governmental funds revenues increased by \$15.1 million, resulting from the net effect of:

- \$11.7 million increase in intergovernmental revenue including the \$6.8 million pass-through grant, \$3.4 million ARPA proceeds;
- \$1.8 million increase in development fees recognized for affordable housing loan and developer fee contributions include the appropriated reserves fund for capital projects;
- \$1.3 million increase in property tax collections;
- \$0.9 million increase in charge of services reflecting current development activities;
- \$0.9 million increase in in licenses and permits;
- \$0.8 million increase in TOT collection;
- \$0.6 million increase in sales tax collection;
- \$0.3 million increase in franchise fees;
- \$0.2 million increase in fines and forfeitures;
- \$0.2 million increase in use of property and other receipts; and
- \$1.5 million decrease in investment income.

Governmental Funds expenditures increased by \$8.2 million. General Fund expenditures represent approximately \$43.3 million of the Total Governmental Fund expenditures of \$61.0 million compared to \$46.2 million of General Fund expenditures and total Governmental Funds expenditures of \$52.8 million in the prior year.

Decreases in public safety expenditures from the prior year of approximately \$0.1 million were due primarily to vacancy savings experienced during the fiscal year.

The \$1.9 million increase in general governmental expenditures was attributable to the combined effect of the one-time \$6.9 million State pass-through wildfire safety grant, coupled with salary and benefit cost increases resulting from labor negotiations and mandated increases in employer pension contribution rates. Another factor was that the Town only contributed nonrecurring additional \$0.1 million toward the OPEB 115 Trust compared to approximately \$5.6 million toward a pension Additional Discretionary Payment and additional OPEB Trust contributions paid in the prior fiscal year.

Increases in Parks and Public Works were primarily due to salary and benefit cost increases resulting from labor negotiations and mandated increases in employer pension contribution rates.

Decreases in Library services expenditures from the prior year of approximately \$28K were due primarily to vacancy savings during the fiscal year.

Increases in Community Development were primarily due to expensing the \$1.2 million affordable housing loan through the Below Market Housing program. In addition, plan check and building inspection expenses increased moderately from the prior year.

Appropriated Reserves Fund capital projects fund balances decreased \$0.9 million from the prior year reflecting increased capital activity during the fiscal year. The \$4.5 million of general government and capital outlay expenditures above operating revenues was offset by \$3.6 million net transfers. The one-time \$6.9 million pass through grant payment for wildfire protection was reported as an intergovernmental revenue with an offsetting general government expenditure. Transfers in included \$0.6 million in ARPA revenue replacement funds.

explain

\$550K

Proprietary Funds

The Town's Proprietary Funds (Internal Service Funds) presented in the Fund Financial Statements section basically provide the same type of information in the Government-Wide Financial Statements and include individual segment information.

Total net position in the Internal Service Funds increased by \$629K a combined effect of GASB 87 increase adjustment of \$687K and a \$57K decrease in the current year due primarily to excess expenses over revenues for workers' compensation and general liability costs including administration, insurance premiums, and claims expense.

GENERAL FUND BUDGETARY HIGHLIGHTS

Changes to the Original Budget

Comparing the FY 2021/22 original budget (i.e., the Adopted Budget) General Fund expenditures of \$43,641,983 (excluding budgeted transfers-out and debt payments that are reimbursed) to the final adjusted budget of \$45,416,443 indicates a net increase of approximately \$1.8 million. Additions to the original expenditure budget included adjustments approved by Town Council throughout the fiscal year.

Original Budget GF Expenditures	+ Misc. Adjustments & Mid-Year Adjustments	= Final Budget
\$43,641,983	<u>\$1,774,460</u>	\$45,416,443

The increase in General Fund appropriations occurred primarily from the following selected budget adjustments made during the fiscal year.

- \$550K expenditure budget increase for Community Grants to recognize Council authorized spending of ARPA in the FY 2021/22.
- \$240K expenditure budget increase to cover the cost for special studies related to Justice, Equity, Diversity, and Inclusion (JEDI) services; the Business Tax Ordinance Review; Council Retreat; and NUMU Antique Map, and compensation study.

*11**

why if there were savings?

From: [Phil Koen](#)
To: [Ron Dickel](#); [Kyle Park](#); [Laurel Prevetti](#); [Arn Andrews](#)
Cc: [Matthew Hudes](#); [Rob Rennie](#); [REDACTED]; [Rick Van Hoesen](#)
Subject: Pages from 5 Year Forecast - Aug 2022 (3).pdf
Date: Monday, December 12, 2022 7:27:57 AM
Attachments: [Pages from 5 Year Forecast - Aug 2022 \(3\).pdf](#)

EXTERNAL SENDER

Hello Ron,

Could you please ask the Staff to provide a detail explanation as to why the FY 22 General Fund estimated revenues as shown in the 5 year forecast (excluding interest, other sources and fund transfer in) totaling \$42.4m was materially different from the actual FY 22 reported revenues of \$47.7m.

