



**TOWN OF LOS GATOS  
COUNCIL MEETING AGENDA  
DECEMBER 15, 2020  
110 EAST MAIN STREET  
LOS GATOS, CA**

*Marico Sayoc, Mayor*

*Rob Rennie, Vice Mayor*

*Mary Badame, Council Member*

*Matthew Hudes, Council Member*

*Maria Ristow, Council Member*

**PARTICIPATION IN THE PUBLIC PROCESS**

**How to participate:** The Town of Los Gatos strongly encourages your active participation in the public process, which is the cornerstone of democracy. If you wish to speak to an item on the agenda, please follow the participation instructions on page 2 of this agenda. If you wish to speak to an item NOT on the agenda, you may do so during the “Verbal Communications” period, by following the participation instructions on page 2 of this agenda. The time allocated to speakers may change to better facilitate the Town Council meeting.

**Effective Proceedings:** The purpose of the Town Council meeting is to conduct the business of the community in an effective and efficient manner. For the benefit of the community, the Town of Los Gatos asks that you follow the Town’s meeting guidelines while attending Town Council meetings and treat everyone with respect and dignity. This is done by following meeting guidelines set forth in State law and in the Town Code. Disruptive conduct is not tolerated, including but not limited to: addressing the Town Council without first being recognized; interrupting speakers, Town Council or Town staff; continuing to speak after the allotted time has expired; failing to relinquish the podium when directed to do so; and repetitiously addressing the same subject.

**Deadlines for Public Comment and Presentations are as follows:**

- Persons wishing to make an audio/visual presentation on any agenda item must submit the presentation electronically, either in person or via email, to the Clerk’s Office no later than 3:00 p.m. on the day of the Council meeting.
- Persons wishing to submit written comments to be included in the materials provided to Town Council must provide the comments as follows:
  - For inclusion in the regular packet: by 11:00 a.m. the Thursday before the Council meeting
  - For inclusion in any Addendum: by 11:00 a.m. the Monday before the Council meeting
  - For inclusion in any Desk Item: by 11:00 a.m. on the day of the Council Meeting

***Town Council Meetings Broadcast Live on KCAT, Channel 15 (on Comcast) on the 1st and 3rd Tuesdays at 7:00 p.m.***

***Rebroadcast of Town Council Meetings on the 2<sup>nd</sup> and 4<sup>th</sup> Mondays at 7:00 p.m.***

***Live & Archived Council Meetings can be viewed by going to:***

***[www.LosGatosCA.gov/TownYouTube](http://www.LosGatosCA.gov/TownYouTube)***

***IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN THIS MEETING, PLEASE CONTACT THE CLERK DEPARTMENT AT (408) 354-6834. NOTIFICATION 48 HOURS BEFORE THE MEETING WILL ENABLE THE TOWN TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY TO THIS MEETING [28 CFR §35.102-35.104]***

**TOWN OF LOS GATOS  
COUNCIL MEETING AGENDA  
DECEMBER 15, 2020  
7:00 PM**

**IMPORTANT NOTICE REGARDING THE DECEMBER 15, 2020 MEETING**

This meeting is being conducted utilizing teleconferencing and electronic means consistent with State of California Executive Order N-29- 20 dated March 17, 2020, regarding the COVID- 19 pandemic. The live stream of the meeting may be viewed on television and/or online at [www.losgatosca.gov/AgendasAndVideos](http://www.losgatosca.gov/AgendasAndVideos). **In accordance with Executive Order N-29- 20, the public may only view the meeting on television and/or online and not in the Council Chamber.**

**PARTICIPATION**

If you are not interested in providing oral comments in real-time during the meeting, you can view the live stream of the meeting on television (Comcast Channel 15) and/or online at [www.LosGatosCA.gov/TownYouTube](http://www.LosGatosCA.gov/TownYouTube).

If you are interested in providing oral comments real-time during the meeting, you must join the Zoom webinar:

- Join from a PC, Mac, iPad, iPhone or Android device: click this link <https://us02web.zoom.us/j/94482500898?pwd=NFE4OXBadnBuUm5YSVovQmhjakNnQT09>. Password: 910801. You can also type in 94482500898 in the “Join a Meeting” page on the Zoom website at <https://zoom.us/join>.
- Join by telephone: Dial: 877 336 1839. Conference code: 969184

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, 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 [PublicComment@losgatosca.gov](mailto:PublicComment@losgatosca.gov) the subject line “Public Comment Item #\_\_” (insert the item number relevant to your comment) or “Verbal Communications – Non Agenda Item.” Comments will be reviewed and distributed before the meeting if received by 5:00 p.m. on the day of the meeting. All comments received will become part of the record. The Mayor has the option to modify this action on items based on comments received.

**TOWN OF LOS GATOS  
COUNCIL MEETING AGENDA  
DECEMBER 15, 2020  
7:00 PM**

**REMOTE LOCATION PARTICIPANTS**

*The following Council Members are listed to permit them to appear electronically or telephonically at the Town Council meeting: MAYOR MARICO SAYOC, VICE MAYOR ROB RENNIE, COUNCIL MEMBER MARY BADAME, COUNCIL MEMBER MATTHEW HUDES, and COUNCIL MEMBER MARIA RISTOW. All votes during the teleconferencing session will be conducted by roll call vote.*

**MEETING CALLED TO ORDER**

**ROLL CALL**

**COUNCIL / MANAGER MATTERS**

**CONSENT ITEMS** *(Items appearing on the Consent Items are considered routine and may be approved by one motion. Any member of the Council or public may request to have an item removed from the Consent Items for comment and action. A member of the public may request to pull an item from Consent by following the Participation Instructions contained on Page 2 of this agenda. If an item is pulled, the Mayor has the sole discretion to determine when the item will be heard. Unless there are separate discussions and/or actions requested by Council, staff, or a member of the public, it is requested that items under the Consent Items be acted on simultaneously.)*

1. Approve Minutes of the December 8, 2020 Special Town Council Meeting.
2. Reaffirm Town Council Code of Conduct Policy.
3. Adopt Council Committee Appointments Effective January 1, 2021.
4. Authorize the Issuance of the Request for Qualifications for On-Call Materials Testing and Special Inspection Services and Authorize the Town Manager to Negotiate and Execute a Consultant Services Agreement in an Amount Not-to-Exceed \$180,000 for the Services.
5. Approve the Street List for the Fiscal Year 2020/21 Street Repair and Resurfacing Project (CIP Number 811-9901).
6. Authorize the Town Manager to Amend an Agreement for Employee Safety Compliance and Training Consultant Services with BSI EHS Services and Solutions (West) Inc. (Attachment 1) to:
  - a. Extend the Term of the Agreement through June 2021,
  - b. Increase the Contract Amount by \$22,000 for a Total Amount not to Exceed \$197,350, and
  - c. Approve an Expenditure Budget Adjustment in the Amount of \$59,750 from Available Workers' Compensation Fund.
7. Authorize Revenue and Expenditure Budget Adjustments in the Amount of \$5,000 to Recognize Receipt and Expenditure of California State Library Grant Funds.

**VERBAL COMMUNICATIONS** *(Members of the public are welcome to address the Town Council on any matter that is not listed on the agenda consistent with the Participation Instructions contained on Page 2 of this agenda. To ensure all agenda items are heard and unless additional time is authorized by the Mayor, 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.)*

**PUBLIC HEARINGS** *(Applicants/Appellants, their representatives, and members of the public wishing to address the Council on any Public Hearing item should register in advance to obtain the Zoom link for this meeting by following the Participation instructions contained on page 2 of this agenda. Applicants/Appellants and their representatives may be allotted up to a total of five minutes maximum for opening statements. Members of the public may be allotted up to three minutes to comment on any public hearing item. Applicants/Appellants and their representatives may be allotted up to a total of three minutes maximum for closing statements. Items requested/recommended for continuance are subject to Council's consent at the meeting.)*

8. Deny an Appeal of a Planning Commission Decision Approving a Request for a Zoning Consistency Determination and a Conditional Use Permit (U-20-009) for a Bank (Charles Schwab Community Banking and Investment Services) on Property Zoned C-2:LHP:PD Located at 35 University Avenue. APN 529-02-044. Property Owner: SRI Old Town, LLC. Applicant: Amber DeMaglio. Project Planner: Sean Mullin.

**OTHER BUSINESS** *(Up to three minutes may be allotted for each comment on any of the following items consistent with the Participation Instructions contained on page 2 of this agenda.)*

9. Comprehensive Annual Financial Report (CAFR):
- a. Receive the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2020, and
  - b. Adopt a Resolution Confirming June 30, 2020 Fund Balances in Accordance Fiscal Year 2019/20 Final Audit and Town Council General Fund Reserve Policy
10. Receive a Fiscal Year (FY) 2020/21 Revenue and Expense Update.

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

*Writings related to an item on the Town Council meeting agenda distributed to members of the Council within 72 hours of the meeting are available for public inspection on the official Town of Los Gatos website.*

*Note: The Town of Los Gatos has adopted the provisions of Code of Civil Procedure §1094.6; litigation challenging a decision of the Town Council must be brought within 90 days after the decision is announced unless a shorter time is required by State or Federal law.*



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 1

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**DRAFT  
Minutes of the Town Council Special Meeting  
December 8, 2020**

The Town Council of the Town of Los Gatos conducted a special meeting via Teleconference via COVID-19 Shelter in Place Guidelines on December 8, 2020, at 7:00 p.m.

**MEETING CALLED TO ORDER AT 7:00 P.M.**

**ROLL CALL**

Present: Mayor Marcia Jensen, Vice Mayor Barbara Spector, Council Member Rob Rennie, Council Member Marico Sayoc. (All participating remotely).

Absent: None

**CONSENT ITEMS (TO BE ACTED UPON BY A SINGLE MOTION)**

1. Approve Draft Minutes of the December 1, 2020 Town Council Meeting.

**MOTION:** Motion by Vice Mayor Spector to approve the Consent Item. **Seconded** by Council Member Sayoc.

**VOTE:** Motion passed unanimously.

**VERBAL COMMUNICATIONS**

Brian Toy

- Commented he met Maria Ristow and Matthew Hudes and stated they will be great leaders.

Don Capobres

- Thanked Mayor Jensen and Vice Mayor Spector for their time serving the Town, thanked the Council for remaining accessible, and congratulated the new Council Members.

Deborah Weinstein

- Thanked the Council, Mayor Jensen, and Vice Mayor Spector for supporting and encouraging community involvement.

Ken Kelley and Lynda LeZotte

- Thanked Vice Mayor Spector and Mayor Jensen for their service.

Catherine Somers, Los Gatos Chamber of Commerce Executive Director

- Thanked Mayor Jensen and Vice Mayor Spector for their time on Council and for mentoring her, and wished them the best of luck in retirement from Council.

Jeffrey Suzuki

- Thanked the Council for their time, contributions, and for listening to the community.

John Shepardson

- Recited a poem which thanked Mayor Jensen and Vice Mayor Spector for their time serving on the Council and Planning Commission, contributions, and overall involvement in the Town.

Kathy Morgan

- Thanked Mayor Jensen and Vice Mayor Spector for their time serving the Town.

Lee Fagot

- Thanked Mayor Jensen and Vice Mayor Spector for their commitment to the Town and commented on the legacy both Council Members will leave behind.

Evan Low, Assembly Member

- Thanked Mayor Jensen and Vice Mayor Spector for their service, for holding the State accountable and advocating in the best interest of the community.

Shannon Susick

- Thanked Mayor Jensen and Vice Mayor Spector for their service to the Town.

Mary Badame, Council Member-Elect

- Thanked Mayor Jensen and Vice Mayor Spector for their strong leadership and service to the Town.

### **APPROVE CERTIFICATION OF NOVEMBER 3, 2020 ELECTION**

2. Adopt a Resolution Certifying the November 3, 2020 Los Gatos General Municipal Election and Declaring the Election Results for Measure A, Measure B, Two Full Term Council Member Seats, and One Short Term Council Member Seat. **RESOLUTION 2020-049**

**MOTION:** Motion by Vice Mayor Spector to adopt a resolution certifying the November 3, 2020 Los Gatos General Municipal Election and declaring the election results for Measure A, Measure B, two full term council member seats, and one short term council member seat. **Seconded by Council Member Rennie.**

**VOTE:** Motion passed unanimously.

### **APPRECIATION OF DEPARTING COUNCIL MEMBERS**

Laurel Prevetti, Town Manager, presented Vice Mayor Spector with a ceremonial gift to commemorate her years on the Town Council, the years served as Vice Mayor, and the years served as Mayor.

Laurel Prevetti, Town Manager, presented Mayor Jensen with a gavel plaque to recognize her Mayoral year and a ceremonial gift to commemorate her years on the Town Council, the years served as Vice Mayor, and the years served as Mayor.

### **REMARKS BY DEPARTING COUNCIL MEMBERS**

Vice Mayor Barbara Spector thanked the current Council and prior Councils, her husband, and the community for supporting her; appreciated the community for voicing their concerns and ideas that make Los Gatos special; and commented she is looking forward to combating the COVID-19 virus together and seeing the community thrive again.

Mayor Marcia Jensen thanked Vice Mayor Spector for her mentorship, Town staff, her Council colleagues, the community, and her family for their support; identified the Town Council's actions in response to the COVID-19 pandemic to support businesses, non-profits, tenants, and residents; and commented on the Town's tradition of a smooth transition to new Council Members, Mayor and Vice Mayor.

### **SWEARING IN OF NEW COUNCIL MEMBERS**

Pat Tillman, friend, led the swearing in ceremony for Council Member Mary Badame.

Qui Tran, wife, led the swearing in ceremony for Council Member Matthew Hudes.

Warren Ristow, husband, led the swearing in ceremony for Maria Ristow.

### **APPOINTMENT OF MAYOR AND VICE MAYOR**

**MOTION:** Motion by Council Member Rennie to appoint Council Member Sayoc as Mayor.  
Seconded by Council Member Badame.

**VOTE:** Motion passed unanimously.

**MOTION:** Motion by Mayor Sayoc to appoint Council Member Rennie as Vice Mayor.  
Seconded by Council Member Ristow.

**VOTE:** Motion passed unanimously.

**SWEARING IN OF MAYOR AND VICE MAYOR**

Isabella Scott led the swearing in ceremony for Mayor Sayoc and Vice Mayor Rennie.

**REMARKS BY THE MAYOR AND VICE MAYOR**

Mayor Sayoc congratulated each newly appointed Council Member, encouraged the community to come together to determine how to face challenges and keep Los Gatos special.

Vice Mayor Rennie stated he is excited to work with Mayor Sayoc in her capacity as Mayor and with the new Council Members.

**REMARKS BY THE NEWLY ELECTED COUNCIL MEMBERS**

Council Member Badame stated she is excited to work with the Council and serve the community, and thanked Pat Tillman for administering her Oath of Office.

Council Member Hudes congratulated Mayor Sayoc on her appointment; commented that he is looking forward to working with the Council to carry forward residents' ideas and concerns; thanked his family; and congratulated new Council Members Badame and Ristow.

Council Member Ristow thanked residents, her family and friends for supporting her, and stated she looks forward to serving the residents and business community of Los Gatos.

Mike Wasserman, Santa Clara County Board Supervisor

- Congratulated Council Members Badame, Hudes, and Ristow, and thanked Marcia Jensen and Barbara Spector for their service.

Steve Leonardis

- Had technical difficulties and was unable to speak. Mayor Sayoc invited him to send his written comments to the Council.

**ADJOURNMENT**

The meeting adjourned at 8:13 p.m.

Submitted by:

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Jenna De Long, Deputy Clerk



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 2

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DATE: December 10, 2020  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Reaffirm Town Council Code of Conduct Policy

**RECOMMENDATION:**

Reaffirm Town Council Code of Conduct Policy.

**REMARKS:**

The Council Code of Conduct Policy (Attachment 1) provides guidelines and procedures related to the Town Council's relations and communications with each other, Boards and Commissions, the public, the media, and Town staff. In addition, the Policy describes appropriate Council roles and behaviors before, during, and outside of Council meetings, including the specific duties of the Mayor and Vice Mayor. The Policy was last updated December 2019.

Every year, the Council considers and reaffirms the Town Council Code of Conduct Policy. This action provides important visibility to this Policy and reinforces the Town's commitment to conduct its business with civility and respect of all participants.

**FISCAL IMPACT:**

There is no fiscal impact associated with this item.

**ENVIRONMENTAL ASSESSMENT:**

This action is not a project defined under CEQA, and no further action is required.


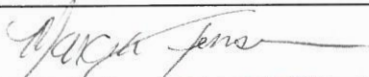
**Attachment:**

1. Town Council Code of Conduct Policy

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Reviewed by: Assistant Town Manager and Town Attorney

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 <div style="display: inline-block; vertical-align: middle;"> <p>TOWN OF <b>LOS GATOS</b> CALIFORNIA</p> </div> <div style="display: inline-block; vertical-align: middle; text-align: center;"> <p><b>COUNCIL POLICY MANUAL</b></p> <p><i>Small Town Service    Community Stewardship    Future Focus</i></p> </div>	
<b>TITLE:</b> Town Council Code of Conduct	<b>POLICY NUMBER:</b> 2-04
<b>EFFECTIVE DATE:</b> 5/3/2004	<b>PAGES:</b> 8
<b>ENABLING ACTIONS:</b> 2004-059; 2006-111	<b>REVISED DATES:</b> 12/17/2012; 3/3/2015; 12/17/2019
<b>APPROVED:</b> 	

### **I. Preamble**

The legal responsibilities of the Los Gatos Town Council are set forth by applicable state and federal laws. In addition, the Town Council has adopted regulations, including this Code of Conduct Policy, that hold Council Members to standards of conduct above and beyond what is required by law. This Policy is written with the assumption that Council Members, through training, are aware of their legal and ethical responsibilities as elected officials.

### **II. Form of Government**

The Town of Los Gatos operates under a Council-Manager form of government as prescribed by Town Code, Section 2.30.305. Accordingly, members of the Council are elected at-large, provide legislative direction, set Town policy, and ultimately answer to the public. The Town Manager serves as the Town's chief administrative officer and is responsible for directing the day-to-day operations of the Town and implementing policy direction.

### **III. Town Council Roles and Responsibilities**

The role of the Town Council is to act as a legislative and quasi-judicial body. Through its legislative and policy authority, the Council is responsible for assessing and achieving the community's desire for its present and future and for establishing policy direction to achieve its desired outcomes. All members of the Town Council, including those who serve as Mayor and Vice Mayor, have equal votes.

Members of the Town Council fulfill their role and responsibilities through the relationships they have with each other and the public. Town Council Members should approach their work, each other, and the public in a manner that reflects ethical behavior, honesty and integrity. The commitment of Town Council Members to their work is characterized by open constructive communication, innovation, and creative problem solving.

<b>TITLE:</b> Town Council Code of Conduct	<b>PAGE:</b> 2 of 8	<b>POLICY NUMBER:</b> 2-04
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#### **IV. Mayoral and Vice Mayoral Selection Process**

Per Town Municipal Code, Section 2.20.035, the selection of the Mayor and Vice Mayor occurs annually at a special meeting in December by majority vote of the Town Council. The Mayor and Vice Mayor serve at the pleasure of the Town Council and may be replaced by a majority vote of the Council.

#### **V. Mayoral and Vice Mayoral Roles, Responsibilities, Relationships**

The following outlines some of the key roles, responsibilities, and relationships as they relate to the positions of Mayor and Vice Mayor:

##### Mayor

- A. The Mayor is the presiding officer of the Town Council. In this capacity, the Mayor is responsible for developing Council agendas in cooperation with the Town Manager and leading Council meetings.
- B. The Mayor recommends various standing committee appointments to the Council for approval.<sup>1</sup> This will be done at a Council meeting in December of each year. When making committee recommendations, the Mayor should attempt to balance shared responsibilities and opportunities among Council Members. The Mayor may also appoint citizens to committees not established by Town ordinance or resolution as s/he deems appropriate.
- C. The title of Mayor carries with it the responsibility of communicating with the Town Council, Town Manager, and members of the public. In this capacity, the Mayor serves as the Town “spokesperson” representing the Council in official and ceremonial occasions.
- D. As the official Town spokesperson, the Mayor performs special duties consistent with the Mayoral office, including, but not limited to: signing of documents on behalf of the Town, issuing proclamations, serving as the official voting delegate for various municipal advocacy groups, and delivering the State of the Town Address at his or her discretion.<sup>2</sup> The Town Council will determine any additional authority or duties that the Mayor shall perform.
- E. Special duties consistent with the Mayoral office may be delegated to the Vice Mayor or any other member of the Town Council.
- F. In the event that one or more members of a Town Board, Commission, or Committee acts in a manner contrary to approved Board/Commission policies and procedures, the Mayor may counsel those members about the rules set forth in the Town Commissioner Handbook.<sup>3</sup>

<sup>1</sup> Council Agenda Format and Rules Policy

<sup>2</sup> Council Commendation and Proclamation Policy

<sup>3</sup> Resolution 1999-167

<b>TITLE:</b> Town Council Code of Conduct	<b>PAGE:</b> 3 of 8	<b>POLICY NUMBER:</b> 2-04
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### Vice Mayor

- A. In the Mayor's absence, the Vice Mayor shall perform the formal duties of the Mayor.<sup>4</sup>
- B. When the Vice Mayor performs the duties of the Mayor in his/her absence, the Vice Mayor also carries the responsibility of communicating with the Town Manager, Town Council, and members of the public.

### **VI. Council Conduct in Public Meetings**

To ensure the highest standards of respect and integrity during public meetings, Council Members should:

- A. *Use formal titles.* The Council should refer to one another formally during Council meetings such as Mayor, Vice Mayor or Council Member or Mr., Mrs., or Ms., followed by the individual's last name.
- B. *Practice civility and decorum in discussions and debate.* Difficult questions, tough challenges to a particular point of view, and criticism of ideas and information are legitimate elements of free democracy in action. During public discussions, Council Members should be respectful of others and diverse opinions and allow for the debate of issues.
- C. *Honor the role of the presiding officer in maintaining order and equity.* Respect the Mayor/Chair's efforts to focus discussion on current agenda items.
- D. *Council decisions should be reserved until all applicable information has been presented.*
- E. *Conduct during public hearings.* During public testimony, Council Members should refrain from engaging the speaker in dialogue. For purposes of clarification, Council Members may ask the speaker questions. Council comment and discussion should commence upon the conclusion of all public testimony

### **VII. Legal Requirements**

The Town Council operates under a series of laws that regulate its operations as well as the conduct of its members. The Town Attorney serves as the Town's legal officer and is available to advise the Council on these matters.

#### **A. Training**

Biannual training in the following areas shall be provided by staff to Council Members:

- 1. The Ralph M. Brown Act
- 2. Town / CA State Law on Conflict of Interest (AB 1234)
- 3. Government Section 1090
- 4. Incompatible Offices
- 5. The Fair Political Practices Commission Forms
- 6. Bias
- 7. Town / CA State Law on Harassment (SB 1343)

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<sup>4</sup> Council Agenda Format and Rules Policy

**B. Procurement**

Unless authorized by the Town Council, Council Members shall not become involved in administrative processes for acquiring goods and services.

**C. Land Use Applications**

The merits of an application shall only be evaluated on information included in the public record. Council Members shall disclose ex parte communication and any information obtained outside of the public record that may influence his/her decision on a matter pending before the Town Council. Council disclosure shall occur after the Public Hearing section of the agenda, and before Council deliberations.

**D. Code of Conduct Policy**

Newly elected Council Members are strongly encouraged to sign a statement affirming they have read and understand the Town of Los Gatos Council Code of Conduct Policy.

**E. Non-Profit Organizations**

Council Members may not sit on boards of directors of non-profit organizations which receive funding or in-kind contributions from the Town, unless the role serves a legitimate Town purpose, such as the League of California Cities, and the participation is approved by the full Council.

**VIII. Council Participation in Boards, Commissions and Committees, and Reporting Requirements**

There are several committees that Town Council Members have been appointed to or have an interest in, including but not limited to: Town Council standing and ad hoc committees, Town boards and commissions, regional boards and commissions, and community-generated committees.

Primary Council representatives should update the Council about board, commission, and committee activities. When serving as the primary Council representative on any board, commission, or committee, Council Members should periodically provide updated reports to the Council during the "Council Matters" opportunity on the Council meeting agenda.

Recommended actions by Council Committees should be reported to the Council. When serving on a Council Committee, whether standing or ad hoc, all work undertaken by the Committee must be directed by the Council, and all recommended actions of a Council Committee shall be reported to the Council.

**IX. Council Relationship with Town Staff**

The Town Council has adopted a Council-Manager form of government. The Town Manager's powers and duties are outlined in the Town Code, Section 2.30.295.

<b>TITLE:</b> Town Council Code of Conduct	<b>PAGE:</b> 5 of 8	<b>POLICY NUMBER:</b> 2-04
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#### Council Conduct and Communication with Town Staff

To enhance its working relationship with staff, Council should be mindful of the support and resources needed to accomplish Council goals. When communicating and working with staff, Council should follow these guidelines:

- A. *Council Members should treat staff as professionals.* Clear, honest communication that respects the abilities, experience, and dignity of each individual is expected. As with Council colleagues, practice civility and decorum in all interactions with Town staff.
- B. *Council Members should direct questions about policy, budget, or professional opinion to the Town Manager, Town Attorney or Department Directors.* Council Members can direct questions and inquiries to any staff for information that is readily available to the general public or easily retrievable by staff.
- C. *The Town Manager and staff are responsible for implementing Town policy and/or Council action.* The processing of Council policy and decisions takes place with the Town Manager and staff. Council should not direct policy/program administrative functions and implementation; rather it should provide policy guidance to the Town Manager.
- D. *Council Members should attempt to communicate questions, corrections, and/or clarifications about reports requiring official action to staff prior to Council meetings.* Early feedback will enable staff to address Council questions and incorporate minor corrections or changes to a Council report, resulting in a more efficient Council meeting discussion; however, this does not preclude Council Members from asking questions at Council Meetings.
- E. *Council Members should not direct the Town Manager to initiate any action, change a course of action, or prepare any report without the approval of Council.* The Town Manager's responsibility is to advise on resources available and required for a particular course of action as it relates to the direction of the majority of the Council.
- F. *Council Members should not attend department staff meetings unless requested by the Town Manager.*
- G. *All Council Members should have the same information with which to make decisions.* Information requested by one Council Member will be shared with all members of the Council.
- H. *Concerns related to the behavior or work of a Town employee should be directed to the Town Manager.* Council Members should not reprimand employees.
- I. *Per California Government Code, Sections 3201-3209, Council Members should not solicit financial contributions from Town staff or use promises or threats regarding future employment.* Although Town staff may, as private citizens with constitutional rights, support political candidates, such activities cannot take place during work hours, at the workplace, or in uniform.

#### **X. Council Communication with the Public and other Council Members**

The Public has a reasonable expectation that it may engage its Council Members on matters of community concern. In response, Council Members may express a preliminary opinion on issues or projects raised. Any such preliminary statement shall not constitute a prejudgment or create a presumption of bias on any issue or a project. In addition, Council Members may from

time to time express opinions regarding broad policy matters which may be in conflict with currently adopted Council policies. Such statements are permissible if clearly characterized as personal opinion or policy change objectives.

## **XI. Enforcement**

### **A. Purpose**

The Council Code of Conduct Policy establishes guiding principles for appropriate conduct and behavior and sets forth the expectations of Council Members. The purpose of the policy language is to establish a process and procedure that:

1. Allows the public, Town Council, and Town employees to report Code of Conduct policy violations or other misconduct.
2. Provides guidelines to evaluate Code of Conduct policy violations or other misconduct and implement appropriate disciplinary action when necessary.

### **B. Procedures**

#### **1. Reporting of Complaints**

The following section outlines the process for reporting Council Member Code of Conduct Policy violations or other misconduct:

- a. Complaints made by members of the public, the Town Manager, and Town Attorney should be reported to the Mayor. If a complaint involves the Mayor, it should be reported to the Vice Mayor.
- b. Complaints made by Council Members should be reported to the Town Manager or Town Attorney to adhere to Brown Act requirements.
- c. Complaints made by Town employees should be reported to the Town Manager, who will direct them to the Mayor or Vice Mayor.

#### **2. Evaluation of Complaints Alleging Violations**

Upon report of a written complaint, the Town Manager and Town Attorney will join the Mayor or Vice Mayor as an evaluation committee to determine the validity of the complaint and, if appropriate, an initial course of action as discussed below. If the Town Manager or Town Attorney is the complainant, the longest serving uninvolved Council Member will replace the Town Manager or Town Attorney on the evaluation committee.

Within seventy-two (72) hours of receipt of the complaint by the Mayor or Vice Mayor, the Council Member in question shall be notified of the reported complaint by the Mayor or his/her designee. The notification shall include a copy of the written complaint and supporting documentation, if any, the identity of the complainant and nature of the complaint.

### 3. Unsubstantiated or Minor Violations

If the majority of the Committee agrees that the reported violation is without substance, no further action will be taken. If the reported violation is deemed valid but minor in nature, the Mayor or Vice Mayor shall counsel and, if appropriate, admonish the Council Member privately to resolve the matter. Admonishment is considered to be a reproof or warning directed to a Council Member about a particular type of behavior that violates Town policy.

### 4. Allegations of Major Violations

If the reported violation is considered to be serious in nature, the matter shall be referred to outside legal counsel selected by the Committee for the purpose of conducting an initial interview with the subject Council Member. The outside counsel shall report his/her initial findings back to the Committee.

If the Committee then determines that an investigation is warranted, the Committee shall direct the outside legal counsel to conduct an investigation. The investigation process would include, but is not limited to, the ascertainment of facts relevant to the complaint through interviews and the examination of any documented materials.

### 5. Report of Findings

At the conclusion of the investigation, outside legal counsel shall report back to the Committee in writing. The report shall either (1) recommend that the Council Member be exonerated based on a finding that the investigation did not reveal evidence of a serious violation of the Code of Conduct, or (2) recommend disciplinary proceedings based on findings that one or more provisions of the Code of Conduct or other Town policies have been violated. In the latter event, the report shall specify the provisions violated along with the facts and evidence supporting each finding.

The Committee shall review the report and its recommendations. If the consensus of the Committee is to accept the report and recommendations, the Committee shall implement the recommendations. Where the recommendation is exoneration, no further action shall be taken. Where the recommendation is to initiate disciplinary proceedings, the matter shall be referred to the Council. Where there is no consensus of the Committee regarding the recommendations, the matter shall be referred to the Council.

The subject Council Member shall be notified in writing of the Committee's decision within 72 hours. Where the decision is to refer the matter to the Council, a copy of the full report, including documents relied on by the investigator shall be provided with the notification, and a copy of both shall be provided to the whole Council.

## 6. Proceedings

Investigative findings and recommended proceedings and disciplinary action that are brought forward to Council as a result of a significant policy violation shall be considered at a public hearing. The public hearing should be set far enough in advance to allow the Council Member in question reasonably sufficient time to prepare a response.

Investigative findings shall be presented to the Town Council at a public hearing. The rules of evidence do not apply to the public hearing. It shall not be conducted as an adversarial proceeding.

## C. Disciplinary Action

### 1. Considerations in Determining Disciplinary Action

Disciplinary action may be imposed by Council upon Council Members who have violated the Council Code of Conduct Policy. Disciplinary action or sanctions are considered when a serious violation of Town policy has occurred by a Council Member. In determining the type of sanction imposed, the following factors may be considered:

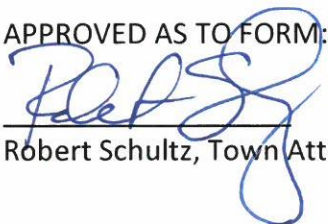
- a. Nature of the violation
- b. Prior violations by the same individual
- c. Other factors which bear upon the seriousness of the violation

### 2. Types of Sanctions

At the discretion of the Council, sanctions may be imposed for violating the Code of Conduct or engaging in other misconduct. These actions may be applied individually or in combination. They include, but are not limited to:

- a. *Public Admonishment* – A reproof or warning directed to a Council Member about a particular type of behavior that violates Town policy.
- b. *Revocation of Special Privileges* – A revocation of a Council Member's Council Committee assignments, including standing and ad hoc committees, regional boards and commissions, and community-generated board/committee appointments. Other revocations may include temporary suspension of official travel, conference participation, and ceremonial titles.
- c. *Censure* – A formal statement or resolution by the Council officially reprimanding a Council Member.

APPROVED AS TO FORM:



Robert Schultz, Town Attorney



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 3

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DATE: December 9, 2020  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Adopt Council Committee Appointments Effective January 1, 2021

**RECOMMENDATION:**

Adopt Council Committee Appointments effective January 1, 2021.

**REMARKS:**

*Recommended Appointments:*

The Mayor is recommending Council Members to Town Boards and Committees, and various regional Commissions, Boards and Committees as shown on the attached 2021 Council Committee Appointment Roster (Attachment 1).

*Role of Members and Alternates:*

The appointed Member is the primary attendee and voting participant for the Committee(s) to which they are appointed. If a Member cannot attend, the Alternate should attend on the Member's behalf as the Los Gatos representative and voting participant.

Alternates may attend a meeting as a member of the public in the audience when the Member is in attendance. In these circumstances, the Alternate may not vote or take other action that may affect the primary's effectiveness on the Committee.

**Attachment:**

1. 2021 Council Committee Appointment Roster

**PREPARED BY:** Janette Judd  
Executive Assistant to the Town Manager and Town Council

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

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2021 COUNCIL COMMITTEE APPOINTMENTS						Rev.Dec.2020
Council Adoption December 15, 2020 - - Effective January 1, 2021						
<u>Name of Committee</u>	<u>Purpose</u>	<u>2021 Appointee</u>	<u>2021 Alternate</u>	<u>2021 Meeting Schedule</u>	<u>Location</u>	<u>Contact Person(s)</u>
<b>Conceptual Development Advisory Committee</b>	<i>The Conceptual Development Advisory Committee advises prospective applicants about their proposed projects' compliance with Town regulations prior to initiating the development review process. The Committee also identifies potential issues with proposals that should be addressed in the review process.</i>	Two Appointees: Mary Badame and Matthew Hudes	N.A.	Monthly 2nd Wed 4:30 p.m.	Town of Los Gatos Council Chambers, 110 East Main St., Los Gatos, CA 95030	Joel Paulson, Director of Community Development (408) 354-6879
<b>Council Policy Committee</b>	<i>The Town Council Policy Committee reviews and recommends changes to Town Council Policies, ordinances, and other documents.</i>	Two Appointees: Marico Sayoc and Maria Ristow	N.A.	Monthly 4th Tuesday, 5:00 p.m.	Town of Los Gatos Council Chambers, 110 East Main St., Los Gatos, CA 95030	Laurel Prevetti, Town Manager (408) 354-6832

<b><u>Name of Committee</u></b>	<b><u>Purpose</u></b>	<b><u>2021 Appointee</u></b>	<b><u>2021 Alternate</u></b>	<b><u>2021 Meeting Schedule</u></b>	<b><u>Location</u></b>	<b><u>Contact Person(s)</u></b>
<b>Finance Commission</b>	<i>Established December 2020, the Finance Commission advises the Town Council on budgetary and fiscal matters.</i>  <i>Resident appointments scheduled for January 19, 2021.</i>	Two Appointees <i>(one of whom needs to be Mayor or Vice Mayor)</i> Rob Rennie and Matthew Hudes	N.A.	<i>2021 Schedule TBD</i>	Town of Los Gatos Council Chambers, 110 East Main St., Los Gatos, CA 95030	Arn Andrews, Assistant Town Manager (408) 354-6832 Steve Conway, Director of Finance (408) 354-6828
<b>General Plan Committee</b>	<i>The Town General Plan Committee is responsible for developing land use policy for the General Plan or any specific plan.</i>	Two Appointees: Mary Badame and Maria Ristow	N.A.	(Held/Cancelled as needed) Monthly, 2nd & 4th Wednesdays, 5:30 p.m.	Town of Los Gatos Council Chambers, 110 East Main St., Los Gatos, CA 95030	Joel Paulson, Director of Community Development (408) 354-6879
<b>General Plan Advisory Committee</b>	<i>Established in the Fall of 2018 to guide the preparation of the 2040 General Plan.</i>	(Same Appointees as GPC)  Mary Badame and Maria Ristow	N.A.	Monthly, 1st and 3rd Thursdays, 7:00 p.m.	Town of Los Gatos Council Chambers, 110 East Main St., Los Gatos, CA 95030	Joel Paulson, Director of Community Development (408) 354-6879

<u>Name of Committee</u>	<u>Purpose</u>	<u><a href="#">2021 Appointee</a></u>	<u><a href="#">2021 Alternate</a></u>	<u>2021 Meeting Schedule</u>	<u>Location</u>	<u>Contact Person(s)</u>
<b><u>OUTSIDE AGENCIES' COMMITTEES</u></b>						
<b>Association of Bay Area Governments (ABAG) General Assembly</b>	<i>The Association of Bay Area Governments (ABAG) General Assembly is a regional agency that represents 9 Bay Area Counties and all cities within those Counties. Membership is voluntary and the Town is a member. The ABAG General Assembly determines the fair share housing allocations to each city and county as required by the State and other matters.</i>	Matthew Hudes	Mary Badame	Generally meets twice annually (Spring TBD Fall TBD)  Special Meetings as needed.	Spring and Fall Locations TBD	Fred Castro fcastro@bayareametro.gov (415) 820-7913  Town Staff Contact: Laurel Prevetti, Town Manager (408) 354-6832

<u>Name of Committee</u>	<u>Purpose</u>	<u>2021 Appointee</u>	<u>2021 Alternate</u>	<u>2021 Meeting Schedule</u>	<u>Location</u>	<u>Contact Person(s)</u>
<b>League of California Cities (Peninsula Division)</b>	<i>The League of California Cities is a State-wide organization that represents the member cities, holds conferences, provides training sessions, and lobbies the legislature. The League Peninsula Division is the regional division of the League of California Cities which discusses and addresses legislative issues from a regional perspective</i>	Marico Sayoc	Rob Rennie	Quarterly Meeting: January March May September  <i>Other:</i> April (Legislative Action Day & Reception)  June _____ Mayors and Council Members Executive Forum Location: Monterey  October _____ Annual Conference Location: TBD	TBD (Varies)	Seth Miller - smiller@cacities.org (415) 595-8629  Town Staff Contact: Laurel Prevetti, Town Manager (408) 354-6832

<u>Name of Committee</u>	<u>Purpose</u>	<u>2021 Appointee</u>	<u>2021 Alternate</u>	<u>2021 Meeting Schedule</u>	<u>Location</u>	<u>Contact Person(s)</u>
<b>Santa Clara County Housing and Community Development Advisory Committee</b>	<i>The Committee is composed of City Council members of the eight participating non-entitlement cities and one member of the Board of Supervisors who is the chairperson. The Committee makes policy recommendations to the Board of Supervisors on the planning, monitoring, and evaluation of the HCD Program and the development of a comprehensive, coordinated housing and community development plan.</i>	Matthew Hudes	Maria Ristow	Scheduled as needed.  February March October	2310 N. 1st Street (at Charcot) Charcot Training Center, Suite 100 San Jose	Tracy Cunningham tracy.cunningham@ce o.sccgov.org 408/299-5765  Housing and Community Development Offices of Santa Clara County – Office of Affordable Housing 70 West Hedding Street, 7th Floor San Jose, CA 95110 (408) 441-0261

<u>Name of Committee</u>	<u>Purpose</u>	<u>2021 Appointee</u>	<u>2021 Alternate</u>	<u>2021 Meeting Schedule</u>	<u>Location</u>	<u>Contact Person(s)</u>
<b>Santa Clara County Cities Association - Board of Directors</b> <i>(For scheduling purposes, the SCCCA Board member has typically also been the SCCCA Selection Committee (and) Legislative Action Committee appointee (see next two pages))</i>	<i>The Santa Clara County Cities Association Board of Directors provides a unified voice for all member cities with respect to regional, state, and federal agency activities that impact local government. The Board advocates for member cities by monitoring and engaging in the regional, state, and federal legislation processes.</i>	Marico Sayoc	Rob Rennie	Monthly - 2nd Thursday 7:00-9:00 p.m.  January February March  April TBD (General Membership Meeting with City Managers)  May June July August September October November  December TBD (General Membership –	Sunnyvale City Hall - 456 Olive Avenue, Sunnyvale, CA	Andi Jordan Executive Director  Santa Clara County Cities Association 505 W. Olive Avenue, Suite 749 Sunnyvale, CA 94086 Executive_Director@citiesassociation.org (408) 730-7770  Town Staff Contact: Laurel Prevetti, Town Manager (408) 354-6832

<u>Name of Committee</u>	<u>Purpose</u>	<u>2021 Appointee</u>	<u>2021 Alternate</u>	<u>2021 Meeting Schedule</u>	<u>Location</u>	<u>Contact Person(s)</u>
<b>Santa Clara County Cities Association - City Selection Committee</b>	<p><i>The City Selection Committee makes appointments to LAFCO, MTC, and the Recycling and Waste Reduction Commission, and recommendations to the County Board of Supervisors for appointment to the Bay Area Quality Management District Board.</i></p> <p><i>Historically, the same appointee serves on the Cities Assoc. Board, as the meetings occur back-to-back.</i></p>	Rob Rennie	Marico Sayoc	<p><i>Meets as needed (2nd Thursday of each month <u>prior to</u> SCCCA Board Meeting – 6:00 or 6:15 p.m.)</i></p> <p>(See SCCCA Board of Directors meeting dates on page 6)</p>	Sunnyvale City Hall - West Conference Room 456 Olive Avenue - Sunnyvale, CA	<p>Andi Jordan Executive Director Santa Clara County Cities Association 505 W. Olive Avenue, Suite 749 Sunnyvale, CA 94086 Executive_Director@citiesassociation.org (408) 730-7770</p> <p>Town Staff Contact: Laurel Prevetti, Town Manager (408) 354-6832</p>

<u>Name of Committee</u>	<u>Purpose</u>	<u>2021 Appointee</u>	<u>2021 Alternate</u>	<u>2021 Meeting Schedule</u>	<u>Location</u>	<u>Contact Person(s)</u>
<b>Santa Clara County Cities Association - Legislative Action Committee</b>	<p><i>The Santa Clara County Cities Association Legislative Action Committee reviews the legislative priorities that the Board of Directors sets for the year. The Committee tracks State/Federal legislation related to those priorities and makes recommendations to the Board.</i></p> <p><i>Historically, the same appointee serves on the Cities Assoc. Board, as the meetings occur back-to-back.</i></p>	Marico Sayoc	Rob Rennie	<p><i>Meets as needed (2nd Thursday of each month <u>prior to</u> SCCCA Board Meeting (See SCCCA Board of Directors meeting dates on page 6)</i></p>	Sunnyvale City Hall - West Conference Room 456 Olive Avenue - Sunnyvale, CA	<p>Andi Jordan Executive Director Santa Clara County Cities Association 505 W. Olive Avenue, Suite 749 Sunnyvale, CA 94086 Executive_Director@citiesassociation.org (408) 730-7770</p> <p>Town Staff Contact: Laurel Prevetti, Town Manager (408) 354-6832</p>

<b><u>Name of Committee</u></b>	<b><u>Purpose</u></b>	<b><u>2021 Appointee</u></b>	<b><u>2021 Alternate</u></b>	<b><u>2021 Meeting Schedule</u></b>	<b><u>Location</u></b>	<b><u>Contact Person(s)</u></b>
<b>Santa Clara Valley Water District (Valley Water) Commission</b>	<i>The Commission serves in an advisory capacity to the Valley Water Board regarding water-related matters. The Valley Water is responsible for flood control, water supply, and other water-related infrastructure for the County of Santa Clara.</i>	Maria Ristow	Matthew Hudes	Quarterly 4th Wednesday 12:00 p.m. to 2:00 p.m.  January April July October	Santa Clara Valley Water District Headquarters Building Boardroom  5700 Almaden Expressway, San Jose, CA	Glenna Branbill Valley Water 5750 Almaden Expressway San Jose, CA 95118 GBrambill@valleywater.org (408) 630-2408  Town Staff Contact: Matt Morley, Director of Parks & Public Works (408) 399-5770