The FY Q2 estimate was prepared after FY 22 year end and was the basis for providing a 5 year revenue projection. Presumably the Staff would have very good line of sight on the actual revenues for FY 22 when preparing this forecast. Obviously this wasn't the case. As far as I know, there are no one time revenue events in the actual FY 22 revenue numbers.

If the answer is "we didn't know", the Finance Commission might want to more fully understand why it was not possible to prepare a more reasonable estimate. A 12.5% or \$5.3m increase over the estimate obviously helped the Town this time, but how do we know that it couldn't have gone in the opposite direction?

Also, the voters were told that the General Fund revenues were going to be materially less for FY 22 and was one of the reasons given by the TC for supporting increasing business taxes. This wasn't the case and calls into question whether or not the increase was really needed. How does one know?

Thank you.

Phil Koen

PAGE 3 OF 3

SUBJECT: Updated Five-Year Forecast to reflect the Town's new Labor Agreements

DATE: August 8, 2022

DISCUSSION (continued):

Town of Los Gatos General Fund 5-Year Forecast (in \$ million)									
Account	Revenue Category	2021/22 Adjusted Budget	2021/22 Estimates	2022/23 Proposed Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
4100	Property Tax	\$ 15.4	\$ 15.7	\$ 16.6	\$ 15.7	\$ 16.1	\$ 16.6	\$ 17.1	\$ 17.6
4110	VLF Backfill Property Tax	4.2	4.2	4.4	4.5	4.6	4.8	4.9	5.1
4200	Sales & Use Tax	7.0	7.5	7.9	8.2	8.5	8.8	9.1	9.3
4200	Measure G District Sales Tax	1.2	1.2	1.3	1.4	1.4	1.5	1.5	1.5
4250	Franchise Fees	2.5	2.4	2.5	2.6	2.6	2.7	2.8	2.9
4251	Transient Occupancy Tax	1.4	1.4	1.6	1.7	1.8	1.9	1.9	2.0
4400	Business License Tax	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4
4400	Licenses & Permits	3.1	3.1	2.8	2.8	2.9	3.0	3.1	3.2
4500	Intergovernmental	4.0	1.1	1.1	1.0	1.0	1.0	1.2	1.1
4600	Town Services	4.2	4.3	3.5	4.0	4.1	4.1	4.2	4.3
4700	Fines & Forfeitures	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
4800	Interest	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
4850	Other Sources	2.6	2.4	3.8	2.2	2.2	2.2	2.3	2.2
4900	Fund Transfers In	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
TOTAL OPERATING REVENUES & TRANSFERS*		\$ 48.1	\$ 45.8	\$ 48.0	\$ 46.5	\$ 47.6	\$ 49.0	\$ 50.5	\$ 51.6
	Use of Capital/Special Project Reserve - Capital	0.6	0.6	2.4	0.8	0.8	0.8	0.8	0.8
	Use of Pension/OPEB Reserve	-	0.3	-	-	-	-	-	-
	Use of Property Surplus Reserve	1.2	1.2	-	-	-	-	-	-
	Use of Measure G Reserve	1.1	1.1	0.7	-	-	-	-	-
	ARPA Replacement Revenue	-	-	1.6	-	-	-	-	-
TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES		\$ 51.0	\$ 49.0	\$ 52.7	\$ 47.3	\$ 48.4	\$ 49.8	\$ 51.3	\$ 52.4
Account	Expenditure Category	2021/22 Adjusted Budget	2021/22 Estimates	2022/23 Proposed Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
5110	Salary	20.9	19.2	23.2	23.0	23.5	23.9	24.5	25.0
5120	CalPERS Benefits	7.3	6.2	7.7	7.9	8.3	8.1	8.4	8.5
5200	All Other Benefits	4.2	3.4	4.6	4.4	4.5	4.6	4.7	4.8
6211	OPEB Pay as You Go	1.5	1.5	1.5	1.5	1.6	1.7	1.8	1.9
6000	Operating Expenditures	6.4	7.0	6.9	6.8	7.1	7.1	7.4	7.5
7200	Grants & Awards	1.0	0.8	0.2	0.2	0.2	0.2	0.2	0.3
7400	Utilities	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
8060	Internal Service Charges	2.7	2.6	2.7	2.9	3.1	3.4	3.7	3.8
8900	Debt Service	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
TOTAL OPERATING EXPENDITURES		\$ 46.6	\$ 43.3	\$ 49.3	\$ 49.2	\$ 50.8	\$ 51.6	\$ 53.3	\$ 54.4
	GASB 45 Retiree Medical Actuarial	0.1	0.1	-	-	-	-	-	-
	Additional Discretionary Payment - Pension	0.4	0.7	0.4	0.4	0.4	0.4	0.4	0.4
TOTAL OPERATING & DISCRETIONARY EXPENDITURES		\$ 47.1	\$ 44.1	\$ 49.7	\$ 49.6	\$ 51.2	\$ 52.0	\$ 53.7	\$ 54.8
	Capital Transfers Out to GFAR	2.8	2.8	2.3	0.8	0.8	0.8	0.8	0.8
	Capital Transfer Out - 1/2 of Measure G Proceeds	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8
AMOUNTS AVAILABLE FOR RESERVE ALLOCATIONS									
	Allocate to Budget Stabilization/Catastrophic	-	0.5	-	-	-	-	-	-
	Allocate to Compensated Absences	-	-	-	-	-	-	-	-
	Allocate to Market Fluctuation	-	-	-	-	-	-	-	-
	Allocate to CalPERS/Pension	-	0.3	-	-	-	-	-	-
TOTAL EXPENDITURES & RESERVE ALLOCATIONS		\$ 50.5	\$ 48.3	\$ 52.7	\$ 51.1	\$ 52.7	\$ 53.5	\$ 55.3	\$ 56.4
NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES & RESERVE ALLOCATIONS FOR FINAL ALLOCATION AFTER YEAR END CLOSE		\$ 0.5	\$ 0.6	\$ -	\$ (3.8)	\$ (4.3)	\$ (3.7)	\$ (4.0)	\$ (4.0)
* Due to rounding of individual categories FY 2021/22 Total Expenditures and Reserve Allocations includes \$0.1 million. General Fund (111) Forecast does not include Pension Trusts activities.									