<u>Name of Committee</u>	<u>Purpose</u>	<u>2021 Appointee</u>	<u>2021 Alternate</u>	<u>2021 Meeting Schedule</u>	<u>Location</u>	<u>Contact Person(s)</u>
<b>Santa Clara Valley Transportation Authority (VTA) Policy Advisory Committee (PAC)</b>	<i>The VTA Policy Advisory Committee provides policy advice to the VTA Board. The VTA Board is comprised of elected officials from cities and the County.</i>	Rob Rennie	Maria Ristow	Monthly 2nd Thursday 4:00 p.m.  January 14 February 11 March 11 April 8 May 13 June 10 July 2 August 13 September 16 October 14 November 11 December 9	Santa Clara Valley Transportation Authority 3331 N. First, Building B - Room B-104 San Jose, CA 95134-1906	Michelle Garza Board Assistant Santa Clara Valley Transportation Authority (CMP) 3331 N. First Street San Jose, CA 95134 michelle.garza@vta.org (408) 546-7977  Town Staff Contact: Matt Morley, Director of Parks & Public Works (408) 399-5770

<u>Name of Committee</u>	<u>Purpose</u>	<u>2021 Appointee</u>	<u>2021 Alternate</u>	<u>2021 Meeting Schedule</u>	<u>Location</u>	<u>Contact Person(s)</u>
<b>Santa Clara Valley Transportation Authority (VTA) State Route 85 Corridor Policy Advisory Board (SR85 PAB)</b>	<i>Formed in 2015, the VTA State Route 85 Corridor Policy Advisory Board (SR85 PAB) studies the long-term transit and transportation plans to serve the SR 85 Corridor and advises the VTA Board of Directors on the scope, funding and construction of both near- and long-term transit and transportation improvement projects for this corridor.</i>	Rob Rennie	Maria Ristow	Quarterly, Mondays, 10:00 a.m. to 12:00 p.m.  April May September December	TBD	Michelle Garza Board Assistant Santa Clara Valley Transportation Authority (CMP) 3331 N. First Street San Jose, CA 95134 michelle.garza@vta.org (408) 546-7977  Town Staff Contact: Matt Morley, Director of Parks & Public Works (408) 399-5770

<u>Name of Committee</u>	<u>Purpose</u>	<u>2021 Appointee</u>	<u>2021 Alternate</u>	<u>2021 Meeting Schedule</u>	<u>Location</u>	<u>Contact Person(s)</u>
<b>Silicon Valley Clean Energy (SVCE)</b>	<i>Formed March 2016, the Silicon Valley Clean Energy is a local, public non-profit that will purchase cleaner energy on the open market for residents and businesses in participating communities. Decisions are made through the Board of Directors, which is composed of a representative from each member community. Participating jurisdictions include Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Monte Sereno, Morgan Hill, Mountain View, Saratoga, Sunnyvale and the unincorporated parts of Santa Clara County.</i>	Rob Rennie	Marico Sayoc	Monthly 2nd Wednesday 7:00 p.m. (or as needed)	Cupertino Community Hall 10350 Torre Avenue, Cupertino, CA 95014	Andrea Pizano, Board Clerk/Executive Assistant 333 W. El Camino Real, Ste. 290 Sunnyvale, CA 94087 Andrea.Pizano@svcleanenergy.org (408) 721-5301x1005 or (844) 474-7823  Town Staff Contact: Laurel Prevetti, Town Manager (408) 354-6832 and Matt Morley, Director of Parks & Public Works (408) 399-5770

<u>Name of Committee</u>	<u>Purpose</u>	<u>2021 Appointee</u>	<u>2021 Alternate</u>	<u>2021 Meeting Schedule</u>	<u>Location</u>	<u>Contact Person(s)</u>
<b>Solid Waste Management Joint Powers Agency (JPA) Board of Directors</b>	<i>The Solid Waste Management Joint Powers Agency (JPA) Board of Directors reviews issues related to the solid waste management franchise, disposal, recycling, and yard waste agreement.</i>	Mary Badame	Maria Ristow	Quarterly 1st Thursday of the month 5:00 p.m.  February 4  May 6  September 2  November 4	Monte Sereno City Hall 18041 Saratoga-Los Gatos Road Monte Sereno	Marva M. Sheehan, CPA Vice President Hilton, Farnkopf & Hobson (HF&H) Consultants, LLC 201 North Civic Drive, Suite 230 Walnut Creek, CA 94596  Phone (925) 977-6961 Fax (925) 977-6955 Email: msheehan@hfh-consultants.com  Town Staff Contact: Matt Morley, Director of Parks & Public Works (408) 399-5770

<u>Name of Committee</u>	<u>Purpose</u>	<u>2021 Appointee</u>	<u>2021 Alternate</u>	<u>2021 Meeting Schedule</u>	<u>Location</u>	<u>Contact Person(s)</u>
<b>West Valley Clean Water Program Authority (WVCWPA)</b>	<p><i>The West Valley Clean Water Program Authority was formed in early 2018 to coordinate stormwater pollution abatement, control and management efforts to assist public and private entities in complying with stormwater National Pollutant Discharge Elimination System ("NPDES") permits and improving surface water quality and enhancing water supplies in California.</i></p> <p><i>Member Agencies: City of Campbell, Town of Los Gatos, City of Monte Sereno, City of Saratoga</i></p>	Mary Badame	Maria Ristow	<p>Quarterly meetings immediately preceding (4:00 p.m.) the Solid Waste Management JPA Board of Directors.</p> <p><i>2021 Meeting Schedule to be determined</i></p>	<p>Monte Sereno City Hall 18041 Saratoga-Los Gatos Road Monte Sereno</p>	<p>Scott Holt, Senior Associate, Hilton, Farnkopf &amp; Hobson (HF&amp;H) Consultants, LLC 201 North Civic Drive, Suite 230 Walnut Creek, CA 94596</p> <p>Phone (925) 977-6967 Fax (925) 977-6955 Email: sholt@hfh-consultants.com</p> <p>Town Staff Contact: Matt Morley, Director of Parks &amp; Public Works (408) 399-5770</p>

<u>Name of Committee</u>	<u>Purpose</u>	<u>2021 Appointee</u>	<u>2021 Alternate</u>	<u>2021 Meeting Schedule</u>	<u>Location</u>	<u>Contact Person(s)</u>
<b>West Valley Sanitation District Board of Directors</b>	<p><i>The West Valley Sanitation District Board of Directors oversees the treatment of sewage for the cities of Campbell, Cupertino, Los Gatos, Monte Sereno, and Saratoga.</i></p> <p>.....</p> <p>.....</p> <p><i>Board of Directors receive \$210 stipend per meeting.</i></p>	Maria Ristow	Mary Badame	<p>Monthly 2nd Wednesday (or 4th Wednesday if needed) 5:00 p.m.</p> <p>January 8 February 12 March 11 April 8 May 13 June 10 July 8 August 12 September 9 October 14 November 11 December 9</p>	<p>West Valley Sanitation District 100 E. Sunnyoaks Avenue Campbell, CA 95008</p>	<p>Lesha Luu West Valley Sanitation District 100 E. Sunnyoaks Avenue Campbell, CA 95008 lluu@westvalleysan.org (408) 378-2407</p> <p>Town Staff Contact: Matt Morley, Director of Parks &amp; Public Works (408) 399-5770</p>



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 4

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DATE: December 3, 2020  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Authorize the Issuance of the Request for Qualifications for On-Call Materials Testing and Special Inspection Services and Authorize the Town Manager to Negotiate and Execute a Consultant Services Agreement in an Amount Not-to-Exceed \$180,000 for the Services.

**RECOMMENDATION:**

Staff recommends that the Town Council authorize the issuance of the Request for Qualifications (RFQ) for On-call Materials Testing and Special Inspection Services (Attachment 1) and authorize the Town Manager to negotiate and execute a consultant services agreement in an amount not-to-exceed \$180,000 for the services.

**BACKGROUND:**

In 2017, the Parks and Public Works (PPW) Department issued a Request for Proposals (RFP) to establish an on-call consultant list for the materials testing services required for the Town's capital improvement projects. Through the RFP process, four testing firms were qualified for the PPW on-call list. Common materials testing needed for projects included tests for concrete, asphalt, and soil compaction, and special inspections for the installation of reinforced concrete, foundations, structural steel welding and bolting, and structural masonry.

Historically, when specific materials testing or special inspection services are required for a Town project, staff solicit proposals from the on-call firms, then a consultant services agreement is negotiated with the selected firm for the project consistent with the Town's Purchasing Policy. This approach has resulted in an efficient selection process, reducing costs and facilitating materials testing for unforeseen needs.

**PREPARED BY:** WooJae Kim  
Town Engineer

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Reviewed by: Town Manager, Assistant Town Manager, Town Attorney, Finance Director, and Parks and Public Works Director

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DISCUSSION:

Staff would like to retire the current on-call list. For future materials testing and special inspection services, Parks and Public Works is proposing to issue the attached RFQ to solicit Statements of Qualifications (SOQs) from capable firms (see Attachment 1).

From SOQs received, the Town would contract with the best qualified firm for a full one-year term with the option to extend one additional year. The fees for the on-call services would be negotiated upfront for the entire contract duration eliminating the need to negotiate fees for each individual project. The services performed under the contract would be funded through individual projects and their approved budgets on an as-needed basis. The total services amount for the contract term would be limited to \$180,000. The Town would still have the option to contract with more than one testing and inspection firm as long as the total combined contract amount does not exceed \$180,000.

Below is a list of Town capital projects that would likely require materials testing and special inspection services in year 2021:

- Annual Street Repair and Resurfacing
- Annual Curb, Gutter, and Sidewalk Maintenance
- Guardrail Replacement
- Traffic Signal Modernization
- Shannon Road Repair
- Building Replacement at Corporation Yard

Staff is requesting that the Town Council approve the issuance of the RFQ in Attachment 1 to solicit SOQs from testing and inspection firms on the current on-call list and other qualified consultants in the open market.

The following is the anticipated timeline for the RFQ process:

<u>Milestones</u>		<u>Anticipated Timeline</u>
Release of Request for Proposals	-	December 17, 2020
Proposals Due	-	January 14, 2021
Oral Interviews/ Presentations (if necessary)	-	February 2021
Contract Negotiation & Execution	-	March 2021

CONCLUSION:

Approval of the staff recommendations would allow PPW to contract with the most qualified on-call testing and inspection firm. Benefits would include reducing the number of consultant

services agreements required for materials testing and special inspection services, shorter lead time to secure services for projects, and potential cost savings from the pre-approved fee schedule for the term of the contract.

COORDINATION:

This report was coordinated with the Town Attorney's Office and the Finance Department.

FISCAL IMPACT:

The consultant services agreement with the best qualified testing firm would be set at a contract capacity amount not-to-exceed \$180,000 for the first-year term. The contract would be funded by projects requiring materials testing and special inspection services, where those projects would be sufficiently funded for those services. There is no additional fiscal impact to the Town.

ENVIRONMENTAL ASSESSMENT:

The recommended action is not a project as defined under CEQA, and no further action is required.

Attachment:

1. RFQ for On-Call Materials Testing and Special Inspection Services



**Town of Los Gatos**

**REQUEST FOR QUALIFICATIONS**

**ON-CALL MATERIALS TESTING AND SPECIAL INSPECTION  
SERVICES**

**Date Issued: December 17, 2020**

**Statement of Qualifications Deadline: Thursday, January 14, 2021 by  
4:00p.m.**

**Virtual Pre-Proposal Meeting: Wednesday, December 23, 2020 at 10:00 a.m.**

**Issued By:** Town of Los Gatos  
Parks and Public Works Department  
41 Miles Avenue  
Los Gatos, CA 95030  
[www.losgatosca.gov](http://www.losgatosca.gov)

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## TABLE OF CONTENTS

### ON-CALL MATERIALS TESTING AND INSPECTION SERVICES

A. PURPOSE.....	3
B. OVERVIEW .....	3
C. MINIMUM QUALIFICATIONS.....	5
D. General Provisions and Requirements.....	6
E. Proposed Scope of Services .....	7
F. Additional Services.....	8
G. SOQ Format and Submission Requirements .....	9
Submitting the SOQ: .....	9
Addenda.....	11
H. Evaluation Process .....	11
SOQ Evaluation Criteria.....	12
Oral Interview (if necessary) .....	13
I. Additional Information .....	14
J. Attachments .....	17

**THIS FORM MUST BE PRINTED OUT, COMPLETED AND SUBMITTED WITH THE STATEMENT OF INTEREST (SOQ):**

ATTACHMENT 1 – QUALITY ASSURANCE PROGRAM  
ATTACHMENT 2 - CONFLICT OF INTEREST STATEMENT  
ATTACHMENT 3 – NON-COLLUSION DECLARATION  
ATTACHMENT 4 - REFERENCES  
ATTACHMENT 5 - STATEMENT REGARDING INSURANCE COVERAGE AND WORKER'S  
COMPENSATION INSURANCE ACKNOWLEDGMENT CERTIFICATE  
ATTACHMENT 6 - SAMPLE CONSULTANT SERVICES AGREEMENT

Schedule of Activities: The Town reserves the right to amend the schedule below as necessary.

<b><u>Activity</u></b>	<b><u>Anticipated Dates</u></b>
RFQ release	December 17, 2020
Pre-Proposal Meeting	December 23, 2020.
Deadline for Questions Submitted By	January 8, 2020
SOQ Submission Deadline (4:00 p.m.)	January 14, 2021
SOQ Evaluation	January 2021
Consultant Interviews/Presentations (if necessary)	February 2021
Contract Negotiations and Execution	March 2021

Request for Qualifications  
On-Call Materials Testing and Special Inspection Services

Town's Contact: For all questions related to the RFQ, email the Town's Contact listed below:

Janice Chin  
Assistant Engineer  
Town of Los Gatos  
Parks and Public Works Department  
41 Miles Avenue  
Los Gatos, CA 95030  
[jchin@logatosca.gov](mailto:jchin@logatosca.gov)

DRAFT

## ON-CALL MATERIALS TESTING AND SPECIAL INSPECTION SERVICES

**Statement of Qualifications Due:** Thursday, January 14, 2021, by 4:00 p.m.

**Pre-Proposal Meeting:** Voluntary Pre-proposal meeting is scheduled for 10:00 am on Wednesday, December 23, 2020. The meeting shall be hosted via Zoom (web conference). At the pre-proposal meeting, Town staff will go over the Request for Qualifications (RFQ) and host a Q&A session. Consultants planning to participate should email the Town's Contact, Janice Chin, at [jchin@losgatosca.gov](mailto:jchin@losgatosca.gov) to obtain the web link and a password for the meeting by Tuesday, December 22, 2020.

Proposers may view and download this RFQ electronically from the Town's website at <https://www.losgatosca.gov/2258/RFP RFQ>. The Proposers are responsible for checking the Town's website for any updates and addenda related to this RFQ. For any questions or assistance, please reach out to the Town's contact.

### A. PURPOSE

The Town of Los Gatos (Town) is seeking Statements of Qualification (SOQs) from qualified professional consultants (Proposers) to provide on-call materials testing and special inspection services for the Town's capital improvement projects (CIPs) and other projects within the Town for a one-year contract term with the option to extend one additional year.

### B. OVERVIEW

The Town is a general-law city incorporated in 1887. The Town's Parks and Public Works Department (PPW) is responsible for improving and maintaining the Town's infrastructure and assets. The budget for the Fiscal Year (FY) 2020-2021 Capital Improvement Program is \$33.5 million.

Potential CIPs that may require materials testing and special inspection services in 2021 include, but not limited to:

<u>Projects</u>	<u>Anticipated Start Timeline</u>
Annual Street Repair and Resurfacing Project	Spring or Summer 2021
Annual Curb, Gutter, and Sidewalk Maintenance	Spring 2021
Guardrail Replacement	Spring 2021
Traffic Signal Modernization	Spring or Summer 2021
Shannon Road Repair	Fall 2021
Building Replacement at Corporation Yard	Fall 2021

## Request for Qualifications On-Call Materials Testing and Special Inspection Services

Through this RFQ process, the Town is looking to secure a consultant services agreement with a qualified professional materials testing and inspection firm to provide on-call services described herein. From the SOQs received, the Town intends to hire the best qualified firm for the services for a one-year contract term with the option to extend one additional year. The Town reserves the right to award more than one contract for the services depending on the SOQs received and the capacity and expertise of the Proposers.

The selected firm will perform services on a “Time and Materials” basis based on a set fee schedule negotiated and pre-approved for the contract. Travel time and mileage to and from the Town should not be included or charged as part of the services. Travel time and mileage between jobsites within the Town related to services rendered should be incorporated into the rates in the fee schedule. Billable work hours or durations will be based on on-site hours and no more than a 2-hour minimum shall be allowed for durations less than 2 hours. Office and laboratory service hours shall be based on the actual hours expended. For materials testing and special inspection services not identified in the fee schedule, the specific scope and costs shall be specified and negotiated based on industry standards and best practices before services are rendered.

The contract amount or capacity for the services within the first one-year contract period shall not exceed \$180,000. If deemed necessary by the Town to increase the contract amount, an amendment to the consultant services agreement would be required which would need an approval from the Town Council.

### On-Call Services:

The selected firm shall perform materials testing and special inspection services for various CIPs and other Town projects on an as-needed basis. Services to be performed under the contract shall be authorized and funded through individual projects that require the services. For each project, the Town’s project manager will request a time and material not-to-exceed quote or estimate for the services. The selected firm must provide quotes based on the fee schedule pre-approved for the contract. If the services required for a project is not listed on the fee schedule, the scope and fee shall be negotiated with the Town’s project manager.

The not-to-exceed quote or estimate for the services must be approved by the Town’s project manager, and a Purchase or Task Order issued by the Town (reserving the contract amount for that project) before performing services on the project. The selected firm must track testing and inspection services rendered separately for each project since separate monthly invoices would be required for projects. Invoices should include the project name, project number, Purchase/Task Order number, and date and type of services rendered, and be submitted to the Town’s project manager responsible for the project.

## Request for Qualifications On-Call Materials Testing and Special Inspection Services

The Town's Contact would act as the contract administrator to track all services rendered and address contracting requirements. Once the total invoiced amount for the contract nears the \$180,000 capacity, the Town's Contact shall be notified to address additional capacity needs.

The Town's project managers or authorized members will make best efforts to provide a minimum 48-hour notice to schedule testing and inspection services. There will be instances when only 24-hour or less notice is provided for services needed.

Once the materials testing and special inspection services is completed for the project, the remaining unbilled amounts in the Purchase or Task Orders shall be released back to the contract capacity for other projects.

Again, the Town has the option to extend the on-call contract for another year depending on the performance of the selected firm. For the contract extension, the selected firm is allowed to adjust the pre-approved fee schedule based on the Engineering News-Record's (ENR's) Construction Cost Index for the area and the period.

### **C. MINIMUM QUALIFICATIONS**

The Town is seeking SOQs from Proposers with the following minimum qualifications with work experience within the greater San Francisco Bay Area:

1. Certified to perform typical materials testing and special inspection services for a public works agency projects and for Federal Aid transportation projects. Sampling technicians, inspectors, materials testing laboratories, and special inspectors must be trained and certified to perform services.
2. Experienced and capable of performing special inspections for structural concrete, steel, reinforcement bars, retaining walls, foundations, welding, and other structural and mechanical systems.
3. The laboratory shall be accredited/certified by the State of California and be under the management of a California Registered Professional Engineer to provide materials testing, including for federal aid projects.
4. The firm shall employ testing, inspection, and laboratory personnel who are certified by one or more of the following entities:
  - Caltrans District Materials Engineer
  - Nationally recognized non-Caltrans organizations such as the American Concrete Institute, American Asphalt Institute, National Institute of Certification of the Engineering Technologies, etc.

Request for Qualifications  
On-Call Materials Testing and Special Inspection Services

- Other recognized organizations approved by the State of California and/or recognized by local governments or private associations.
5. Available and willing to frequently travel to the Town for services.

Furthermore, Proposers shall also comply with the following provisions:

1. Each Proposer is responsible for determining and complying with all applicable business licensing requirements necessary to complete the Project's scope of work. The successful Proposer shall be required to provide evidence to the Town that it is authorized to do business in California prior to the award of the contract.
2. Each Proposer is responsible for determining and complying with all applicable professional licensing requirements necessary to complete the Project's scope of work.
3. If applicable, California Department of Industrial Relations ("DIR") Registration is required. If applicable, the Proposer will be required to certify that it has verified that its subcontractors on this Project are registered with DIR in compliance with Labor Code sections 1771.1 and 1725.5 and the Proposer shall provide such proof of registration to the Town.

#### **D. General Provisions and Requirements**

1. All the services furnished by the Consultant shall be in accordance with the professional standards and quality which prevail among inspection and materials testing professionals, of similar knowledge and skill engaged in related work throughout California, under the same or similar circumstances. All documentation prepared by Consultant shall provide for a completed project that conforms to all applicable codes, rules, regulations and guidelines which are in effect at the time such a documentation is prepared.
2. The Consultant, subconsultant, and laboratories must possess proper licenses to perform the services in the State of California.
3. Inspection and testing for federal aid projects must comply with the current Town's Quality Assurance Program (see Attachment 1).
4. The Consultant shall coordinate with the Town's project managers for individual projects as necessary to obtain authorization to perform and schedule services.
5. Questions related to the contract administration matters should be directed to the Town's Contact.
6. The Consultant should not assume any responsibilities or duties of contractors or the design professional.
7. The Consultant shall maintain the consultant's key personnel throughout the entire duration of services; and therefore, the Consultant shall conduct their business in a professional manner to schedule and support their personnel to provide the scope of

## Request for Qualifications On-Call Materials Testing and Special Inspection Services

services in a timely and professional manner. The Town must approve of any key personnel change in advance through personnel qualifications review and oral interviews with Town staff.

8. The Consultant shall verify that all information submitted to the Town is up to the Consultant's professional standards and satisfaction. Note and report any discrepancies observed in the course of professional activities covered by the services.
9. Deliverables will be submitted in electronic format (PDF) and in native document formats such as Word, Excel, AutoCAD, etc. unless otherwise specified.

### **E. Proposed Scope of Services**

The Consultant shall provide the PPW Department with on-call materials testing and special inspection services for various Town CIPs and other projects within the Town. The Consultant shall coordinate with the Town's project managers for each project when services are required. Here is the general outline of the process involved to secure materials testing and special inspections services for each project:

1. As requested by the Town's project manager, the Consultant shall review the design or construction documents for the project to assess the testing and inspection needs. If the project documents are not available, the Consultant shall assess the needs of the project and make recommendations to the Town's project manager to best address the materials testing and special inspection needs. The Consultant may also need to conduct field visits and meet with Town staff as needed for the recommendations.
2. Provide a not-to-exceed proposal/quote for the services and deliverables based on the fee schedule pre-approved for the contract. Provide as much details regarding the scope of services in the proposal/quote including deliverables and project records/reports to be maintained.
3. If services required are not in the pre-approved fee schedule, negotiate appropriate fees with the Town's project manager.
4. Once the scope and cost of services for the project is negotiated and approved by the Town's project manager, obtain a copy of the approved Purchase or Task Order or a written directive from the Town before starting services.

The Consultant shall be responsible for efforts involved in assessing the materials testing and special inspection services needed, providing a quote, and securing the approval to initiate the services for a project. The Town should not be billed for efforts involved with providing a proposal/quote.

Materials testing and special inspection services shall be performed as specified in the design or construction documents, which often refers to the California Department of Transportation

## Request for Qualifications On-Call Materials Testing and Special Inspection Services

(Caltrans) Standard Specifications and Plans. If testing requirements are not identified, the Consultant shall make recommendations to the Town's project manager based on industry standards and best practices.

Here is a list of few materials testing and special inspections services sought for Town projects:

- Material sampling
- Compaction curves/R-value/sand equivalent/sieve analysis/durability
- Soil or aggregate base compaction testing
- Concrete compression strength
- Hot mix asphalt test
- AC modifier
- Crumb Rubber Modifier
- Asphalt rubber binder
- Asphaltic emulsion
- Spray rate
- Structural steel and welding
- Staff augmentation for construction inspections

Within one working day of completing each test, the Consultant shall provide the Town with a written notice describing the test performed and the results of the test, while indicating whether the results are in compliance with the standards and requirements contained in the design and construction documents. If compliance was not achieved, the written notice should include what corrective action is needed to obtain compliance.

Prepare a report of the inspection and/or testing results and conclusions/recommendations. Upon receipt of the analytical results, the Consultant shall prepare a summary letter comparing the analytical data to the governing allowable limits. The Summary Report will include copies of the laboratory reports and a sample location map. The Summary Report will provide conclusions and recommendations. Summary report shall be provided to Town staff within one week of receipt of the analytical results. The Consultant may be required to assist the Town in obtaining approvals and/or permits from County, State, and Federal agencies as required.

### **F. Other Services**

Proposers shall list other specific services that they can provide as related to the On-Call Materials Testing and Special Inspection Services. Proposers should also state if they are able to provide hazardous materials testing services. The Town will consider other services to be included in the scope of services for the consultant services agreement. Proposers should submit their general fee schedule for all services that they can provide.

## G. SOQ Format and Submission Requirements

### Submitting the SOQ:

The SOQ must be received by the Town no later than Thursday, January 14, 2021 by 4:00 pm PST. The Town requires that all SOQs be submitted electronically via email or file sharing sites. The SOQ shall be clearly marked for “**Town of Los Gatos-Materials Testing and Special Inspection Services**” and emailed to:

Janice Chin  
Assistant Engineer  
Town of Los Gatos – Parks and Public Works  
[jchin@losgatosca.gov](mailto:jchin@losgatosca.gov)

Each Proposer is responsible for confirming the Town’s receipt of the SOQ. The Town email system has file size limitations; therefore, receipt confirmation is critical. Receipt of a SOQ by any other Town office will not constitute “delivery” as required by this RFQ. Each Proposer assumes full responsibility for timely delivery of its SOQ. Any SOQs received after the time and date specified above will be considered nonresponsive and will be returned to the consultant. No Proposer may submit more than one SOQ for the Project.

Each SOQ must include the following information:

Cover Letter (Maximum 2 pages) – Cover letter giving an overview of the Proposer’s general expertise, experience, and ability to perform the scope of services described in this RFQ. The cover letter shall be signed by an authorized representative of the firm.

**Attachment 6** is the Town’s contract template for the Consultant Services Agreement. In the cover letter, state that the Town’s contract template is acceptable to the Proposer or list any exceptions or change requests to the contract provisions.

Certification Forms – Complete and sign the following certification forms:

**Attachment 2**-Conflict of Interest Statement

**Attachment 3**-Non-Collusion Declaration

**Attachment 5**-Statement regarding Insurance Coverage and Worker’s  
Compensation Insurance Acknowledgment Certificate

Review of Scope of Services (Maximum 2 pages) – Proposers must comment on the firm’s ability to realistically provide the services listed in the Proposed Scope of Services as outlined. Provide comments and suggest modifications, changes, and/or additions as

## Request for Qualifications

### On-Call Materials Testing and Special Inspection Services

appropriate. Indicate how your firm/team would approach the project and what specialized services or unique insights your team would bring to the project.

Experience and Expertise – Discuss prior related project experience satisfying Minimum Qualifications for the Project and what would make the firm the best qualified for this Project. Emphasize projects of similar scope and magnitude. Discuss the firm’s experience in the accurate coordination of trades and sub-consultants and the quality control process. Discuss the firm’s ability to meet schedules and ability to control costs.

Qualifications of Key Personnel – Identify the project manager and key individuals on the consultant team and their resumes highlighting relevant qualifications and experiences. State projects that they were assigned to and their specific roles and responsibilities. Provide a statement regarding the firm’s commitment to keep the same personnel throughout the Project. Indicate how your firm’s resources will work together to complete this Project. Identify additional resources available in your firm.

Sub-Consultants – Identify any sub-consultants your firm may utilize. Include resumes of key individuals who will be directly involved in this Project and briefly describe any past involvement in joint projects with these sub-consultants. Indicate why the particular sub-consultant has been selected to work on the Project team. Indicate how the prime firm will ensure quality control and coordination of documents between the prime and the various sub-consultants.

References (complete **Attachment 4**) – A minimum of three (3) current references from past projects (of similar scope) completed by the proposed project manager and/or project team should be provided. All references must contain relevant projects completed within the past five (5) years. Provide the following information for each reference:

Firm, Owner, or Agency Name  
Address, Telephone Number  
Email Address  
Project Description  
List of Services Provided

Insurance Coverage – Identify carriers, A.M. Best ratings, and types and limits of insurance carried by your firm. If selected by the Town, the Consultant shall maintain minimum coverage requirements for commercial general liability, automobile liability, professional liability, and workers’ compensation as specified in the Consultant Services Agreement. The Consultant may achieve the required limits and coverage through a

## Request for Qualifications On-Call Materials Testing and Special Inspection Services

combination of primary and excess or umbrella liability insurance provided such policies result in the same or greater coverage as the coverages required by Town, and in no event shall any excess or umbrella liability insurance provide narrower coverage than the primary policy. If selected by the Town, the Consultant shall cause the insurance policies required herein to include the Town, and their respective officials, officers, employees, and volunteers as additional insureds for claims caused in whole or in part by the Consultant's negligent acts or omissions. The Consultant shall provide certificates of insurance to the Town that evidence compliance with the above.

Preliminary Fee Schedule – Submit a Preliminary Fee Schedule for various services provided by the Proposer. The Preliminary Fee Schedule shall be inclusive of all work and labor including, but not limited to, the Consultant's costs for site visits and travel expenses. Also, submit the Preliminary Fee Schedule of sub-consultants.

### **Addenda**

If any revisions to this RFQ become necessary, the Town shall provide responses and clarifications to questions via addenda. The last day for issuance of an addendum is Monday, January 11, 2021. A Proposer shall submit any questions or requests for clarification to the Town's Contact by Friday, January 8, 2021.

Addenda to this RFQ, if issued, will be posted on the Town's website at <https://www.losgatosca.gov/2258/RFPREQ>. All proposers shall verify that the Town has issued any addenda for this Project prior to submitting the SOQ and ensure that all requirements of addenda are included.

### **H. Evaluation Process**

Town staff will review the SOQs and will rank the Proposers. The evaluation of SOQs shall be within the sole judgment and discretion of the Town. All contacts during the evaluation phase shall be through the Town's Contact only. Proposers shall neither contact nor lobby evaluators during the evaluation process. Attempts by the Proposer to contact any reviewers of the SOQs with the exception of the Town's Contact may jeopardize the integrity of the evaluation and selection process and risk possible disqualification.

During the SOQ evaluation process, written questions or requests for clarification may be submitted by the Town to a Proposer regarding its SOQ or related matters. Failure to respond in a timely manner to any such questions or requests may be grounds for elimination of the Proposer from further consideration.

## Request for Qualifications On-Call Materials Testing and Special Inspection Services

Town staff will evaluate each SOQ meeting the qualification requirements set forth in this RFQ. After the review of SOQ, the highest-ranked Proposers may be invited for oral interviews as part of the selection process, if necessary. The Proposer will be notified of the time and place of oral interviews and if any additional information may be required to be submitted.

The Town shall be the sole judge of the evaluation of all SOQs. The Town's decision(s) shall be final. The Town reserves the right to reject any and all SOQs and waive any irregularity or minor defects in any SOQ received.

### **SOQ Evaluation Criteria**

Following criteria shall be used to evaluate the SOQs:

#### **1. Conflict of Interest Statement and Non-Collusion Declaration (Pass/Fail)**

- a. Discloses any financial, business or other relationship with the Town that may have an impact upon the outcome of the contract or the construction project.
- b. Lists current clients who may have a financial interest in the outcome of this contract or the construction project that will follow.
- c. Discloses any financial interest or relationship with any construction company that might submit a bid on the construction project.

#### **2. Completeness/Organization of the SOQ (15 points)**

- a. SOQ that is current, accurate, and complete in accordance with the requirements of this RFQ. The SOQ format and organization shall follow the requirements herein. SOQs that do not include the content requirements identified within this RFQ and subsequent addenda and do not address items listed shall be considered incomplete.

#### **3. Organization and Approach (20 points)**

- a. Describes familiarity of the Project and demonstrates understanding of any work completed to date, if applicable, and Project objectives moving forward.
- b. Project team and management approach when responding to Project issues. The team structure shall provide adequate capability to perform both volume and quality of needed work within Project schedule milestones.
- c. Roles and Organization of Proposed Team
  - i. Propose adequate and appropriate disciplines of the Project team.
  - ii. Some or all of team members have previously worked together on similar project(s).
  - iii. Overall organization of the team relevant to Town's needs.
- d. Working Relationship with the Town
  - i. The team and its leaders have experience working in the public sector and knowledge of public sector procurement process.

Request for Qualifications  
On-Call Materials Testing and Special Inspection Services

- ii. Team leadership understands the nature of public sector work and its decision-making process.

**4. Qualifications & Experiences (20 points)**

- a. Meets Minimum Qualifications.
- b. Relevant experience, specific qualifications, and technical expertise of the firm and sub-consultants related to the Project.

**5. Qualifications of Key Individuals (20 points)**

- a. Team is managed by an individual(s) with appropriate experience in similar projects. This person's time is appropriately committed to the Project.
- b. Team members, as demonstrated by enclosed resumes, have relevant experience for their role in the project.
- c. Key positions required to execute the project team's responsibilities are appropriately staffed.

**6. Proposer Accessibility (15 points)**

- a. A statement addressing the firm's ability to fulfill regular on-site Project responsibilities.

**7. References (10 points)**

- a. Provide a reference the name of at least three (3) agencies the Proposer has previously consulted for in the past five (5) years.

**Oral Interview (if necessary)**

If necessary, the top-ranking Proposers may be invited to participate in Oral Interviews for a consultant presentation and Q&A session. A Proposer will be notified of the time and place for oral interviews and if any additional information may be required to be submitted.

Following the Town's determination of the firm best qualified for this work, scope of services and final terms will be negotiated, and the Consultant and the Town will execute the Town's standard Consultant Services Agreement (**Attachment 6**). If negotiations with the top-ranked Proposer are not successful, the Town will select the next-ranked Proposer for award and negotiate the final terms of the contract.

The proposed schedule is as follows:

<b><u>Activity</u></b>	<b><u>Anticipated Dates</u></b>
RFQ release	December 17, 2020
Pre-Proposal Meeting	December 23, 2020.
Deadline for Submitting Questions	January 8, 2020
SOQ Submission Deadline (4:00 pm)	January 14, 2021

Request for Qualifications  
On-Call Materials Testing and Special Inspection Services

SOQ Evaluation	January 2021
Consultant Interviews/Presentations (if necessary)	February 2021
Contract Negotiations and Execution	March 2021

## I. Additional Information

1. **Reservation of Rights.** The Town reserves the right to accept or reject any or all SOQs, or to alter the selection process if warranted, to postpone the selection process for its own convenience at any time, and to waive any defects in the RFQ. The Town also reserves the right to accept or reject any individual subconsultant that a candidate proposes to use. This RFQ and the interview process shall in no way be deemed to create a binding contract or agreement of any kind between the Town and the Proposers. The Town's standard form of consultant agreement will form the basis of the contract between the parties.
2. **Proposer's Costs.** Each Proposer responding to this RFQ acknowledges and agrees that the preparation of all materials for submittal to the Town and all presentations, related costs, and travel expenses, including but not limited to vehicle miles, vehicle rentals, flights, transit fares, and meals, are at the Proposer's sole expense. The Town shall not, under any circumstances, be responsible for any cost or expense incurred by the Proposer. In addition, each Proposer acknowledges and agrees that all documentation and/or materials submitted with the RFQ shall remain the property of the Town.
3. **DIR Monitoring.** This Project may be subject to compliance monitoring and enforcement by the DIR.
4. **Communicating with Town.** If you have any questions regarding this RFQ, please contact the Town's Contact:

Janice Chin  
Parks and Public Works Department  
Town of Los Gatos  
41 Miles Avenue, Los Gatos CA 95030  
[jchin@losgatosca.gov](mailto:jchin@losgatosca.gov)  
(408) 395-3460

The Town's sole point of contact for this RFQ shall be the Town's Contact who shall administer the RFQ process. All communications shall be submitted in writing and shall specifically reference this RFQ (identify in the subject line the Project). Only answers issued by Addendum will be binding. Oral and other interpretations or clarifications will be without legal effect. No contact with other Town staff, Town council members, or

Request for Qualifications  
On-Call Materials Testing and Special Inspection Services

any other public official concerning the Project during the procurement process is allowed. A violation of this provision may result in the disqualification of the consultant.

5. **Assumptions of Proposers.** The Town is not responsible for the assumptions of Proposers. Neither the participation of the Town in any pre-proposal meeting, nor the subsequent award of the contract by the Town shall in any way be interpreted as an agreement or approval by the Town that a Proposer's assumptions are reasonable or correct. The Town specifically disclaims responsibility or liability for any Proposer's assumptions in developing its SOQ.
6. **Public Record.** All responses to this RFQ become property of the Town and will be kept confidential, subject to the requirements of the California Public Record Act, until a recommendation for award of a contract has been announced. Submittals are subject to public inspection and disclosure under the California Public Records Act. (Cal. Govt. Code sections 6250 *et seq*). Unless the information is exempt from disclosure by law, the content of any SOQ, request for explanation, or any other written communication between the Town and any Proposer, and between Town employees or consultants, regarding the procurement, shall be available to the public. In any event, the Town shall have no liability to Proposer for making disclosures required by the California Public Records Act or other law, court order, legal proceeding discovery request, investigative demand, subpoena, or order from a regulatory body having jurisdiction over either of the parties. Nothing contained herein shall be construed as requiring or obligating the Town to withhold information in violation of the California Public Records Act or other laws.
7. **Equal Opportunity.** The Town hereby notifies all Proposers that it will affirmatively insure that in any contract entered into pursuant to this procurement, minority business enterprises will be afforded full opportunity to submit SOQs in response to this RFQ and will not be discriminated against on the grounds of race, creed, color, national origin, ancestry, sexual orientation, political affiliations or beliefs, sex, age, physical disability, medical condition, marital status, pregnancy, or other protected characteristic as set forth hereunder.
8. **Appeal.** The Town will entertain appeals regarding this RFQ process only as set forth herein. The appeal process presented in this RFQ will take precedence in the case of any conflict with the appeal processes contained in the Town's Policies and Procedures. The Town will not entertain appeals regarding, or reconsider, substantive scores or determinations made in the evaluation process.

Appeals may be based upon restrictive requirements or alleged improprieties in the RFQ that are apparent or reasonably should have been discovered prior to the Town's receipt of SOQs. Such appeals shall be written and hand delivered or sent via certified mail to be received by the Town's Contact at least fourteen (14) calendar days prior to

## Request for Qualifications On-Call Materials Testing and Special Inspection Services

the Town's receipt of SOQs. The appeal must clearly specify in writing the grounds and evidence on which the appeal is based.

Appeals may also be based upon alleged improprieties that are not apparent in the RFQ or that could not reasonably have been discovered prior to the Town's receipt of the SOQs. Such appeals are limited to 1) the Town's failure to follow its own appeal procedures set forth in this Section; and 2) other procedural errors in the RFQ process. The appeal must clearly specify in writing the grounds and evidence on which the appeal is based. Such appeals shall be in writing and hand delivered or sent via certified mail to be received by the Town Contact within five (5) calendar days from receipt of the notice from the Town informing of the Successful Proposer.

The Town's Contact will respond to an appeal in writing within ten (10) business days of receipt and that determination shall be final.

The appeal procedures summarized in this Section are mandatory and comprise the sole and exclusive appeal procedures for this RFQ. A Proposer's failure to comply with the procedures set forth herein will result in rejection of the appeal and constitute a waiver of any right to further pursue a protest or appeal (including, but not limited to, filing a Government Code claim or legal proceeding). If the Town determines the appeal to be frivolous, the Respondent originating the appeal may be determined to be irresponsible and may be ineligible for future purchase orders and/or contracts.

In order to prevail on an appeal based on alleged improprieties not apparent in the RFQ as described herein, a Proposer must demonstrate that an error was material and prejudicial to the Proposer's effort to become selected for participation in this Project. In other words, in order to prevail, the Proposer must demonstrate that but for the Town's error, the Proposer would have been selected as the Successful Respondent.

If an appeal is received within five (5) business days from receipt of the notice from the Town informing of the Successful Proposer, the Town will proceed with the following process: 1) Town provides a copy of the appeal to the Successful Respondent and, within five (5) business days of receipt, Successful Proposer may provide to the Town a written response to the appeal; 2) within ten (10) business days thereafter, Town prepares a written response to the appeal and to the Successful Proposer's response, if any, and provides the analysis to appellant and Successful Proposer; 3) within five (5) business days, appellant and Successful Proposer may provide written responses; 4) Town sets a hearing date for a Town Council determination on the appeal and prepares a written staff report and recommendation; 5) Town staff notifies Successful Proposer and appellant of the date and time of the hearing and prepares and distributes a written record containing all documents necessary for the Town Council determination and distributes the record to all parties; 6) Town Council hearing in which Successful Proposer and appellant are provided full opportunity to present matter to Town Council; 7) Town Council renders a final determination.

Request for Qualifications  
On-Call Materials Testing and Special Inspection Services

9. **Governing Law.** The laws of the State of California shall govern the interpretation and enforcement of the contract. Legal action may be instituted only in the Superior Court of the County of Santa Clara, State of California, or in the Federal District Court in the Northern District of California.
10. **Adherence to All Local, State, and Federal Laws and Requirements.** The Proposer shall adhere to all applicable federal, state, and local laws, ordinances, statutes, rules and regulations, and rulings or directives of any agencies having jurisdiction including without limitation those relating to the environment (including, but not limited to, those promulgated by EPA, California Department of Public Health), wages, hours, health and safety (including, but not limited to, those promulgated by CAL-OSHA and FED-OSHA), equal employment opportunity, and working conditions or which pertain in any way to the Project and/or Proposer's scope of work on the Project.

## J. Attachments

The following attachments are incorporated into the Request for Qualifications:

- ATTACHMENT 1 – QUALITY ASSURANCE PROGRAM
- ATTACHMENT 2 – CONFLICT OF INTEREST STATEMENT
- ATTACHMENT 3 – NON-COLLUSION DECLARATION
- ATTACHMENT 4 – REFERENCES
- ATTACHMENT 5 – STATEMENT REGARDING INSURANCE COVERAGE AND WORKER'S  
COMPENSATION INSURANCE ACKNOWLEDGMENT CERTIFICATE
- ATTACHMENT 6 – SAMPLE CONSULTANT SERVICES AGREEMENT

## **ATTACHMENT 1 – QUALITY ASSURANCE PROGRAM**

**[ATTACHED BEHIND THIS PAGE]**



**TOWN OF LOS GATOS**  
**PARKS AND PUBLIC WORKS DEPARTMENT**  
PHONE: (408) 399-5770  
FAX: (408) 354-8529  
FAX (408) 354-8529

SERVICE CENTER  
41 MILES AVENUE  
LOS GATOS, CA 95030

## **QUALITY ASSURANCE PROGRAM (QAP)**

The purpose of this program is to provide assurance that the materials incorporated into the construction projects are in conformance with the contract specifications. This program should be updated every five years or more frequent if there are changes of the testing frequencies or to the tests themselves. To accomplish this purpose, the following terms and definitions will be used:

### **DEFINITION OF TERMS**

- Acceptance Testing (AT): Sampling and testing, or inspection, to determine the degree of compliance with contract requirements.
- Independent Assurance Program (IAP): Verification that AT is being performed correctly by qualified testers and laboratories.
- Quality Assurance Program (QAP): A sampling and testing program that will provide assurance that the materials and workmanship incorporated into the construction project are in conformance with the contract specifications. The main elements of a QAP are the AT, and IAP.
- Source Inspection: AT of manufactured and prefabricated materials at locations other than the job site, generally at the manufactured location.

### **MATERIALS LABORATORY**

Town of Los Gatos will use a private consultant material laboratory to perform AT on Federal-aid and other designated projects. The materials laboratory shall be under the responsible management of a California-registered Engineer with experience in sampling, inspection and testing of construction materials. The Engineer shall certify the results of all tests performed by laboratory personnel under the Engineer's supervision. The materials laboratory shall contain certified test equipment capable of performing the tests conforming to the provisions of this QAP.