42.4
ns
47.7



**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 12/12/2022

ITEM NO: 6

Item 6.

DATE: December 7, 2022
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Historical Internal Service Funds Balances

RECOMMENDATION:

Receive historical Internal Service Fund balance information.

DISCUSSION:

The Commission Chair requested that staff provide historical Internal Service Funds balances.

Attachment:

1. Internal Service Funds Balance History

PREPARED BY: Gitta Ungvari
Finance Director

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

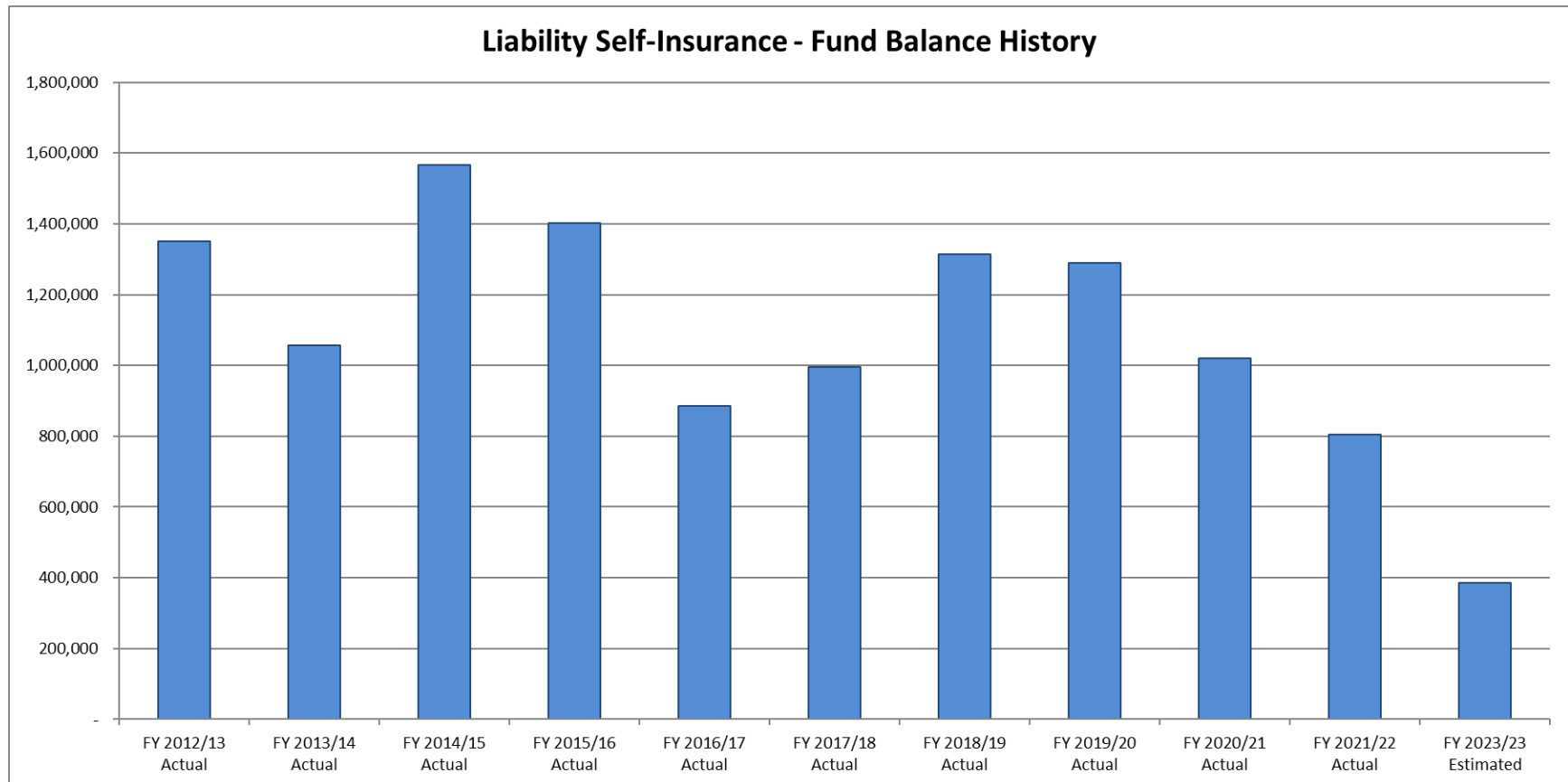
Internal Service Funds Balances

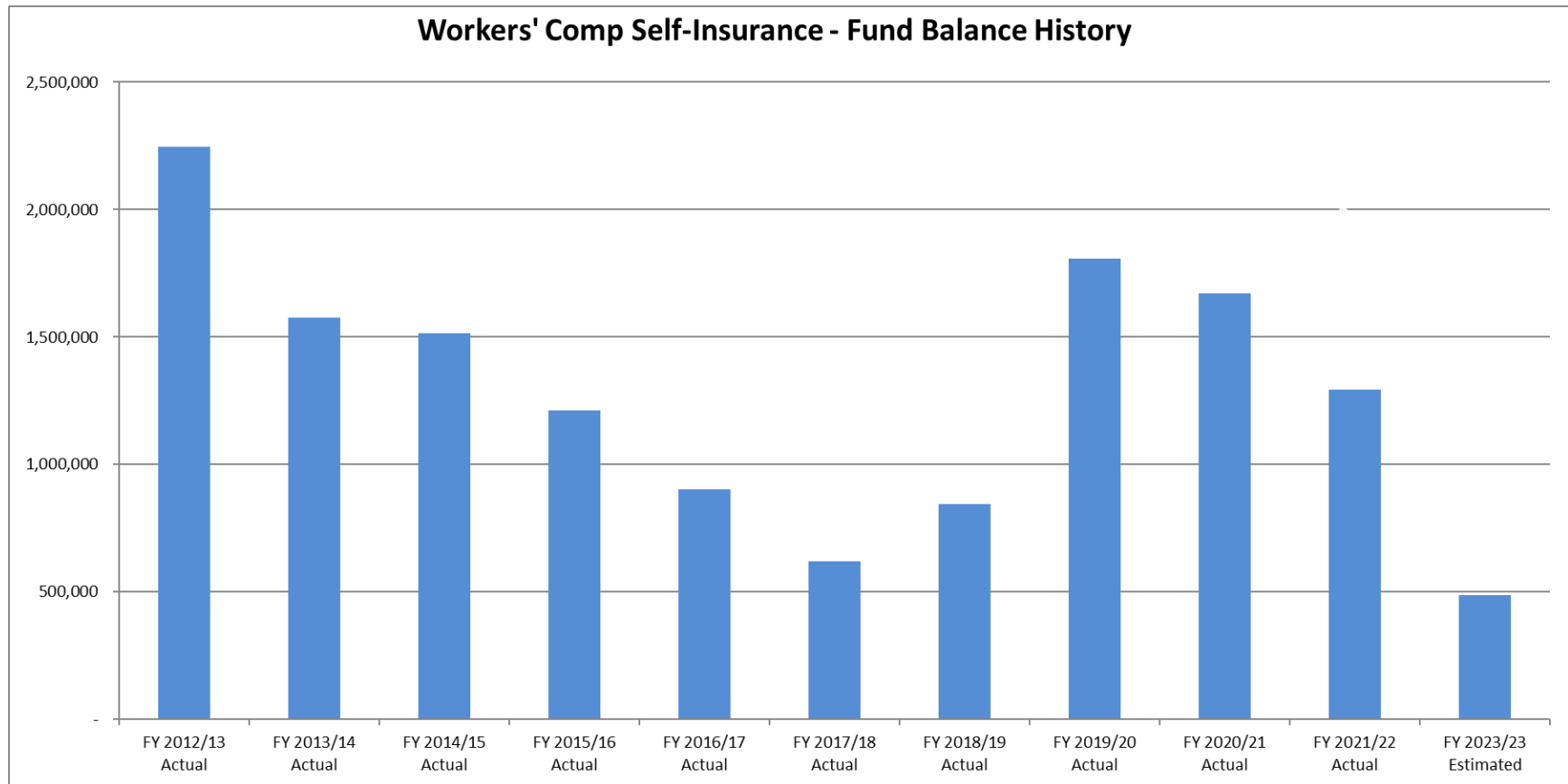
FY 2012/13 - FY 2021/22 Actuals - FY 2022/23 Estimated