The materials laboratory used shall provide documentation that the laboratory complies with the following procedures:

1. Correlation Testing Program: The materials laboratory shall be a participant in one or more of the following testing programs:
  - a. AASHTO Materials Reference Laboratory (AMRL)
  - b. Cement and Concrete Reference Laboratory (CCRL)
  - c. Caltrans Reference Sample Program (RSP)

2. Certification of Personnel: The materials laboratory shall employ personnel who are certified by one or more of the following:
  - a. Caltrans Materials Engineering and Testing Services Representatives (METS Reps)
  - b. Nationally recognized non-Caltrans organizations such as the American Concrete Institute, Asphalt Institute, National Institute of Certification of the Engineering Technologies, etc.
  - c. Other recognized organizations approved by the State of California and/or recognized by local governments or private associations
3. Laboratory and Testing Equipment: The materials laboratory shall only use laboratory and testing equipment that is in good working order. All such equipment shall be calibrated at least once each year. All testing equipment must be calibrated by impartial means using devices of accuracy traceable to the National Institute of Standards and Technology. A decal shall be firmly affixed to each piece of equipment showing the date of the last calibration. All testing equipment calibration decals shall be checked as part of IAP.

### **ACCEPTANCE TESTING (AT)**

AT will be performed by a materials laboratory certified to perform the required tests. The tests results will be used to ensure that all materials incorporated into the project are in compliance with the contract specifications.

Testing methods will be in accordance with the California Test Methods (CTM) or a national recognized standard (i.e., AASHTO, ASTM, etc.) as specified in the contract specifications.

Sample locations and frequencies may be in accordance with the contract specifications. If not so specified in the contract specifications, samples shall be taken at the locations and frequencies as shown in Attachment #1 (Appendix D, "Acceptance Sampling and Testing Frequencies of the QAP Manual for Use by Local Agencies")

### **INDEPENDENT ASSURANCE PROGRAM (IAP)**

IAP shall be provided by personnel from Caltrans, the Town's certified material laboratory, or consultant's certified materials laboratory. IAP will be used to verify that sampling and testing procedures are being performed properly and that all testing equipment is in good condition and properly calibrated.

IAP personnel shall be certified in all required testing procedures, as part of the IAP, and shall not be involved in any aspect of AT.

IAP shall be performed on every type of material test required for the project. Proficiency tests shall be performed on Sieve Analysis, Sand Equivalent, and Cleanness Value tests. All other types of IAP shall be witness tests.

Poor correlation between acceptance tester's results and other test results may indicate probable deficiencies with the accordance sampling and testing procedures. In cases of unresolved discrepancies, a complete review of AT shall be performed by the IAP personnel or an independent materials laboratory chosen by the Town of Los Gatos. IAP samples and tests are not to be used for determining compliance with contract requirements. Compliance with contract requirements is determined only by the AT.

## **REPORTING ACCEPTANCE TESTING RESULTS**

The following are time periods for reporting material test results to the Resident Engineer:

- When the aggregate is sampled at material plants, test results for Sieve Analysis, Sand Equivalent, and Cleanness Value should be submitted to the Resident Engineer within 24 hours after sampling.
- When materials are sampled at the job site, test results for compaction and maximum density should be submitted to the Resident Engineer within 24 hours after sampling.
- When soils and aggregates are sampled at the job site:
  - (1) Test results for Sieve Analysis, Sand Equivalent, and Cleanness Value should be submitted to the Resident Engineer within 72 hours after sampling.
  - (2) Test results for "R" Value and asphalt concrete extraction should be submitted to the Resident Engineer within 96 hours after sampling.

When sampling products such as Portland Cement Concrete (PCC), cement-treated base (CTB), hot mix asphalt (HMA), and other such materials; the time of such sampling shall be varied with respect to the time of the day insofar as possible, in order to avoid a predictable sampling routine. The reporting of AT results, if not performed by the Resident Engineer's staff, shall be done on an expedited basis such as by fax or telephone.

## **TESTING OF MANUFACTURED MATERIALS**

During the Design phase of project, the Project Engineer may submit a "Source Inspection Request" to the Agency, consultant, or Caltrans for inspection and testing of manufactured and prefabricated materials by their material laboratory. A list of materials that can be typically accepted on the basis of certificates of compliance during construction is found in Attachment #2 (Appendix F of the QAP Manual). All certificates of compliance shall conform to the requirements of the contract specifications, for examples see Attachment #3 (Appendix J of the QAP Manual).

Should the Town of Los Gatos request Caltrans to conduct the source inspection, and the request is accepted, all sampling testing, and acceptance of manufactured and prefabricated materials will be performed by Caltrans' Office of Materials Engineering and Testing Services. See Attachment #4 (Exhibit 16-W of the LAPM).

For Federal-aid projects on the National Highway System (NHS), Caltrans will assist in certifying the materials laboratory and the acceptance samplers and testers. For Federal-aid

projects off the NHS, Caltrans may be able to assist in certifying the materials laboratory and the acceptance samplers and testers.

### **PROJECT CERTIFICATION**

Upon completion of a Federal-aid project, a “Materials Certificate” shall be completed by the Resident Engineer. The Town of Los Gatos shall include a “Material Certificate” in the Report of Expenditures submitted to the Caltrans District Director, Attention: District Local Assistance Engineer. A copy of the “Materials Certificate” shall also be included in the Town of Los Gatos construction records. The Resident Engineer in charge of the construction function for Town of Los Gatos shall sign the certificate. All materials incorporated into the work, which did not conform to specifications, must be explained and justified on the “Materials Certification,” including changes by virtue of contract change orders. For an example, see Attachment #5 (Appendix K of the QAP Manual).

### **RECORDS**

All material records of samples and tests, material releases, and certificates of compliance for the construction project shall be incorporated into the Resident Engineer’s project file. If a Federal-aid project:

- The files shall be organized as described in Section 16.8, “Project Files,” of the Local Assistance Procedure Manual.
- It is recommended that the complete project file be available at a single location for inspection by Caltrans and Federal Highway Administration (FHWA) personnel.
- The project files shall be available for at least three years following the date of final voucher.
- The use of a “Log Summary” as shown in Attachment #6 (Appendix H of the QAP Manual), facilitates reviews of material sampling and testing by Caltrans and FHWA, and assists the Resident Engineer in tracking the frequency of testing.

When two or more projects are being furnished identical materials simultaneously from the same plant, it is not necessary to take separate samples or perform separate tests for each project; however, copies of the test reports are to be provided for each of the projects to complete the records.

**APPROVED BY:**



(Signature)

46792, 6/30/21

(CE# and Expiration Date)

NAME: Lisa Petersen

DATE: 4/14/2020

TITLE: Assistant Director/Town Engineer

## Attachment #1

### Town of Los Gatos Acceptance Sampling and Testing Frequencies of the QAP Manual for Use by Local Agencies (Replaces Appendix D in the Caltrans QAP Manual)

#### Soil, Aggregates, And HMA (Paving)

Quality Characteristics	Test Method	Sample Size/Location	Frequency
In-Place Density of Soil and Aggregates	CT 231	Five 6"x12" or 4"x8" samples from mixer per CTM 125	One set every 1,000 C.Y. and parts thereof, min. 1 set per project
Sieve Analysis (Soil/Aggregates)	CT 202	One 50 lbs. sample taken at plant/stockpile per CTM 125	One per project per source
Aggregate Graduation (HMA)	CT 202	One 50 lbs. sample taken at plant per CTM 125	One per mix design, at least once per project
Sand Equivalent (HMA)	CT 217	One 50 lb. sample taken at plant per CTM 125	One per mix design, at least once per project
Asphalt Binder Content	CT 382	Three 15 lbs. carton samples taken behind paver/plant per CTM	One sample every 1,000 tons at least once per project
In-Place Density of HMA	CT 375	Random locations per CTM 375	One set every 500 tons, min. 1 set per project
Stability	CT 366	Behind paver or sample from plant	One per mix design per project
Air Void	CT 367	Three 15 lbs. carton samples taken behind paver/plant per CTM	One sample every 1,000 tons, at least once per project

\*ASTM/AASHTO tests will be performed if required by specifications

#### Structural Concrete

Quality Characteristics	Test Method*	Sample Size/Location	Frequency
Compressive Strength	CT 521	Five 6"x12" or 4"x8" samples from mixer per CTM 125	One set every 1,000 C.Y. and parts thereof, min. 1 set per project

\*ASTM/AASHTO tests will be performed if required by specifications

#### Minor Concrete/Sidewalk/Curb and Gutter

Quality Characteristics	Test Method*	Sample Size/Location	Frequency
Compressive Strength**	CT 521	Five 6"x12" or 4"x8" samples from mixer per CTM 125	One set every 1,000 C.Y. and parts thereof, min. 1 set per project

\*ASTM/AASHTO tests will be performed if required by specifications

\*\* Accept based on visual inspection; test only if quality is questionable

## Concrete Pavement

Quality Characteristics	Test Method*	Sample Size/Location	Frequency
Modulus of Rupture	CT 523	1 set of 2 beams; 6x6x32 inch for center point loading; 6x6x20 inch for third point	One set every 1,000 C.Y. and parts thereof, min. 1 set per project

\*ASTM/AASHTO tests will be performed if required by specifications

## Slurry Seal/Microsurfacing

Quality Characteristics	Test Method*	Sample Size/Location	Frequency
Aggregate Gradation	CT202	One 50 lb. sample taken at plant per CTM 125	One set every 1,000 tons, at least once per project
Sand Equivalent	CT 217	One 50 lb. sample taken at plant per CTM 125	One set every 1,000 tons, at least once per project

\*ASTM/AASHTO tests will be performed if required by specifications

## Structural Steel

Quality Characteristics	Test Method*	Sample Size/Location	Frequency
Splicing	As specified in section 55	Field/Source	As Specified in section 52
Bolts	As specified in section 55	2 samples for each size	Once per project
Welding Inspection	As per project specification	Field Inspection	As defined in project source inspection quality management plan or visual inspection once material arrives in the field

\*ASTM/AASHTO tests will be performed if required by specifications

## ATTACHMENT 2 - CONFLICT OF INTEREST STATEMENT

**THIS FORM MUST BE PRINTED OUT, COMPLETED AND SUBMITTED WITH THE STATEMENT OF INTEREST (SOQ)**

### ON-CALL MATERIALS TESTING AND SPECIAL INSPECTION SERVICES

The undersigned declares:

I/We \_\_\_\_\_ (Insert Company Name) have the following financial, business, or other relationship with Town that may have an impact upon the outcome of the contract or the construction Project. If none, please specify that no other relationships may have an impact on this contract or Project.

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I/We \_\_\_\_\_ (Insert Company Name) have the following current clients who may have a financial interest in the outcome of this contract or the construction Project. If none, please specify that no other clients may have a financial interest with an impact on this contract or Project.

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I/We \_\_\_\_\_ (Insert Company Name) have the following financial interests or relationships with a construction company that might submit a bid for the construction of the Project. If none, please specify that no such relationships exist.

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Pursuant to Government Code section 1090 and any other laws, rules and regulations that may apply, the Proposer covenants that neither it, its subcontractors nor employees presently have an interest, and shall not acquire any interest, direct or indirect, financial or otherwise that would conflict in any

manner or degree with contract awarded from this RFQ. Proposer certifies that to the best of its knowledge, no one who has or will have any financial interest in the contract awarded from this RFQ is an officer or employee of the Town. Through its submittal of a SOQ, Proposer acknowledges that it is familiar with Section 87100 et seq. and Section 1090 et seq. of the Government Code of the State of California and will immediately notify the Town if it becomes aware of any facts concerning the contract to be awarded that constitute a violation of said provisions.

Furthermore, if there is reason to believe that collusion exists among the Proposers, the Town may refuse to consider SOQ's from participants in such collusion. No person, firm, or corporation under the same or different name, shall make, file, or be interested in more than one SOQ for the same work unless alternate SOQ's are called for. A person, firm, or corporation who has submitted a sub-proposal to a Proposer, or who has quoted prices on materials to a Proposer, is not thereby disqualified from submitting a sub-proposal or quoting prices to other Proposers. Reasonable ground for believing that any Proposer is interested in more than one proposal for the same work will cause the rejection of all proposals for the work in which a Proposer is interested. If there is reason to believe that collusion exists among the Proposers, the Town may refuse to consider SOQ's from participants in such collusion. Proposers shall submit as part of their SOQ documents the completed Non-Collusion Declaration provided herein as Attachment 4.

I, on behalf of the Proposer, declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration is executed on \_\_\_\_\_  
[date], at \_\_\_\_\_[city], \_\_\_\_\_[state].

\_\_\_\_\_  
Proposer Name (Person, Firm, Corp.)

\_\_\_\_\_  
Title of Authorized Representative

\_\_\_\_\_  
Address

\_\_\_\_\_  
Name of Authorized Representative

\_\_\_\_\_  
City, State, Zip

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Signed)

### ATTACHMENT 3 – NON-COLLUSION DECLARATION

**THIS FORM MUST BE PRINTED OUT, COMPLETED AND SUBMITTED WITH THE STATEMENT OF INTEREST (SOQ)**

#### **ON-CALL MATERIALS TESTING AND SPECIAL INSPECTION SERVICES**

The undersigned declares:

I am the \_\_\_\_\_ [Insert Title] of \_\_\_\_\_, [Insert name of company, corporation, LLC, partnership or joint venture] the party making the foregoing SOQ.

The SOQ is not made in the interest of, or on behalf of, any undisclosed person, partnership, company, association, organization, or corporation. The SOQ is genuine and not collusive or sham. The Respondent has not directly or indirectly induced or solicited any other respondent to put in a false or sham SOQ. The Respondent has not directly or indirectly colluded, conspired, connived, or agreed with any bidder or anyone else to put in a sham SOQ, or to refrain from responding. All statements contained in the SOQ are true.

Any person executing this declaration on behalf of a respondent that is a corporation, partnership, joint venture, limited liability company, limited liability partnership, or any other entity, hereby represents that he or she has full power to execute, and does execute, this declaration on behalf of the respondent.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration is executed on \_\_\_\_\_[date], at \_\_\_\_\_[city], \_\_\_\_\_[state].

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

## ATTACHMENT 4 - REFERENCES

**THIS FORM MUST BE PRINTED OUT, COMPLETED AND SUBMITTED WITH THE STATEMENT OF INTEREST (SOQ)**

### ON-CALL MATERIALS TESTING AND SPECIAL INSPECTION SERVICES

**List three (3) references for work of a similar nature to the Services performed within the last five (5) years. Use additional sheets as necessary.**

1.

_____ Name of Agency	_____ Agency Address
_____ Contact Name	_____ Contact Title
_____ Contact Telephone	_____ Contact Email Address
_____ Contract Period	_____ Contract Amount

\_\_\_\_\_

\_\_\_\_\_  
**Description of services performed including project cost estimates and actual costs.**

2.

_____ Name of Agency	_____ Agency Address
_____ Contact Name	_____ Contact Title
_____ Contact Telephone	_____ Contact Email Address
_____ Contract Period	_____ Contract Amount

\_\_\_\_\_

\_\_\_\_\_  
**Description of services performed including project cost estimates and actual costs.**

3.

_____ Name of Agency	_____ Agency Address
_____ Contact Name	_____ Contact Title
_____ Contact Telephone	_____ Contact Email Address
_____ Contract Period	_____ Contract Amount

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**Description of services performed including project cost estimates and actual costs.**

I hereby certify that the Proposer performed the work listed above.

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Signature of Proposer

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Name

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Date

**ATTACHMENT 5 - STATEMENT REGARDING INSURANCE COVERAGE AND WORKER'S COMPENSATION  
INSURANCE ACKNOWLEDGMENT CERTIFICATE**

**THIS FORM MUST BE PRINTED OUT, COMPLETED AND SUBMITTED WITH THE STATEMENT OF  
INTEREST (SOQ)**

**ON-CALL MATERIALS TESTING AND SPECIAL INSPECTION SERVICES**

PROPOSER HEREBY CERTIFIES that the Proposer has reviewed and understands the insurance coverage requirements specified in the RFQ. Should the Proposer be awarded the contract for the Services, Proposer further certifies that the Proposer can meet the specified requirements for insurance, including insurance coverage of the subcontractors, and agrees to name the Town as additional insured for the Services specified.

By certifying this form, the Proposer also understands the Worker's Compensation insurance requirement per the California Labor Code, Sections 1860 and 1861:

I am aware of the provisions of Section 3700 of the Labor Code, which require every employer to be insured against liability for worker's compensation or to undertake self-insurance in accordance with the provisions of that code, and I will comply with such provisions before commencing the performance of the work of this contract.

\_\_\_\_\_  
Name of Proposer (Person, Firm, or Corporation)

\_\_\_\_\_  
Signature of Proposer's Authorized Representative

\_\_\_\_\_  
Name & Title of Authorized Representative

\_\_\_\_\_  
Date of Signing

## **ATTACHMENT 6 – SAMPLE CONSULTANT SERVICES AGREEMENT**

**[ATTACHED BEHIND THIS PAGE]**

## AGREEMENT FOR CONSULTANT SERVICES

THIS AGREEMENT is made and entered into on (DATE) by and between TOWN OF LOS GATOS, a California municipal corporation, ("Town") Name of Consultant, ("Consultant"), whose address is (Address). This Agreement is made with reference to the following facts.

### I. RECITALS

- 1.1 The Town desires to engage Consultant to provide **On-Call Materials Testing and Special Inspection** services for the Town.
- 1.2 The Consultant represents and affirms that it is willing to perform the desired work pursuant to this Agreement.
- 1.3 Consultant warrants it possesses the distinct professional skills, qualifications, experience, and resources necessary to timely perform the services described in this Agreement. Consultant acknowledges Town has relied upon these warranties to retain Consultant.

### II. AGREEMENTS

- 2.1 Scope of Services. Consultant shall provide services as described in that certain Proposal sent to the Town on (DATE), 2020, which is hereby incorporated by reference and attached as Exhibit A.
- 2.2 Term and Time of Performance. This contract will remain in effect from date of execution to XXX.
- 2.3 Compliance with Laws. The Consultant shall comply with all applicable laws, codes, ordinances, and regulations of governing federal, state and local laws. Consultant represents and warrants to Town that it has all licenses, permits, qualifications and approvals of whatsoever nature which are legally required for Consultant to practice its profession. Consultant shall maintain a Town of Los Gatos business license pursuant to Chapter 14 of the Code of the Town of Los Gatos.
- 2.4 Sole Responsibility. Consultant shall be responsible for employing or engaging all persons necessary to perform the services under this Agreement.
- 2.5 Information/Report Handling. All documents furnished to Consultant by the Town and all reports and supportive data prepared by the Consultant under this Agreement are the Town's property and shall be delivered to the Town upon the completion of Consultant's services or at the Town's written request. All reports, information, data, and exhibits prepared or assembled by Consultant in connection with the performance of its services pursuant to this Agreement are confidential until released by the Town to the public, and the Consultant shall not make any of these documents or information available to any

individual or organization not employed by the Consultant or the Town without the written consent of the Town before such release. The Town acknowledges that the reports to be prepared by the Consultant pursuant to this Agreement are for the purpose of evaluating a defined project, and Town's use of the information contained in the reports prepared by the Consultant in connection with other projects shall be solely at Town's risk, unless Consultant expressly consents to such use in writing. Town further agrees that it will not appropriate any methodology or technique of Consultant which is and has been confirmed in writing by Consultant to be a trade secret of Consultant.

2.6 Compensation. Compensation for Consultant's professional services **shall not exceed \$XXX**, inclusive of all costs. Payment shall be based upon Town approval of each task.

2.7 Billing. Billing shall be monthly by invoice within thirty (30) days of the rendering of the service and shall be accompanied by a detailed explanation of the work performed by whom at what rate and on what date. Also, plans, specifications, documents or other pertinent materials shall be submitted for Town review, even if only in partial or draft form.

Payment shall be net thirty (30) days. All invoices and statements to the Town shall be addressed as follows:

Invoices:

Town of Los Gatos

Attn: Accounts Payable

P.O. Box 655

Los Gatos, CA 95031-0655

2.8 Availability of Records. Consultant shall maintain the records supporting this billing for not less than three years following completion of the work under this Agreement. Consultant shall make these records available to authorized personnel of the Town at the Consultant's offices during business hours upon written request of the Town.

2.9 Assignability and Subcontracting. The services to be performed under this Agreement are unique and personal to the Consultant. No portion of these services shall be assigned or subcontracted without the written consent of the Town.

2.10 Independent Contractor. It is understood that the Consultant, in the performance of the work and services agreed to be performed, shall act as and be an independent contractor and not an agent or employee of the Town. As an independent contractor he/she shall not obtain any rights to retirement benefits or other benefits which accrue to Town employee(s). With prior written consent, the Consultant may perform some obligations under this Agreement by subcontracting but may not delegate ultimate responsibility for performance or assign or transfer interests under this Agreement. Consultant agrees to testify in any litigation brought regarding the subject of the work to be performed under this Agreement. Consultant shall be compensated for its costs and expenses in preparing

for, traveling to, and testifying in such matters at its then current hourly rates of compensation, unless such litigation is brought by Consultant or is based on allegations of Consultant's negligent performance or wrongdoing.

- 2.11 Conflict of Interest. Consultant understands that its professional responsibilities are solely to the Town. The Consultant has and shall not obtain any holding or interest within the Town of Los Gatos. Consultant has no business holdings or agreements with any individual member of the Staff or management of the Town or its representatives nor shall it enter into any such holdings or agreements. In addition, Consultant warrants that it does not presently and shall not acquire any direct or indirect interest adverse to those of the Town in the subject of this Agreement, and it shall immediately disassociate itself from such an interest, should it discover it has done so and shall, at the Town's sole discretion, divest itself of such interest. Consultant shall not knowingly and shall take reasonable steps to ensure that it does not employ a person having such an interest in this performance of this Agreement. If after employment of a person, Consultant discovers it has employed a person with a direct or indirect interest that would conflict with its performance of this Agreement, Consultant shall promptly notify Town of this employment relationship, and shall, at the Town's sole discretion, sever any such employment relationship.
- 2.12 Equal Employment Opportunity. Consultant warrants that it is an equal opportunity employer and shall comply with applicable regulations governing equal employment opportunity. Neither Consultant nor its subcontractors do and neither shall discriminate against persons employed or seeking employment with them on the basis of age, sex, color, race, marital status, sexual orientation, ancestry, physical or mental disability, national origin, religion, or medical condition, unless based upon a bona fide occupational qualification pursuant to the California Fair Employment & Housing Act.

### **III. INSURANCE AND INDEMNIFICATION**

- 3.1 Minimum Scope of Insurance:
- i. Consultant agrees to have and maintain, for the duration of the contract, General Liability insurance policies insuring him/her and his/her firm to an amount not less than: one million dollars (\$1,000,000) combined single limit per occurrence for bodily injury, personal injury and property damage.
  - ii. Consultant agrees to have and maintain for the duration of the contract, an Automobile Liability insurance policy ensuring him/her and his/her staff to an amount not less than one million dollars (\$1,000,000) combined single limit per accident for bodily injury and property damage.
  - iii. Consultant shall provide to the Town all certificates of insurance, with original endorsements effecting coverage. Consultant agrees that all

certificates and endorsements are to be received and approved by the Town before work commences.

- iv. Consultant agrees to have and maintain, for the duration of the contract, professional liability insurance in amounts not less than \$1,000,000 which is sufficient to insure Consultant for professional errors or omissions in the performance of the particular scope of work under this agreement.

General Liability:

- i. The Town, its officers, officials, employees and volunteers are to be covered as insured as respects: liability arising out of activities performed by or on behalf of the Consultant; products and completed operations of Consultant, premises owned or used by the Consultant. This requirement does not apply to the professional liability insurance required for professional errors and omissions.
- ii. The Consultant's insurance coverage shall be primary insurance as respects the Town, its officers, officials, employees and volunteers. Any insurance or self-insurances maintained by the Town, its officers, officials, employees or volunteers shall be excess of the Consultant's insurance and shall not contribute with it.
- iii. Any failure to comply with reporting provisions of the policies shall not affect coverage provided to the Town, its officers, officials, employees or volunteers.
- iv. The Consultant's insurance shall apply separately to each insured against whom a claim is made or suit is brought, except with respect to the limits of the insurer's liability.

3.2 All Coverages. Each insurance policy required in this item shall be endorsed to state that coverage shall not be suspended, voided, cancelled, reduced in coverage or in limits except after thirty (30) days' prior written notice by certified mail, return receipt requested, has been given to the Town. Current certification of such insurance shall be kept on file at all times during the term of this agreement with the Town Clerk.

3.3 Workers' Compensation. In addition to these policies, Consultant shall have and maintain Workers' Compensation insurance as required by California law and shall provide evidence of such policy to the Town before beginning services under this Agreement. Further, Consultant shall ensure that all subcontractors employed by Consultant provide the required Workers' Compensation insurance for their respective employees.

3.4 Indemnification. The Consultant shall save, keep, hold harmless and indemnify and defend the Town its officers, agent, employees and volunteers from all damages, liabilities,

penalties, costs, or expenses in law or equity that may at any time arise or be set up because of damages to property or personal injury received by reason of, or in the course of performing work which may be occasioned by a willful or negligent act or omissions of the Consultant, or any of the Consultant's officers, employees, or agents or any subconsultant.

#### **IV. GENERAL TERMS**

- 4.1 Waiver. No failure on the part of either party to exercise any right or remedy hereunder shall operate as a waiver of any other right or remedy that party may have hereunder, nor does waiver of a breach or default under this Agreement constitute a continuing waiver of a subsequent breach of the same or any other provision of this Agreement.
- 4.2 Governing Law. This Agreement, regardless of where executed, shall be governed by and construed to the laws of the State of California. Venue for any action regarding this Agreement shall be in the Superior Court of the County of Santa Clara.
- 4.3 Termination of Agreement. The Town and the Consultant shall have the right to terminate this agreement with or without cause by giving not less than fifteen days (15) written notice of termination. In the event of termination, the Consultant shall deliver to the Town all plans, files, documents, reports, performed to date by the Consultant. In the event of such termination, Town shall pay Consultant an amount that bears the same ratio to the maximum contract price as the work delivered to the Town bears to completed services contemplated under this Agreement, unless such termination is made for cause, in which event, compensation, if any, shall be adjusted in light of the particular facts and circumstances involved in such termination.
- 4.4 Prevailing Wages. This project is subject to the requirements of Section 1720 et seq. of the California Labor Code requiring the payment of prevailing wages, the training of apprentices and compliance with other applicable requirements. Contractors and all subcontractors who perform work on the project are required to comply with these requirements. Prevailing wages apply to all projects over \$1,000 which are defined as a "public work" by the State of California. This includes: construction, demolition, repair, alteration, maintenance and the installation of photovoltaic systems under a Power Purchase Agreement when certain conditions are met under Labor Code Section 1720.6. This include service and warranty work on public buildings and structures.
- 4.4.1 The applicable California prevailing wage rate can be found at [www.dir.ca.gov](http://www.dir.ca.gov) and are on file with the Town of Los Gatos Parks and Public Works Department, which shall be available to any interested party upon request. The contractor is also required to have a copy of the applicable wage determination posted and/or available at each jobsite.

- 4.4.2 Specifically, contractors are reminded of the need for compliance with Labor Code Section 1774-1775 (the payment of prevailing wages and documentation of such), Section 1776 (the keeping and submission of accurate certified payrolls) and 1777.5 in the employment of apprentices on public works projects. Further, overtime, weekend and holiday pay, and shift pay must be paid pursuant to applicable Labor Code section.
- 4.4.3 The public entity for which work is being performed or the California Department of Industrial Relations may impose penalties upon contractors and subcontractors for failure to comply with prevailing wage requirements. These penalties are up to \$200 per day per worker for each wage violations identified; \$100 per day per worker for failure to provide the required paperwork and documentation requested within a 10-day window; and \$25 per day per worker for any overtime violation.
- 4.4.4 As a condition to receiving progress payments, final payment and payment of retention on any and all projects on which the payment of prevailing wages is required, the contractor agrees to present to the TOWN, along with its request for payment, all applicable and necessary certified payrolls (for itself and all applicable subcontractors) for the time period covering such payment request. The term "certified payroll" shall include all required documentation to comply with the mandates set forth in Labor Code Section 1720 et seq, as well as any additional documentation requested by the Agency or its designee including, but not limited to: certified payroll, fringe benefit statements and backup documentation such as monthly benefit statements, employee timecards, copies of wage statements and cancelled checks, proof of training contributions (CAC2 if applicable), and apprenticeship forms such as DAS-140 and DAS-142.
- 4.4.5 In addition to submitting the certified payrolls and related documentation to the TOWN, the contractor and all subcontractors shall be required to submit certified payroll and related documents electronically to the California Department of Industrial Relations. Failure to submit payrolls to the DIR when mandated by the project parameters shall also result in the withholding of progress, retention and final payment.
- 4.4.6 No contractor or subcontractor may be listed on a bid proposal for a public works project unless registered with the Department of Industrial Relations pursuant to Labor Code section 1725.5 [with limited exceptions from this requirement for bid purposes only under Labor Code section 1771.1(a)].
- 4.4.7 No contractor or subcontractor may be awarded a contract for public work on a public works project, unless registered with the Department of Industrial Relations pursuant to Labor Code section 1725.5. Contractors MUST be a registered "public works contractor" with the DIR AT THE TIME OF BID. Where the prime contract is less than \$15,000 for maintenance work or less than \$25,000 for construction alternation, demolition or repair work, registration is not required.

- 4.4.8 Should any contractor or subcontractors not be a registered public works contractor and perform work on the project, Contractor agrees to fully indemnify the TOWN for any fines assessed by the California Department of Industrial Relations against the TOWN for such violation, including all staff costs and attorney's fee relating to such fine.
- 4.4.9 The TOWN shall withhold any portion of a payment; including the entire payment amount, until certified payroll forms and related documentation are properly submitted, reviewed and found to be in full compliance. In the event that certified payroll forms do not comply with the requirements of Labor Code Section 1720 et seq., the TOWN may continue to hold sufficient funds to cover estimated wages and penalties under the contract.
- 4.5 Amendment. No modification, waiver, mutual termination, or amendment of this Agreement is effective unless made in writing and signed by the Town and the Consultant.
- 4.6 Disputes. In any dispute over any aspect of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees, including costs of appeal.
- 4.7 Notices. Any notice required to be given shall be deemed to be duly and properly given if mailed postage prepaid, and addressed to:
- |                     |              |
|---------------------|--------------|
| Town of Los Gatos   | (Consultant) |
| Attn: Town Clerk    | (Address)    |
| 110 E. Main Street  |              |
| Los Gatos, CA 95030 |              |
- or personally delivered to Consultant to such address or such other address as Consultant designates in writing to Town.
- 4.8 Order of Precedence. In the event of any conflict, contradiction, or ambiguity between the terms and conditions of this Agreement in respect of the Products or Services and any attachments to this Agreement, then the terms and conditions of this Agreement shall prevail over attachments or other writings.
- 4.9 Entire Agreement. This Agreement, including all Exhibits, constitutes the complete and exclusive statement of the Agreement between the Town and Consultant. No terms, conditions, understandings or agreements purporting to modify or vary this Agreement, unless hereafter made in writing and signed by the party to be bound, shall be binding on either party.

IN WITNESS WHEREOF, the Town and Consultant have executed this Agreement.

Town of Los Gatos by:

Consultant, by:

\_\_\_\_\_  
Laurel Prevetti, Town Manager

Recommended by:

\_\_\_\_\_  
Matt Morley  
Director of Parks and Public Works

\_\_\_\_\_  
Printed Name and Title

Approved as to Form:

\_\_\_\_\_  
Robert Schultz, Town Attorney

Attest:

\_\_\_\_\_  
Shelley Neis, MMC, CPMC, Town Clerk



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 5

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DATE: December 4, 2020  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Approve the Street List for the Fiscal Year 2020/21 Street Repair and Resurfacing Project (CIP Number 811-9901)

**RECOMMENDATION:**

Approve the Street List (Attachment 1) for the Fiscal Year (FY) 2020/21 Street Repair and Resurfacing Project (CIP Number 811-9901).

**BACKGROUND:**

The adopted FY 2020/21-2024/25 Capital Improvement Program (CIP) Budget designated FY 2020/21 funding sources for the Street Repair and Resurfacing Project (CIP Number 811-9901). Annually, the Town invests funds to improve roadway pavement conditions, safety, active transportation elements, and drivability of the Town streets. This ongoing annual street project is consistent with the Town's goals to improve public safety and the quality of the Town roadway infrastructure.

The Pavement Condition Index (PCI) is a widely accepted industry measure to gauge the pavement condition of roadways. The index is calculated based on the age of the pavement and pavement distress data collected from the field. PCI's range from 0 to 100, with 0 representing a failed road and 100 representing a brand-new facility.

Every three years, the Town conducts a full assessment on pavement conditions with a consultant who specializes in the field. The assessment is largely funded through the Pavement Technical Assistance Program (P-TAP) of the Metropolitan Transportation Commission (MTC). The pavement distress survey data collected in the field is entered into the MTC's pavement maintenance application called *StreetSaver*, which tabulates and stores the PCI scores. The

**PREPARED BY:** WooJae Kim  
Town Engineer

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Reviewed by: Town Manager, Assistant Town Manager, Town Attorney, Finance Director, and Parks and Public Works Director

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BACKGROUND (continued):

application is used by jurisdictions throughout the Bay Area and in California to track PCI's of roadway systems.

Street segments for the annual Street Repair and Resurfacing Project are identified and prioritized by pavement conditions, roadway types, traffic levels, and safety issues. With the PCI information in the *StreetSaver* database, staff uses the application to generate a preliminary list of street segments for the annual street project within the designated project budget. The application generated list requires validation by staff, field verifications, and adjustments to treatment types upon actual field conditions. Further considerations are given to street segments close to other proposed capital project locations to increase overall efficiency and value.

The Town has focused its resources on arterials and collector streets, applying asphalt overlays and rubber cape seal as rehabilitation measures. Residential streets are typically treated with rubber cape seal or slurry seal as preventative measures. Slurry seals are the first line of defense against pavement deterioration, providing a new wearing surface in the form of a thin asphalt-sand emulsion over the existing roadway. A rubber cape seal is a rubber chip seal covered by a slurry seal and is an appropriate treatment for streets that are exhibiting distress cracking and/or have fallen out of the "good" condition category. Asphalt overlay involves milling to a certain depth of existing asphalt followed by an overlay of new asphalt.

DISCUSSION:

*Proposed Street List for the FY 2020/21 Street Repair and Resurfacing Project*

For the FY 2020/21 Street Repair and Resurfacing Project, the focus will be on preventive maintenance through rubber cape seal, slurry seal, and crack seal treatments of project locations identified in the proposed Street List (Attachment 1).

Winchester Boulevard between Albright Way and Blossom Hill Road, an arterial roadway, is proposed for rubber cape seal treatment with extensive rehabilitation of pavement base materials. On June 16, 2020, the Town Council adopted a resolution (Attachment 2) approving the proposed street work on Winchester as required per Senate Bill (SB) 1, Road Repair and Accountability Act of 2017, to be eligible for Gas Tax funds reimbursement for the project.

Class IV protected bikeways will also be installed on both directions of Winchester within the project limits. The main feature of a Class IV bikeway is a physical divide or barrier between the vehicular travel lane and the bike path. On Winchester, the physical divide will be created by new green bollards and buffer zone striping, similar to what was installed on Blossom Hill Road between Roberts Road to Los Gatos Boulevard in 2019. The new bikeways are part of the

DISCUSSION (continued):

Winchester Class IV Bikeway Project (CIP Number 813-0240) to improve bike safety along the arterial before the implementation of a larger Complete Streets project on Winchester in upcoming years. The Town secured a Transportation Fund for Clean Air grant from the Bay Area Air Quality Management District to cover 80% of Class IV bikeway project with 20% local match from the Town. Staff has conducted extensive community outreach to collect public feedback on the Class IV bikeway on Winchester and made diligent efforts to address concerns.

Staff shared the proposed FY 2020/21 Street List for the Street Repair and Resurfacing Project with utility companies, applicants of potential or approved developments, and neighboring agencies to coordinate and minimize conflicts. Once the streets are paved, PPW sets restrictions on future street work for the next five years. Staff will also conduct outreach via social media platforms and distribute project notifications to inform the affected communities of the upcoming street project throughout the Town.

*Potential Decrease to the Designated Project Budget*

The designated funding sources for the FY 2020/21 Street Repair and Resurfacing Project include Gas Tax, Measure B, vehicle registration, and General Fund Appropriated Reserve (GFAR). Due to the COVID-19 pandemic and stay at home health orders in 2020, staff is anticipating a reduction to the Gas Tax revenue for FY 2020/21. The actual Gas Tax impact will not be realized until early 2021. Depending on the extent of the revenue decrease for FY 2020/21, some of the project segments on the Street List may need to be deferred to the following fiscal year.

Should Council approve the Street List for the FY 2020/21 Street Repair and Resurfacing Project, staff would move forward with the final design to prepare Plans, Specifications, and Estimates (PS&E) for the construction documents for bid. Staff will also be finalizing the PS&E for the Curb, Gutter, and Sidewalk Maintenance Project (CIP Number 813-9921), which addresses repairing the concrete infrastructure, including accessible curb ramps, mainly on streets that receive asphalt overlay and rubber cape seal. Staff plans to return to Council by February 2020 for an approval on construction documents for bid. At that time, staff would have the actual revenue and budget numbers to report any changes to the Street List.

CONCLUSION:

Approval of the recommendations will allow staff to finalize the PS&E for the FY 2020/21 Street Repair and Resurfacing Project (CIP Number 811-9901) and Curb, Gutter, and Sidewalk Maintenance Project (CIP Number 813-9921) for Council consideration in early 2020.

PAGE 4 OF 4

SUBJECT: FY 2020/21 Street List for the Street Repair and Resurfacing Project

DATE: December 4, 2020

COORDINATION:

This project has been coordinated with the Finance Department.

FISCAL IMPACT:

Staff is anticipating a decrease in the Gas Tax revenue for the street project in FY 2020/21. Adjustments may be required to the Street List for the construction project. Staff will return to Council in early 2021 with the project budget and adjustments to the FY 2020/21 Street List as necessary due to funding.

ENVIRONMENTAL ASSESSMENT:

Repair and maintenance of existing streets is defined under CEQA Section 15301(c) as Categorically Exempt. A Notice of Exemption is to be filed.

Attachments:

1. Street List for FY 2020/21 Street Repair and Resurfacing Project
2. SB 1 Resolution - June 16, 2020

**TOWN OF LOS GATOS**  
**Street List for FY 20-21 Street Repair and Resurfacing Project**

12/9/2020

Type of treatment:

RC Rubber cape seal (chip seal with slurry seal)  
S Slurry seal

Note:

The following project locations shall be considered for the FY 2020/21 Street Repair and Resurfacing project. Depending on the final design, cost estimates, and the budget available, some street segments may need to be deferred to the FY 2021/22 street project.

Street	From	To	Type of Treatment
BELLA VISTA AV	CHARLES ST	NEW YORK AV	RC
BLOSSOM VALLEY DR	WESTCHESTER DR	CITY LIMITS	RC
BRUCE AV	WINCHESTER BL	CITY LIMITS	RC
CHARLES ST	BELLA VISTA AV	LOS GATOS BLVD	RC
CORONET DR	WESTCHESTER DR	CITY LIMITS	RC
DARDANELLI LN	KNOWLES DR	W. PARR AV	RC
DARDANELLI LN	VASONA AV	KNOWLES DR	RC
DEL CARIO CT	SHANNON RD	END	RC
EDELEN AV	MILES AV	MULLEN AV	RC
EDELEN AV	BENTLEY AV	MILES AV	RC
FARLEY RD W	WINCHESTER BL	UNIVERSITY AVE	RC
HILOW CT	SHANNON RD	END	RC
KAVIN LN	DAVES AV	END	RC
MAGNESON LP	LOS GATOS BLVD	SHANNON RD	RC
MAGNESON TER	MAGNESON LP	END	RC
MILES AVE	UNIVERSITY AVE	BRIDGE	RC
NEW YORK AVE	PLEASANT ST	BELLA VISTA AV	RC
NOBLE CT	SHANNON RD	END	RC
SIMONS WY	BELLA VISTA AV	LOS GATOS BLVD	RC
SHELBURNE WY	WINCHESTER BL	UNIVERSITY AVE	RC
STEPHENIE LN	BLOSSOM HILL RD	END	RC
VERDES ROBLES	WINCHESTER BL	END	RC
VILLA AV	LIBRARY	JACKSON ST	RC
WELDWOOD AVE	CASTLEWOOD DR	POLLARD RD	RC
WESTCHESTER DR	BLOSSOM VALLEY DR	CITY LIMITS	RC
WINCHESTER BLVD	BLOSSOM HILL RD	ALBRIGHT WY	RC
WINTERBROOK RD	BLOSSOM HILL RD	END	RC
CAMINO DEL SOL	LOS GATOS BLVD	END	S
CAPRI DR	DIVISION ST	KNOWLES DR	S
CAPRI DR	KNOWLES DR	END	S
CHARTER OAKS DR	LARK AV	END	S
CHERRYSTONE CT	CHERRYSTONE DR	END	S
CHERRYSTONE DR	CHERRY BLOSSOM LN	DAHILA WY	S
CHERRYSTONE DR	DAHILA WY	BLOSSOM HILL RD	S
CRESCENT DR	LOS CERRITOS DR	END	S
LESTER LN	CARLESTER DR	CAMINO DEL SOL	S
LILAC WY	CAMELLIA TR	CITY LIMITS	S
OAK RIM CT	OAK RIM WY	END	S
PENN WY	NATIONAL AV	NATIONAL AV	S

PHILLIPS AV	CYPRESS WY	DISTRICT BOUNDARY (CREEK)	S
PLEASANT ST	E. MAIN ST	NEW YORK AV	S
POLLARD RD	KNOWLES DR	VASONA AV	S
VASONA AV	POLLARD RD	CAPRI DR	S

## **RESOLUTION 2020-027**

### **RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS ADOPTING A LIST OF PROJECTS FOR FISCAL YEAR 2020/21 FUNDED BY SB 1: THE ROAD REPAIR AND ACCOUNTABILITY ACT OF 2017**

**WHEREAS**, Senate Bill 1 (SB 1), the Road Repair and Accountability Act of 2017 (Chapter 5, Statutes of 2017) was passed by the Legislature and Signed into law by the Governor in April 2017 to address the significant multi-modal transportation funding shortfalls statewide; and

**WHEREAS**, SB 1 includes accountability and transparency provisions that will ensure the residents of the Town are aware of the projects proposed for funding in the community and which projects have been completed each fiscal year; and

**WHEREAS**, the Town must adopt a list of all projects proposed to receive funding from the Road Maintenance and Rehabilitation Account (RMRA), created by SB 1 by resolution, which must include a description and the location of each proposed project, a proposed schedule for the project's completion, and the estimated useful life of the improvement; and

**WHEREAS**, the Town, will receive an estimated \$532,580 in RMRA funding in Fiscal Year 2020/21 from SB 1; and

**WHEREAS**, this is the fourth year in which the Town is receiving SB 1 funding and will enable the Town to continue essential road maintenance and rehabilitation projects, safety improvements, repairing and replacing aging bridges, and increasing access and mobility options for the traveling public that would not have otherwise been possible without SB 1; and

**WHEREAS**, the Town used a Pavement Management System to develop the SB 1 project list to ensure revenues are being used on the most high-priority and cost-effective projects that also meet the communities' priorities for transportation investment; and

ATTACHMENT 2

**WHEREAS**, the 2016 California Statewide Local Streets and Roads Needs Assessment found that the Town's streets and roads are in a fair condition and this revenue will help increase the overall quality of the road system and over the next decade will bring Town streets and roads into a good condition;

**NOW, THEREFORE, BE IT RESOLVED:** The Fiscal Year 2020/21 list of projects planned to be funded with Road Maintenance and Rehabilitation Account revenues include:

Location	Description	Scheduled Completion	Estimated Useful Life
Winchester from Lark to Santa Cruz	Placement of rubber cape seal or overlay to maintain pavement surface. This is an arterial road and is critical for transit needs in the Town.	Fall 2021	10 - 25 years
Union Avenue from Blossom Hill Road to Los Gatos-Almaden Road	Placement of rubber cape seal or overlay to maintain pavement surface. This is an arterial road and is critical for transit needs in the Town.	Fall 2022	10 - 25 years

**PASSED AND ADOPTED** at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 16<sup>th</sup> day of June of 2020 by the following vote:

**COUNCIL MEMBERS:**

AYES: Rob Rennie, Marico Sayoc, Barbara Spector, Mayor Marcia Jensen  
NAYS: None  
ABSENT: None  
ABSTAIN: None

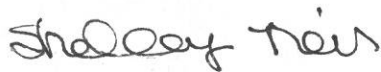
SIGNED:



MAYOR OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

DATE: 6/19/20

ATTEST:



TOWN CLERK OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

DATE: 6/23/2020



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 6

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DATE: December 9, 2020  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Authorize the Town Manager to Amend an Agreement for Employee Safety Compliance and Training Consultant Services with BSI EHS Services and Solutions (West) Inc. (Attachment 1) to:  
a. Extend the Term of the Agreement through June 2021,  
b. Increase the Contract Amount by \$22,000 for a Total Amount not to Exceed \$197,350, and  
c. Approve an Expenditure Budget Adjustment in the Amount of \$59,750 from Available Workers' Compensation Fund.