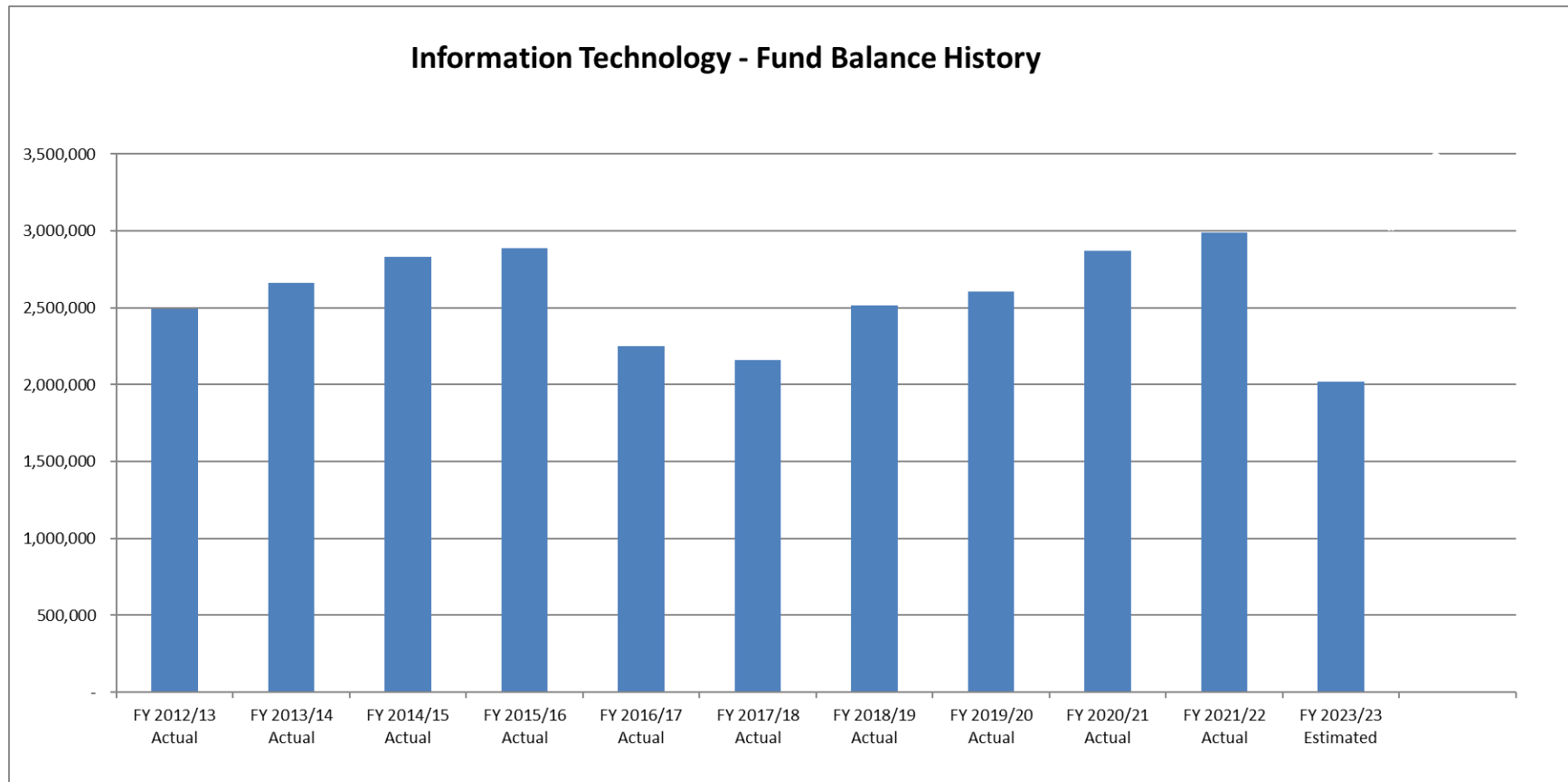
	6/30/2013 Actual	6/30/2014 Actual	6/30/2015 Actual	6/30/2016 Actual	6/30/2017 Actual	6/30/2018 Actual	6/30/2019 Actual	6/30/2020 Actual	6/30/2021 Actual	6/30/2022 Actual	6/30/2023 Estimated
Fund Balance Reserves	YE Balance	YE Balance	YE Balance	YE Balance	YE Balance	YE Balance	YE Balance	YE Balance	YE Balance	YE Balance	YE Balance
INTERNAL SERVICE FUNDS											
Liability Self-Insurance	\$ 1,352,035	\$ 1,056,559	1,567,162	1,403,449	885,441	994,769	1,313,304 *	1,290,614	1,021,083	803,292	385,601
Workers' Comp Self-Insurance	2,246,915	1,576,698	1,514,857	1,213,323	902,307	620,726	843,081 *	1,808,740	1,673,019	1,295,184	488,499
Information Technology	2,495,697	2,661,264	2,833,159	2,888,452	2,251,331	2,161,808	2,518,468 *	2,604,203	2,870,823	2,990,931	2,021,265
Office Stores Fund	159,213	149,293	187,956	183,127	200,437	227,790	-	-	-	-	-
Equipment Replacement	3,260,531	3,429,643	3,675,029	2,148,005	1,894,057	2,328,270	2,808,804 *	1,925,053	1,889,536	2,222,395	2,092,992
Vehicle Maintenance	601,794	740,861	322,865	409,872	182,369	262,791	-	-	-	-	-
Facilities Maintenance	1,255,709	1,319,864	484,030	414,367	(37,872)	245,437	970,786 *	102,469	156,340	928,739 **	950,642 **
Total Internal Service Funds Reserves	\$ 11,371,894	\$ 10,934,182	\$ 10,585,058	\$ 8,660,595	\$ 6,278,070	\$ 6,841,591	\$ 8,454,443	\$ 7,731,079	\$ 7,610,801	\$ 8,240,541	\$ 5,938,999