**RECOMMENDATION:**

Authorize the Town Manager to amend an agreement for employee safety compliance and training consultant services with BSI EHS Services and Solutions (West) Inc. (Attachment 1) to:  
a. Extend the term of the agreement through June 2021,  
b. Increase the contract amount by \$22,000 for a total amount not to exceed \$197,350, and  
c. Approve an expenditure budget adjustment in the amount of \$59,750 from available Workers' Compensation Fund.

**BACKGROUND:**

The Town contracts with BSI to provide safety consultant services to ensure compliance with California's Occupational Health and Safety Administration (Cal-OSHA) regulations, provide on-site safety training classes, and partner with the Town's Health and Safety Committee to promote a safe work environment. The term of the existing agreement between the Town and BSI is January 2018 through December 2020.

**PREPARED BY:** Lisa Velasco  
Human Resources Director

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

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DISCUSSION:

During the evaluation of the Town's safety program during FY 2019/20, BSI identified that the development of Control of Hazardous Energy Lockout/Tagout (LOTO) procedures are needed to ensure the safety of Town employees and consultants and satisfy Cal-OSHA regulations. The original agreement for services did not include LOTO procedures in the total cost or scope of services. An amendment to the agreement approved on August 4, 2020 (Attachment 2) incorporated the additional services into the agreement.

Staff requested a mid-year budget adjustment to add the cost of the LOTO procedures through the end of FY 2019/20; however, the consultant has not been able to complete the procedures due to social distancing and shelter-in-place requirements related to COVID-19. The purpose of this request is to authorize the Town Manager to approve a budget adjustment to add the \$59,750 LOTO funds to the FY 2020/21 budget, extend the term of the BSI agreement through June 30, 2021, and to increase the contract amount by \$22,000 to cover services through the extended time period. The \$22,000 was allocated in the FY 2020/21 Adopted Budget and no additional budget action is needed for this amount..

CONCLUSION:

Staff recommends that the Town Council approve a budget adjustment in the amount of \$59,750 and authorize the Town Manager to execute a fourth amendment to the agreement with BSI to extend the term through June 30, 2021 for a total amount not to exceed \$197,350.

FISCAL IMPACT:

The not to exceed cost in the amount of \$115,600 over the three-year term of the agreement as amended (Attachment 3) plus the amount to extend the agreement through June 2021 (\$22,000) is already included in the FY 2020/21 Adopted Budget in the Workers' Compensation Program. The FY 2020/21 Adopted Budget does not include the additional LOTO cost of \$59,750 to fund other services this year, therefore, a budget amendment for this amount is requested. There are sufficient funds available in the Workers' Compensation Fund for the additional LOTO services.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachments:

1. Fourth Amendment to Agreement for Consultant Services with BSI EHS Services and Solutions (West) Inc.
2. Third Amendment to Agreement for Consultant Services with BSI EHS Services and Solutions (West) Inc.

PAGE 3 OF 3

SUBJECT: Authorize an Amendment and Budget Adjustment to the BSI Safety Agreement

DATE: December 9, 2020

3. Second Amendment to Agreement for Consultant Services with BSI EHS Services and Solutions (West) Inc.
4. First Amendment to Agreement for Consultant Services with BSI EHS Services and Solutions (West) Inc.
5. Agreement for Consultant Services with BSI EHS Services and Solutions (West) Inc.

#### FOURTH AMENDMENT TO AGREEMENT

This AMENDMENT TO AGREEMENT is dated for identification this 15<sup>th</sup> day of December, 2020 and amends that certain agreement for environmental health & safety services dated January 1<sup>st</sup>, 2018, made by and between the Town of Los Gatos, ("Town,") and the BSI EHS Services and Solutions (West) Inc., ("Consultant.")

#### RECITALS

- A. Town and Consultant entered into a Consultant Services Agreement on January 1<sup>st</sup>, 2018, ("Agreement"), a copy of which is attached hereto and incorporated by reference as Attachment 1 to this Amendment.
- B. Town and Consultant entered into a First Amendment to Agreement on April 1, 2018, a copy of which is attached hereto and incorporated by reference as Attachment 2.
- C. Town and Consultant entered into a Second Amendment to Agreement on March 1, 2020, a copy of which is attached hereto and incorporated by reference as Attachment 3.
- D. Town and Consultant entered into a Third Amendment to Agreement on August 4, 2020, a copy of which is attached hereto and incorporated by referent as Attachment 4.

#### AMENDMENT

- 1. Section 2.2 Term and Time of Performance. This contract will be extended from January 1, 2021 through June 30, 2021.
- 2. Section 2.6 Compensation. Compensation for Consultant's professional services shall not exceed an additional \$22,000 during the contract extension period. Total contract not to exceed amount is \$197,350.

ATTACHMENT 1

3. All other terms and conditions of the Agreement remain in full force and effect.

IN WITNESS WHEREOF, the Town and Consultant have executed this Amendment.

Town of Los Gatos

Approved as to Consent:

By: \_\_\_\_\_  
Laurel Prevetti, Town Manager

By: \_\_\_\_\_  
Janice McKim,  
CFO

Department Approval:

\_\_\_\_\_  
Lisa Velasco  
Human Resources Director

Approved as to Form:

Attest:

\_\_\_\_\_  
Robert Schultz, Town Attorney

\_\_\_\_\_  
Shelley Neis, CMC, Clerk Administrator

BSI EHS Services – Fourth Amendment to Agreement – December 2020

### THIRD AMENDMENT TO AGREEMENT

This AMENDMENT TO AGREEMENT is dated for identification this 4<sup>th</sup> day of August, 2020 and amends that certain agreement for environmental health & safety services dated January 1<sup>st</sup>, 2018, made by and between the Town of Los Gatos, ("Town,") and the BSI EHS Services and Solutions (West) Inc., ("Consultant.")

### RECITALS

- A. Town and Consultant entered into a Consultant Services Agreement on January 1<sup>st</sup>, 2018, ("Agreement"), a copy of which is attached hereto and incorporated by reference as Attachment 1 to this Amendment.
- B. Town and Consultant entered into a First Amendment to Agreement on April 1, 2018, a copy of which is attached hereto and incorporated by reference as Attachment 2.
- C. Town and Consultant entered into a Second Amendment to Agreement on March 1, 2020, a copy of which is attached hereto and incorporated by reference as Attachment 3.

### AMENDMENT

1. Section 2.6 Compensation is hereby amended to incorporate subsection 2.6a Control of Hazardous Energy Lockout/Tagout (LOTO). Consultant will create LOTO procedures for select equipment and machinery identified during the April 10 and August 20, 2019 assessments in an amount not-to-exceed \$59,750, including time and materials.
2. All other terms and conditions of the Agreement remain in full force and effect.

IN WITNESS WHEREOF, the Town and Consultant have executed this Amendment.

Town of Los Gatos

DocuSigned by:  
By: Laurel Prevetti 10/6/2020  
Laurel Prevetti, Town Manager

Approved as to Consent:

DocuSigned by:  
By: Janice McKim 9/30/2020  
Genevieve Vaccaro, Approval signature changed to:  
Senior Consultant Janice McKim, CFO

Department Approval:

DocuSigned by:  
Lisa Velasco 10/1/2020  
Lisa Velasco  
Human Resources Director



Approved as to Form:

DocuSigned by:  
Robert W. Schultz 10/6/2020  
Robert Schultz, Town Attorney

Attest:

DocuSigned by:  
Shelley Neis 10/6/2020  
Shelley Neis, CMC, Clerk Administrator

## SECOND AMENDMENT TO AGREEMENT

This AMENDMENT TO AGREEMENT is dated for identification this 4<sup>th</sup> day of August, 2020 and amends that certain agreement for environmental health & safety services dated January 1<sup>st</sup>, 2018, made by and between the Town of Los Gatos, ("Town,") and the BSI EHS Services and Solutions (West) Inc., ("Consultant.")

### RECITALS

- A. Town and Consultant entered into a Consultant Services Agreement on January 1<sup>st</sup>, 2018, ("Agreement"), a copy of which is attached hereto and incorporated by reference as Attachment 1 to this Amendment.
- B. Town and Consultant entered into a First Amendment to Agreement on April 1, 2018, a copy of which is attached hereto and incorporated by reference as Attachment 2.

### AMENDMENT

1. Section 2.6 Compensation is hereby amended to incorporate subsection 2.6a Control of Hazardous Energy Lockout/Tagout (LOTO). Consultant will create LOTO procedures for select equipment and machinery identified during the April 10 and August 20, 2019 assessments in an amount not-to-exceed \$59,750, including time and materials.
2. All other terms and conditions of the Agreement remain in full force and effect.

IN WITNESS WHEREOF, the Town and Consultant have executed this Amendment.

Town of Los Gatos

Approved as to Consent:

By: \_\_\_\_\_  
Laurel Prevetti, Town Manager

By: \_\_\_\_\_  
Genene Vaccaro  
Senior Consultant

Department Approval:

\_\_\_\_\_  
Lisa Velasco  
Human Resources Director

Approved as to Form:

Attest:

\_\_\_\_\_  
Robert Schultz, Town Attorney

\_\_\_\_\_  
Shelley Neis, CMC, Clerk Administrator

# FIRST AMENDMENT TO AGREEMENT

This AMENDMENT TO AGREEMENT is dated for identification this 15<sup>th</sup> day of March, 2018 and amends that certain agreement for environmental health & safety services dated January 1<sup>st</sup>, 2018, made by and between the Town of Los Gatos, ("Town,") and the BSI EHS Services and Solutions (West) Inc., ("Consultant.")

## RECITALS

- A. Town and Consultant entered into a Consultant Services Agreement on January 1<sup>st</sup>, 2018, ("Agreement"), a copy of which is attached hereto and incorporated by reference as Attachment 1 to this Amendment.

## AMENDMENT

1. Section 2.6 Compensation. Compensation for Consultant's professional services shall not exceed \$115,600 over the term of the agreement (\$33,200 annually for Safety Training Services, Safety Committee Support, and Annual Program Review, plus \$16,000 over the course of the agreement for Job Hazard Analysis), inclusive of all costs. Payment shall be based upon Town approval of each task. Rates will remain unchanged for the initial 3-year term. To maintain parity with economic circumstances, BSI may elect to increase rates for the 4<sup>th</sup> and/or 5<sup>th</sup> year contract options. Annual rate table increases shall not exceed 3% of the preceding year's rate table fees in the years after 2020. However, if in any of the years after 2019 the Bureau of Labor Statistics Employment Cost Index in Northern California is greater than 4.5%, the parties agree to renegotiate rates for the final two years of this contract.
2. All other terms and conditions of the Agreement remain in full force and effect.

IN WITNESS WHEREOF, the Town and Consultant have executed this Amendment.

Town of Los Gatos

By: Laurel Prevetti  
Laurel Prevetti, Town Manager

Approved as to Consent:

By: Christy Foster  
Christy Foster  
Director of Healthcare

Department Approval:

Lisa Velasco  
Lisa Velasco  
Human Resources Director

Approved as to Form:

Robert Schultz  
Robert Schultz, Town Attorney

Attest:

Shelley Neis 5/31/18  
Shelley Neis, CMC, Clerk Administrator

BSI EHS Services – First Amendment to Agreement – March 2018

ATTACHMENT 4



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 05/01/2018

ITEM NO: 04

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DATE: APRIL 24, 2018  
TO: MAYOR AND TOWN COUNCIL  
FROM: LAUREL PREVETTI, TOWN MANAGER  
SUBJECT: AUTHORIZE THE TOWN MANAGER TO AMEND AN AGREEMENT FOR  
EMPLOYEE SAFETY COMPLIANCE AND TRAINING CONSULTANT SERVICES  
WITH BSI EHS SERVICES AND SOLUTIONS (WEST) INC., IN AN AMOUNT  
NOT TO EXCEED \$115,600

RECOMMENDATION:

Authorize the Town Manager to amend an agreement for employee safety compliance and training consultant services with BSI EHS Services and Solutions (West) Inc. (Attachment 1), in an amount not to exceed \$115,600.

BACKGROUND:

On December 19, 2017, the Town Council authorized the Town Manager to execute a new agreement for employee safety compliance and training consultant services with BSI EHS Services and Solutions (West) Inc. (Attachment 2) in an amount not to exceed \$147,600 over a three-year term. After the authorization and before the consultant began providing services, the Town identified that the cost over the three-year term for one element of the contract had been overstated. The not to exceed cost for Safety Training Services, Safety Committee Support, and Annual Program Review is \$33,200 annually for three-years totaling \$99,600 plus an additional flat amount of \$16,000 allocated to the special project of Job Hazard Analysis for a total of \$115,600. The amount allocated to the Job Hazard Analysis project was overstated in the original amount resulting in a total of \$147,600.

PREPARED BY: LISA VELASCO  
Human Resources Director

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

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PAGE 2 OF 2

SUBJECT: AUTHORIZE THE TOWN MANAGER TO AMEND AN AGREEMENT FOR  
EMPLOYEE SAFETY COMPLIANCE AND TRAINING CONSULTANT SERVICES  
WITH BSI EHS SERVICES AND SOLUTIONS (WEST) INC., IN AN AMOUNT NOT TO  
EXCEED \$115,600

APRIL 24, 2018

DISCUSSION:

The purpose of this report is to request authority for the Town Manager to amend the existing agreement with BSI to accurately reflect the not to exceed amount of \$115,600 versus the amount of \$147,600 contained in the original agreement executed in December 2017.

CONCLUSION:

Staff recommends that the Town Council authorize the Town Manager to execute an amendment to the agreement with BSI to accurately reflect the total three-year cost.

COORDINATION:

This report was coordinated with the Parks and Public Works Department.

FISCAL IMPACT:

The annual fiscal impact for this amendment will reduce the not to exceed amount from \$49,200 annually to \$38,533 annually or \$115,600 over the course of three years. Funding to support this agreement is included in the adopted budget for FY 2017/18 in the Workers' Compensation Program.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachments:

1. First Amendment to Agreement for Consultant Services with BSI EHS Services and Solutions (West) Inc.
2. Agreement for Consultant Services with BSI EHS Services and Solutions (West) Inc.

## AGREEMENT FOR CONSULTANT SERVICES

THIS AGREEMENT is made and entered into on the 1<sup>st</sup> day of January, 2018 by and between TOWN OF LOS GATOS, a California municipal corporation, ("Town") and BSI EHS Services and Solutions (West) Inc., ("Consultant"), whose address is 4 North Second Street, San Jose, CA 95113. This Agreement is made with reference to the following facts.

### I. RECITALS

- 1.1 The Town desire to engage Consultant to provide Environmental Health & Safety services and support.
- 1.2 The Consultant represents and affirms that it is willing to perform the desired work pursuant to this Agreement.
- 1.3 Consultant warrants it possesses the distinct professional skills, qualifications, experience, and resources necessary to timely perform the services described in this Agreement. Consultant acknowledges Town has relied upon these warranties to retain Consultant.

### II. AGREEMENTS

- 2.1 Scope of Services. Consultant shall provide services as described in that certain Proposal in Response to the Town of Los Gatos' Environmental Health & Safety Program RFP, sent to the Town on August 31, 2017, and an additional email summary sent to the Town on October 26, 2017, which is hereby incorporated by reference and attached as Exhibit A.
- 2.2 Term and Time of Performance. This contract will remain in effect from January 1, 2018 to December 31, 2020. This Agreement shall remain in effect for a period of three (3) years ("Initial Term") unless terminated earlier in accordance with the relevant provisions hereof. Thereafter, this Agreement has the option to renew for an additional two (1) year periods ("Extension Term") and shall remain in effect unless terminated earlier in accordance with the relevant provisions hereof. Consultant shall perform the services described in this agreement as detailed in Appendix A, with specific task scheduling to be determined jointly by The Town and the BSI support team.
- 2.3 Compliance with Laws. The Consultant shall comply with all applicable laws, codes, ordinances, and regulations of governing federal, state and local laws. Consultant represents and warrants to Town that it has all licenses, permits, qualifications and approvals of whatsoever nature which are legally required for Consultant to practice its profession. Consultant shall maintain a Town of Los Gatos business license pursuant to Chapter 14 of the Code of the Town of Los Gatos.
- 2.4 Sole Responsibility. Consultant shall be responsible for employing or engaging all persons necessary to perform the services under this Agreement.

2.5 Information/Report Handling. All documents furnished to Consultant by the Town and all reports and supportive data prepared by the Consultant under this Agreement are the Town's property and shall be delivered to the Town upon the completion of Consultant's services or at the Town's written request. All reports, information, data, and exhibits prepared or assembled by Consultant in connection with the performance of its services pursuant to this Agreement are confidential until released by the Town to the public, and the Consultant shall not make any of these documents or information available to any individual or organization not employed by the Consultant or the Town without the written consent of the Town before such release. The Town acknowledges that the reports to be prepared by the Consultant pursuant to this Agreement are for the purpose of evaluating a defined project, and Town's use of the information contained in the reports prepared by the Consultant in connection with other projects shall be solely at Town's risk, unless Consultant expressly consents to such use in writing. Town further agrees that it will not appropriate any methodology or technique of Consultant which is and has been confirmed in writing by Consultant to be a trade secret of Consultant.

2.5a Instruments of Service. BSI's Instruments of Service consist of any document or material provided as part of the agreed-upon deliverables under this Agreement. They are prepared for the exclusive use of The Town for the sole purpose described in the scope and terms of the Instruments of Service. The Town waives any claim against BSI and agrees to provide Indemnification for any claim or liability for injury, loss, or costs allegedly arising from any use other than Authorized Use of BSI's Instruments of Service.

2.5b The Town Information. The Town warrants the accuracy and completeness of information, (including, but not limited to, representations, specifications, drawings, maps, surveys, reports, historical land usage and operations, results of previous site investigations and surface or subsurface conditions affecting the site), supplied by it or its agents to BSI and acknowledges that BSI is relying upon such information or data in the preparation of this Proposal and rendering of services.

2.6 Compensation. Compensation for Consultant's professional services **shall not exceed \$49,200.00 annually**, inclusive of all costs. Payment shall be based upon Town approval of each task. Rates will remain unchanged for the initial 3-year term. To maintain parity with economic circumstances, BSI may elect to increase rates for the 4<sup>th</sup> and/or 5<sup>th</sup> year contract options. Annual rate table increases shall not exceed 3% of the preceding year's rate table fees in the years after 2020. However, if in any of the years after 2019 the Bureau of Labor Statistics Employment Cost Index in Northern California is greater than 4.5%, the parties agree to renegotiate rates for the final two years of this contract.

2.7 Billing. Billing shall be monthly by invoice within thirty (30) days of the rendering of the service and shall be accompanied by a detailed explanation of the work performed by whom at what rate and on what date. Also, plans, specifications, documents or other pertinent materials shall be submitted for Town review, even if only in partial or draft form.

Payment shall be net thirty (30) days. All invoices and statements to the Town shall be addressed as follows:

Invoices:

Town of Los Gatos  
Attn: Accounts Payable  
P.O. Box 655  
Los Gatos, CA 95031-0655

- 2.8 Availability of Records. Consultant shall maintain the records supporting this billing for not less than three years following completion of the work under this Agreement. Consultant shall make these records available to authorized personnel of the Town at the Consultant's offices during business hours upon written request of the Town.
- 2.9 Assignability and Subcontracting. The services to be performed under this Agreement are unique and personal to the Consultant. No portion of these services shall be assigned or subcontracted without the written consent of the Town.
- 2.10 Independent Contractor. It is understood that the Consultant, in the performance of the work and services agreed to be performed, shall act as and be an independent contractor and not an agent or employee of the Town. As an independent contractor he/she shall not obtain any rights to retirement benefits or other benefits which accrue to Town employee(s). With prior written consent, the Consultant may perform some obligations under this Agreement by subcontracting, but may not delegate ultimate responsibility for performance or assign or transfer interests under this Agreement. Consultant agrees to testify in any litigation brought regarding the subject of the work to be performed under this Agreement. Consultant shall be compensated for its costs and expenses in preparing for, traveling to, and testifying in such matters at its then current hourly rates of compensation, unless such litigation is brought by Consultant or is based on allegations of Consultant's negligent performance or wrongdoing.
- 2.11 Conflict of Interest. Consultant understands that its professional responsibilities are solely to the Town. The Consultant has and shall not obtain any holding or interest within the Town of Los Gatos. Consultant has no business holdings or agreements with any individual member of the Staff or management of the Town or its representatives nor shall it enter into any such holdings or agreements. In addition, Consultant warrants that it does not presently and shall not acquire any direct or indirect interest adverse to those of the Town in the subject of this Agreement, and it shall immediately disassociate itself from such an interest, should it discover it has done so and shall, at the Town's sole discretion, divest itself of such interest. Consultant shall not knowingly and shall take reasonable steps to ensure that it does not employ a person having such an interest in this performance of this Agreement. If after employment of a person, Consultant discovers it has employed a person with a direct or indirect interest that would conflict with its performance of this Agreement, Consultant shall promptly notify Town of this employment relationship, and shall, at the Town's sole discretion, sever any such employment relationship.

- 2.12 Equal Employment Opportunity. Consultant warrants that it is an equal opportunity employer and shall comply with applicable regulations governing equal employment opportunity. Neither Consultant nor its subcontractors do and neither shall discriminate against persons employed or seeking employment with them on the basis of age, sex, color, race, marital status, sexual orientation, ancestry, physical or mental disability, national origin, religion, or medical condition, unless based upon a bona fide occupational qualification pursuant to the California Fair Employment & Housing Act.