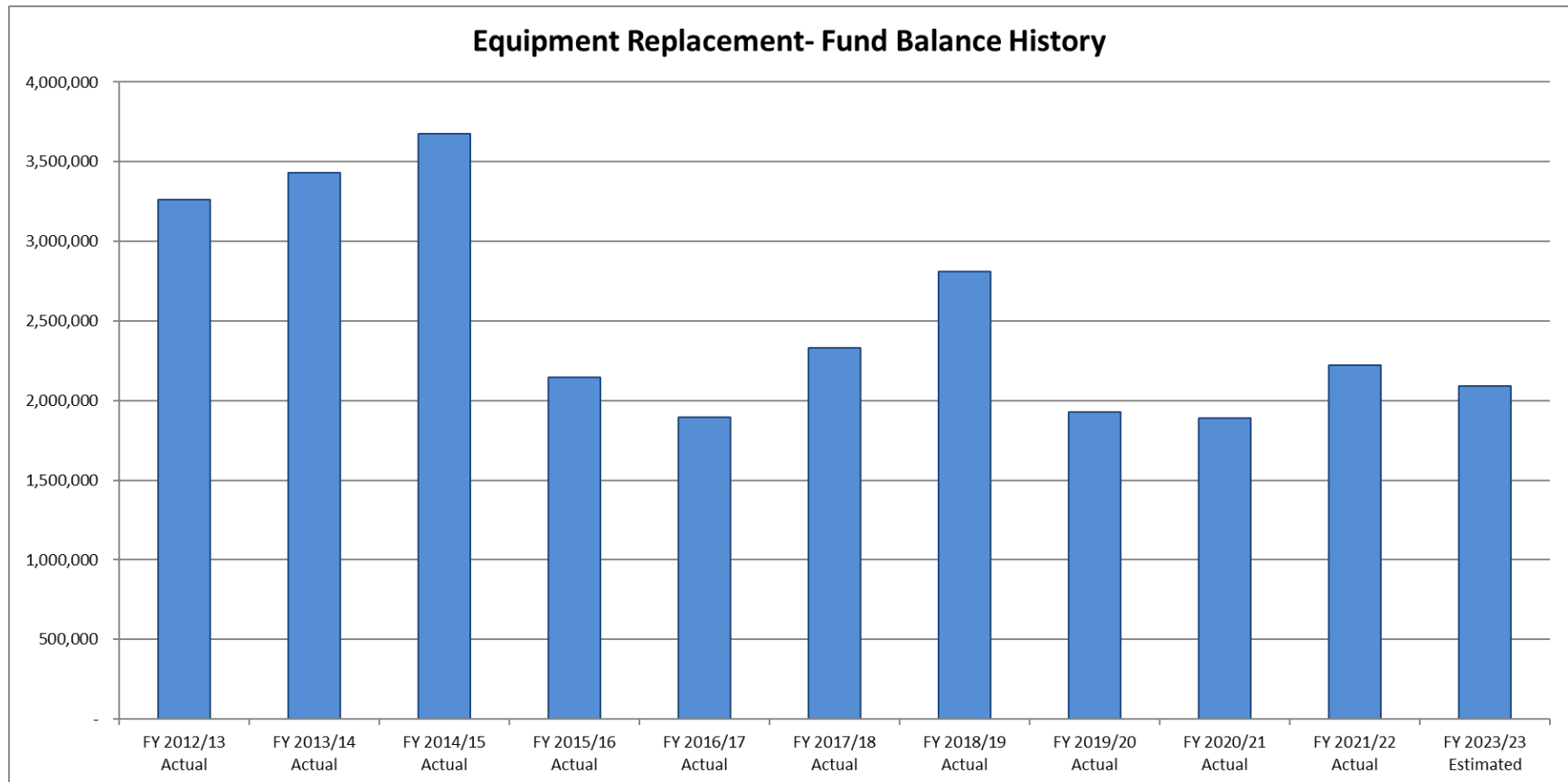
* Since FY 2028/19 no personnel are budgeted in Internal Service Funds. Pension Liabilities were also removed from Internal Service Funds.

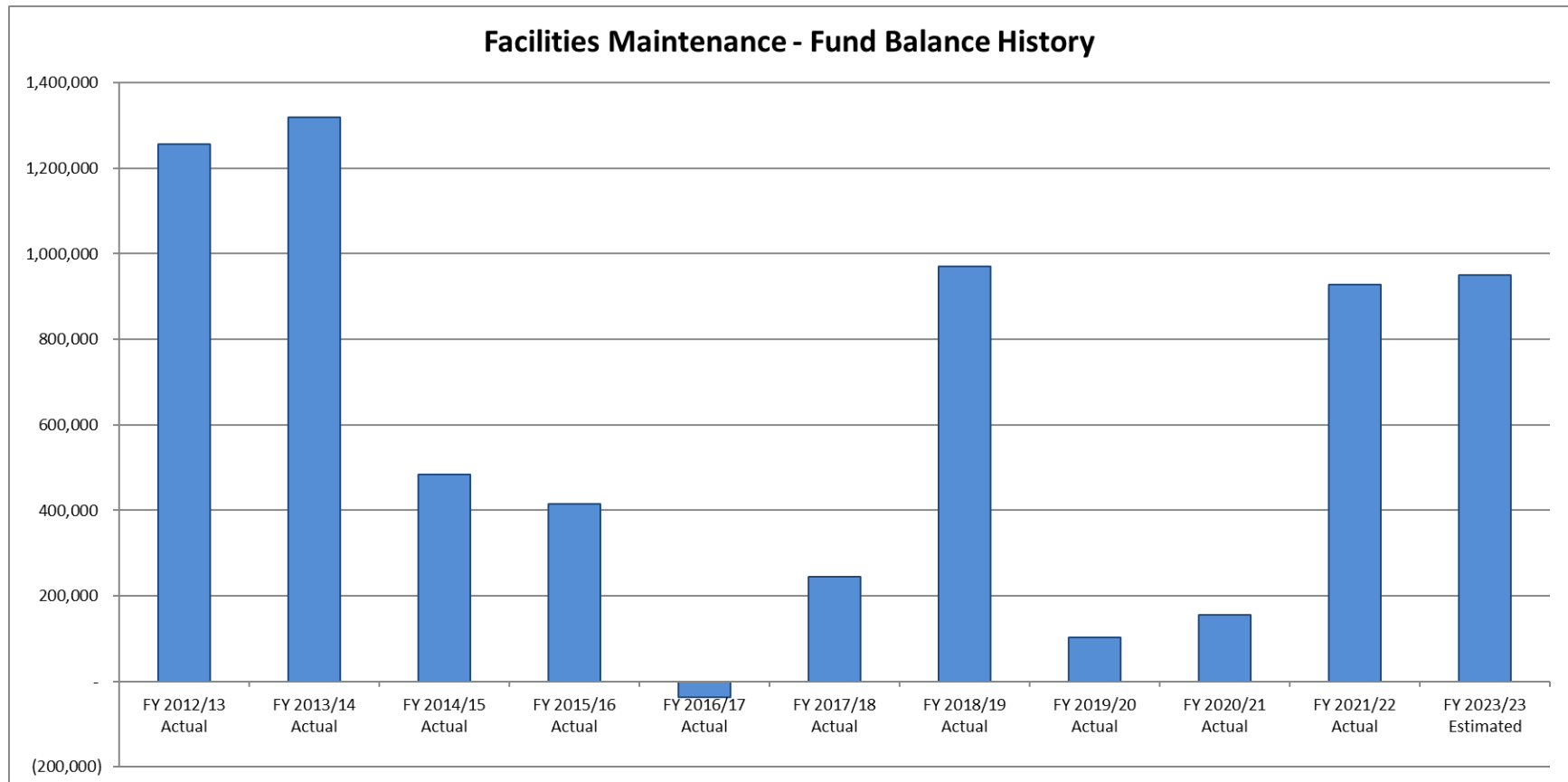
** Includes \$687,399 GASB 87 Lease Receivable (page 123 of FY 2021/22 ACFR)













**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 12/12/2022

ITEM NO: 7

Item 7.

DATE: December 7, 2022
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Budget Information for Highway 17 Bicycle and Pedestrian Overcrossing and Roadside Vegetation Management Capital Projects

RECOMMENDATION:

Receive budget information for Highway 17 Bicycle and Pedestrian Overcrossing and Roadside Vegetation Management capital projects.

DISCUSSION:

The Commission Chair requested that staff provide a financial overview of expenditures to date for the Highway 17 Bicycle and Pedestrian Overcrossing and Roadside Vegetation Management capital projects.

Following is a summary of expenditures to date for both projects:

Highway 17 Bicycle and Pedestrian Overcrossing

The Town of Los Gatos Bicycle and Pedestrian Master Plan (BPMP) was originally adopted in 2017 and updated in 2020 (and rebranded as Connect Los Gatos). The Highway 17 Bicycle and Pedestrian Overcrossing Project was identified in the BPMP and Connect Los Gatos Program as a priority project for the Town. The project is currently in what is referred to as the design phase. Large capital projects that have already completed their design phase ("shovel ready") tend to be viewed more favorably by potential grantors. Table 1 on the following page illustrates the respective funding sources for the design phase. Based on the funding breakdown, the Town is funding approximately 33% of the design phase of the project. Required funding for the construction phase is currently estimated at approximately \$25 million

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, Parks and Public Works Director, and Finance Director

SUBJECT: Capital Project Expenditure Updates

DATE: December 7, 2022

DISCUSSION (continued):

in today's dollars. Staff will continue to pursue construction phase grant funding as the project moves through design.

TABLE 1**Summary of Costs Associated with Highway 17 Overcrossing**

	Budget
Town	\$ 1,468,524.00
Grants	\$ 2,807,529.00
Gas Tax	\$ 147,005.00
	\$ 4,423,058.00

Roadside Vegetation Management

In 2019, the Town commissioned SWCA consultants to develop a Roadway Vegetation Management Plan for Los Gatos. The report examined 31.09 miles of Town-owned hillside roadways that are critical ingress/egress routes for residents and emergency responders in the event of wildfire and other emergencies.

Once the plan was completed, staff began recommending expenditures to provide the necessary vegetation management. Prior to Fiscal Year (FY) 2022/23, a total of \$999,809 was expended on contractors to perform vegetation management along 11 miles of roadway. Staff support for this work came from existing positions that are in the Parks and Public Works Operating Budget and so there were no additional staff expenditures outside of the PPW budget.

In the last 12 months, the Town has secured two grants – one from the US Forest Service and one from FEMA (via the Hazard Mitigation Grant Program) to continue the roadside vegetation management. Each of these grants include a cost share as noted in Table 2, on the following page.

SUBJECT: Capital Project Expenditure Updates

DATE: December 7, 2022

DISCUSSION (continued):**Table 2****Summary of Federal Grants for Roadside Vegetation Management**

US Forest Services	Grant Award	Town Match	
Awarded October 2022	\$ 750,000	\$ 750,000	
FEMA Hazard Mitigation Grant Funds (HMGP)- Roadways CIP #812-0130	Obligation Amount (Total)	Federal Share	Town Match
Project is divided into 2 phases	\$ 1,963,169	\$ 1,472,377	\$ 490,792
Phase I awarded 10/11/22 Phase II pending award.	Obligation Amount	Federal Share	Town Match
Project Costs reimbursed at 75% (i.e., Consultant to create plan)	\$ 35,000	\$ 26,250	\$ 8,750
Management Costs reimbursed at 100% (Staff time to manage application)	\$ 1,750	\$ 1,750	\$ 0
		75%	25%
	Total Grant Amounts	Total Town Match	
	\$ 750,000	\$ 750,000	
	\$ 1,472,377	\$ 490,792	
	\$ 2,222,377	\$ 1,240,792	

Notes: Town match for federal grants can include Town staff costs.

Staff time can be used as part of the Town match for federal grants. Therefore, staff will be tracking time for the project in the future to offset the required \$1,240,792 match. In addition, staff will propose funding to the project in FY 2023/24 (\$375,000) and FY 2024/25 (\$375,000) to support the US Forest Service match.