### **III. INSURANCE AND INDEMNIFICATION**

#### **3.1 Minimum Scope of Insurance:**

- i. Consultant agrees to have and maintain, for the duration of the contract, General Liability insurance policies insuring him/her and his/her firm to an amount not less than: one million dollars (\$1,000,000) combined single limit per occurrence for bodily injury, personal injury and property damage.
- ii. Consultant agrees to have and maintain for the duration of the contract, an Automobile Liability insurance policy ensuring him/her and his/her staff to an amount not less than one million dollars (\$1,000,000) combined single limit per accident for bodily injury and property damage.
- iii. Consultant shall provide to the Town all certificates of insurance, with original endorsements effecting coverage. Consultant agrees that all certificates and endorsements are to be received and approved by the Town before work commences.
- iv. Consultant agrees to have and maintain, for the duration of the contract, professional liability insurance in amounts not less than \$1,000,000 which is sufficient to insure Consultant for professional errors or omissions in the performance of the particular scope of work under this agreement.
- v. Limits of Liability. BSI's maximum aggregate liability under this agreement shall not exceed the greater of \$1,000,000 or the total amounts paid by The Town to BSI during the twelve (12) months immediately preceding the claim.

#### **General Liability:**

- i. The Town, its officers, officials, employees and volunteers are to be covered as insured as respects: liability arising out of activities performed by or on behalf of the Consultant; products and completed operations of Consultant, premises owned or used by the Consultant. This requirement does not apply to the professional liability insurance required for professional errors and omissions.

- ii. The Consultant's insurance coverage shall be primary insurance as respects the Town, its officers, officials, employees and volunteers. Any insurance or self-insurances maintained by the Town, its officers, officials, employees or volunteers shall be excess of the Consultant's insurance and shall not contribute with it.
  - iii. Any failure to comply with reporting provisions of the policies shall not affect coverage provided to the Town, its officers, officials, employees or volunteers.
  - iv. The Consultant's insurance shall apply separately to each insured against whom a claim is made or suit is brought, except with respect to the limits of the insurer's liability.
- 3.2 All Coverages. Each insurance policy required in this item shall be endorsed to state that coverage shall not be suspended, voided, cancelled, reduced in coverage or in limits except after thirty (30) days' prior written notice by certified mail, return receipt requested, has been given to the Town. Current certification of such insurance shall be kept on file at all times during the term of this agreement with the Town Clerk.
- 3.3 Workers' Compensation. In addition to these policies, Consultant shall have and maintain Workers' Compensation insurance as required by California law and shall provide evidence of such policy to the Town before beginning services under this Agreement. Further, Consultant shall ensure that all subcontractors employed by Consultant provide the required Workers' Compensation insurance for their respective employees.
- 3.4 Indemnification. The Consultant shall save, keep, hold harmless and indemnify and defend the Town its officers, agent, employees and volunteers from all damages, liabilities, penalties, costs, or expenses in law or equity that may at any time arise or be set up because of damages to property or personal injury received by reason of, or in the course of performing work which may be occasioned by a willful or negligent act or omissions of the Consultant, or any of the Consultant's officers, employees, or agents or any subconsultant.

#### IV. GENERAL TERMS

- 4.1 Waiver. No failure on the part of either party to exercise any right or remedy hereunder shall operate as a waiver of any other right or remedy that party may have hereunder, nor does waiver of a breach or default under this Agreement constitute a continuing waiver of a subsequent breach of the same or any other provision of this Agreement.

- 4.2 Governing Law. This Agreement, regardless of where executed, shall be governed by and construed to the laws of the State of California. Venue for any action regarding this Agreement shall be in the Superior Court of the County of Santa Clara.
- 4.3 Termination of Agreement. The Town and the Consultant shall have the right to terminate this agreement with or without cause by giving not less than fifteen days (15) written notice of termination. In the event of termination, the Consultant shall deliver to the Town all plans, files, documents, reports, performed to date by the Consultant. In the event of such termination, Town shall pay Consultant an amount that bears the same ratio to the maximum contract price as the work delivered to the Town bears to completed services contemplated under this Agreement, unless such termination is made for cause, in which event, compensation, if any, shall be adjusted in light of the particular facts and circumstances involved in such termination.
- 4.4 Amendment. No modification, waiver, mutual termination, or amendment of this Agreement is effective unless made in writing and signed by the Town and the Consultant.
- 4.5 Disputes. In any dispute over any aspect of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees, including costs of appeal.
- 4.6 Notices. Any notice required to be given shall be deemed to be duly and properly given if mailed postage prepaid, and addressed to:

Town of Los Gatos  
Attn: Human Resources  
110 E. Main Street  
Los Gatos, CA 95030

BSI EHS Services and Solutions (West) Inc.  
Attn: Christy Foster  
4 North Second Street  
San Jose, CA 95113

or personally delivered to Consultant to such address or such other address as Consultant designates in writing to Town.

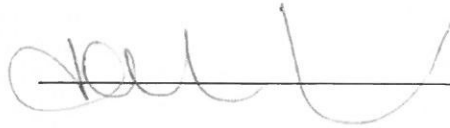
- 4.7 Order of Precedence. In the event of any conflict, contradiction, or ambiguity between the terms and conditions of this Agreement in respect of the Products or Services and any attachments to this Agreement, then the terms and conditions of this Agreement shall prevail over attachments or other writings.
- 4.8 Entire Agreement. This Agreement, including all Exhibits, constitutes the complete and exclusive statement of the Agreement between the Town and Consultant. No terms, conditions, understandings or agreements purporting to modify or vary this Agreement, unless hereafter made in writing and signed by the party to be bound, shall be binding on either party.

IN WITNESS WHEREOF, the Town and Consultant have executed this Agreement.

Town of Los Gatos by:


Consultant, by:

  
\_\_\_\_\_  
Laurel Prevetti, Town Manager

  
\_\_\_\_\_

Recommended by:

Janice McKim,  
Chief Financial Officer

  
\_\_\_\_\_  
Lisa Velasco, Human Resources Director

\_\_\_\_\_  
Title

Approved as to Form:

  
\_\_\_\_\_  
Robert Schultz, Town Attorney

## **EXHIBIT A – Scope/Cost Estimate Basis**

### **Safety Training Services:**

Time-and Materials Basis, Not-to-Exceed  
\$18,000

7 In-Person Training sessions, including  
presentation development time, quality  
review, formatting, and onsite delivery time  
(1-2 hours/class) = \$2,200/class  
Tailgate topic development = \$170/topic

### **Safety Committee Support:**

Time-and-Materials Basis, Not-to-Exceed  
\$3,200

\$800/meeting, including preparation, agenda  
review, and follow up actions from the  
meeting.

### **Job Hazard Analysis:**

Fixed Fee of \$16,000 (\$400/JHA)

We assume 40 JHAs, and each will cost \$400.  
Prices would decrease accordingly if the total  
number of JHAs to be completed in one year  
was decreased.

### **Annual Program Review:**

Time-and-Materials Basis, Not-to-Exceed  
\$12,000

15 written programs would be reviewed, at a  
cost of \$800/program. Programs will be  
reviewed and returned with any edits/updates  
in track changes mode. This assumes an  
average of 4 hours of review time, plus one  
set of additional comments from the Town  
and subsequent BSI changes to the  
document.

N:/MASTER/AGREEMENTS/AgreementTemplates/AgreementforConsultantServices.rtf

Agreement for Consulting Services – Town of Los Gatos and BSI EHS Services and Solutions, Environmental Health & Safety  
Program 2018-2020.

12/2017

Page 8 of 8

**EXHIBIT A**



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/19/2017

ITEM NO: 6

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DATE: DECEMBER 11, 2017  
TO: MAYOR AND TOWN COUNCIL  
FROM: LAUREL PREVETTI, TOWN MANAGER  
SUBJECT: AUTHORIZE THE TOWN MANAGER TO EXECUTE AN AGREEMENT FOR  
EMPLOYEE SAFETY COMPLIANCE AND TRAINING CONSULTANT SERVICES  
WITH BSI EHS SERVICES AND SOLUTIONS (WEST) INC., IN AN AMOUNT  
NOT TO EXCEED \$147,600

**RECOMMENDATION:**

Authorize the Town Manager to execute an agreement for employee safety compliance and training consultant services with BSI EHS Services and Solutions (West) Inc. (Attachment 1), in an amount not to exceed \$147,600.

**BACKGROUND:**

California's Occupational Health and Safety Administration (Cal-OSHA) sets the standards and requirements related to an employer sponsored Health and Safety Program. Components of a Health and Safety Program include employee training and Cal-OSHA compliance. Cal-OSHA requires annual or recurring periodic training for safety sensitive job classifications that have potential for exposure to illnesses or injuries resulting from bloodborne pathogens and communicable diseases, working at heights or within confined spaces, routine use of specialized equipment and machines, or lifting heavy objects. The Town's Health and Safety Program includes periodic recommended employee trainings to proactively prevent work injuries or illnesses, such as: safe driving techniques, earthquake safety, and prevention of slips/trips/falls. The Town has historically engaged the services of a safety consultant to ensure compliance with Cal-OSHA regulations, provide on-site safety training classes, and partner with the Town's Health and Safety Committee to promote a safe work environment.

**PREPARED BY:** LISA VELASCO  
Human Resources Director

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

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PAGE 2 OF 2

SUBJECT: AUTHORIZE THE TOWN MANAGER TO EXECUTE AN AGREEMENT FOR  
EMPLOYEE SAFETY COMPLIANCE AND TRAINING CONSULTANT SERVICES  
WITH BSI EHS SERVICES AND SOLUTIONS (WEST) INC., IN AN AMOUNT NOT TO  
EXCEED \$147,600  
DECEMBER 11, 2017

DISCUSSION:

The Town has contracted with BSI since February 2013 and extended the contract in May 2016 to provide additional time to conduct a formal Request for Proposals (RFP). An RFP was initiated in August, 2017. Six firms responded to the RFP and three were invited to interview with Town staff. Based on their formal Proposal (Attachment 2) and interviews, BSI was selected based on their overall cost, breadth and depth of knowledge related to safety compliance, as well as resources to offer employee trainings, tailgate trainings, and participation at Health and Safety Committee meetings.

In addition, during the term of the prior agreement between BSI and the Town, BSI was highly effective in assisting the Town to contain costs associated with the Employee Health and Safety Program by addressing potential safety issues to ensure safe work environments for employees. BSI has also been instrumental in ensuring the Town's compliance with legally mandated Cal-OSHA training and requirements.

CONCLUSION:

Staff recommends that the Town Council authorize the Town Manager to execute a new agreement with BSI for three years effective January 1, 2018, with an option to renew for two additional one-year periods.

COORDINATION:

This report was coordinated with the Parks and Public Works Department.

FISCAL IMPACT:

The annual fiscal impact for this agreement will not exceed \$49,200 annually, or \$147,600 over the course of three years. Funding to support this agreement is included in the adopted budget for FY 2017/18 in the Workers' Compensation Program.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachments:

1. Agreement for Consultant Services with BSI EHS Services and Solutions (West) Inc.
2. Response to Town of Los Gatos RFP Environmental Health & Safety Program (BSI Proposal #17-0943)



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 7

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DATE: December 15, 2020  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Authorize Revenue and Expenditure Budget Adjustments in the Amount of \$5,000 to Recognize Receipt and Expenditure of California State Library Grant Funds

**RECOMMENDATION:**

Authorize revenue and expenditure budget adjustments in the amount of \$5,000 to recognize receipt and expenditure of California State Library grant funds.

**BACKGROUND:**

The Library has been successful in obtaining a \$5,000 grant from the California State Library for electronic material purchases. The grant funds will be used to purchase additional e-book titles for the Library's CloudLibrary platform. Grant funds will be expended by the end of December 2020.

**FISCAL IMPACT:**

Expenditures in the amount of \$5,000 will be reimbursed by an equal amount of grant revenue received. Grant revenues will be recorded to account 7801-43343 and be expended from account 7801-61172.

**ENVIRONMENTAL ASSESSMENT:**

This is not a project defined under CEQA, and no further action is required.

**PREPARED BY:** Ryan Baker  
Library Director

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

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**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 8

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DATE: December 10, 2020  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Deny an Appeal of a Planning Commission Decision Approving a Request for a Zoning Consistency Determination and a Conditional Use Permit (U-20-009) for a Bank (Charles Schwab Community Banking and Investment Services) on Property Zoned C-2:LHP:PD Located at 35 University Avenue. APN 529-02-044. Property Owner: SRI Old Town, LLC. Applicant: Amber DeMaglio. Project Planner: Sean Mullin.

**RECOMMENDATION:**

Deny an appeal of a Planning Commission decision approving a request for a zoning consistency determination and a Conditional Use Permit (U-20-009) for a bank (Charles Schwab Community Banking and Investment Services) on property zoned C-2:LHP:PD located at 35 University Avenue.

**BACKGROUND:**

The subject property is located on the west side of University Avenue (Attachment 1, Exhibit 1) and is developed with the Old Town Shopping Center commercial buildings. The subject vacant 5,337-square foot tenant space is located on the ground floor of the northern building adjacent to the corner of University Avenue and Elm Street. The property abuts commercial properties to the north, south, and east, and a parking lot to the west.

Citing the evolving nature of the traditional banking industry, the applicant requested a zoning consistency determination from the Planning Commission for a bank (Charles Schwab Community Banking and Investment Services) and sought approval of a Conditional Use Permit (CUP) for the use.

**PREPARED BY:** SEAN MULLIN, AICP  
Associate Planner

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Reviewed by: Town Manager, Assistant Town Manager, Town Attorney, and Community Development Director

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BACKGROUND (continued):

On November 11, 2020, the Planning Commission determined that the proposed use is a bank and approved the CUP (Attachment 3).

On November 19, 2020, the decision of the Planning Commission was appealed to the Town Council by the Los Gatos Chamber of Commerce, citing concerns related to the number of Commissioners present at the November 11, 2020 meeting, the Planning Commission's review of public comments, the potential precedent, and the fact that the Planning Commission did not continue the item for further discussion (Attachment 4).

Pursuant to the Town Code, any interested person as defined by Section 29.10.020 may appeal to the Council any decision of the Planning Commission. For commercial projects, this definition includes any person or persons or entity or entities who can demonstrate that their property will be injured by the decision.

Pursuant to Town Code Section 29.20.280, the appeal must be heard within 56 days of the Planning Commission hearing and in this case, by January 6, 2021. The Council must at least open the public hearing for the item, and may continue the matter to a date certain if the Council does not complete its work on the item.

Pursuant to Town Code Section 29.20.295, in the appeal, and based on the record, the appellant bears the burden to prove that there was an error or abuse of discretion by the Planning Commission or wherein its decision was not supported by substantial evidence in the record as required by Section 29.20.275. If neither is proved, the appeal should be denied. If the appellant meets the burden, the Town Council shall grant the appeal and may modify, in whole or in part, the determination from which the appeal was taken or, in its discretion, return the matter to Planning Commission. If the basis for granting the appeal is, in whole or in part, information not presented to or considered by the Planning Commission, the matter shall be returned to the Planning Commission for review.

DISCUSSION:

A. Project Summary

The applicant requests a zoning consistency determination for a bank (Charles Schwab Community Banking and Investment Services) and approval of a CUP for the use. The applicant seeks to relocate the existing business from 335 N. Santa Cruz Avenue to the subject site. Traditionally, businesses that provide investment services have been considered office uses and may not be located on the ground floor in the C-2 zone. The applicant has provided a Project Description (Attachment 1, Exhibit 4), Letter of Justification (Attachment 1, Exhibit 5), and a letter speaking to zoning consistency (Attachment 1, Exhibit

DISCUSSION (continued):

6), all of which describe the proposed use as a bank and cite the evolving nature of traditional banking.

The intent of the C-2 or Central Business District zone is to encourage the continuance of a viable and predominantly pedestrian-oriented business district for the Town. The C-2 zone allows for a wide variety of retail, service, entertainment, and administrative activities, which are necessary to serve a large trading area. An office use is allowed in the C-2 zone and may not be located on the ground floor. A bank use is allowed in the C-2 zone with the approval of a CUP and may be located on the ground floor.

B. Planning Commission

On November 11, 2020, the Planning Commission received the staff report (Attachment 1), opened the public hearing, and considered testimony from the applicant and the public. One member of the public spoke in support of the project and one spoke in opposition. After asking questions of the applicant, the Planning Commission closed the public hearing and discussed the project. The Commission determined that the proposed use is a bank with a 3-1 vote, Commissioner Burch recused. The Commission then approved the CUP for a bank in the C-2 zone with a 3-1 vote, Commissioner Burch recused. Attachment 3 contains the verbatim minutes.

C. Appeal to Town Council

On November 19, 2020, the decision of the Planning Commission was appealed to the Town Council by the Los Gatos Chamber of Commerce (Attachment 4). The appellant provided their reasons for the appeal, which are listed below followed by staff analysis in *italic* font.

1. There were a minimum amount of Planning Commissioners present to constitute a quorum and some of them appeared to not have had the opportunity to review a letter that outlined the damages this approval would do to the surrounding business community.

*Following the November 3, 2020 election, two members of the seven-member Planning Commission were elected to the Town Council and their duties with the Commission ceased. In consideration of this application, Commissioner Burch recused herself leaving four Commissioners and maintaining a quorum.*

*Public comment received before 11:00 a.m., Friday, November 6, 2020 was included with the Planning Commission staff report (Attachment 1, Exhibit 9). Public comment received between 11:01 a.m., December 6, 2020 and 11:00 a.m., December 11, 2020 was*

DISCUSSION (continued):

*included with the Desk Item provided to the Planning Commission (Attachment 2, Exhibit 10).*

2. A precedent would be set by approving a business via conditional use permit that does not align with the prescribed use within the zoning.

*While not a permitted use, a bank is an allowed use with the approval of a CUP in the C-2 zone. The requirement for approval of a CUP allows the Planning Commission to consider whether a proposed use at a particular location is compatible with ordinarily permitted uses. On November 11, 2020, the Planning Commission determined that the proposed use is a bank and approved a CUP for the use at the subject location (Attachment 3). Any additional bank wishing to locate within the C-2 zone in a location where the use does not already exist would require approval of a CUP. Each application is considered on its own merits.*

3. The Planning Commission did not act “in the best faith of the citizens” by continuing this item for further discussion.

*On November 11, 2020, the Planning Commission received the staff report and Desk Item (Attachments 1 and 2), opened the public hearing, and considered testimony from the applicant and the public. One member of the public spoke in support of the project and one spoke in opposition. After asking questions of the applicant, the Commission closed the public hearing and discussed the project. The Commission determined that the proposed use is a bank. The Commission then approved the CUP for a bank in the C-2 zone. Given that the Commission completed its work on this item, there was no need to continue it. Attachment 3 contains the verbatim minutes.*

PUBLIC COMMENTS:

At the time of this report’s preparation, the Town has not received any public comment.

CONCLUSION:

A. Recommendation

For the reasons stated in this report, it is recommended that the Town Council uphold the decision of the Planning Commission and adopt a resolution (Attachment 5) denying the appeal and approving the application with the required findings and considerations (Attachment 5, Exhibit A), conditions of approval (Attachment 5, Exhibit B), and development plans (Attachment 1, Exhibit 7).

CONCLUSION (continued):

B. Alternatives

Alternatively, the Town Council could:

1. Adopt a resolution (Attachment 6) granting the appeal and remanding the application back to the Planning Commission with specific direction;
2. Adopt a resolution granting the appeal and denying the application (Attachment 7); or
3. Continue the application to a date certain with specific direction.

Attachments:

1. November 11, 2020 Planning Commission Staff Report, with Exhibits 1 through 9
2. November 11, 2020 Planning Commission Desk Item, with Exhibit 10
3. November 11, 2020 Planning Commission Verbatim Minutes
4. Appeal of Planning Commission decision, received November 19, 2020
5. Draft Resolution to Deny an Appeal and Approve the Project, with Exhibits A and B
6. Draft Resolution to Grant an Appeal and Remand the Project to Planning Commission
7. Draft Resolution to Grant an Appeal and Deny the Project

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**TOWN OF LOS GATOS  
PLANNING COMMISSION  
REPORT**

MEETING DATE: 11/11/2020

ITEM NO: 3

DATE: November 6, 2020  
TO: Planning Commission  
FROM: Joel Paulson, Community Development Director  
SUBJECT: Requesting a Zoning Consistency Determination and Approval of a Conditional Use Permit (U-20-009) for a Bank (Charles Schwab Community Banking and Investment Services) on Property Zoned C-2:LHP:PD. Located at 35 University Avenue. APN 529-02-044. Property Owner: SRI Old Town LLC. Applicant: Amber DeMaglio.

**RECOMMENDATION:**

Consider a zoning consistency determination and approval of a Conditional Use Permit (U-20-009) for a bank (Charles Schwab Community Banking and Investment Services) on property zoned C-2:LHP:PD, located at 35 University Avenue.

**PROJECT DATA:**

General Plan Designation: Central Business District  
Zoning Designation: Central Business District with a Landmark and Historic Preservation Overlay, C-2:LHP  
Applicable Plans & Standards: General Plan and Commercial Design Guidelines  
Parcel Size: 4.18 acres (182,080 square feet)  
Surrounding Area:

	Existing Land Use	General Plan	Zoning
North	Commercial	Central Business District	C-2:LHP
East	Commercial	Central Business District	C-2:LHP
South	Commercial	Central Business District	C-2:LHP
West	Parking Lot	Central Business District	C-2:LHP

**PREPARED BY:** Sean Mullin, AICP  
Associate Planner

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Reviewed by: Planning Manager and Community Development Director

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CEQA:

The project is Categorically Exempt pursuant to the adopted Guidelines for the Implementation of the California Environmental Quality Act, Section 15301: Existing Facilities. No significant effect on the environment will occur since the project uses an existing structure with no increase in floor area.

FINDINGS:

- The project is Categorically Exempt pursuant to the adopted Guidelines for the Implementation of California Environmental Quality Act, Section 15301: Existing Facilities. No significant effect on the environment will occur since the project uses an existing structure with no increase in floor area.
- As required by Section 29.20.190 of the Town Code for granting approval of a Conditional Use Permit application.

ACTION:

The decision of the Planning Commission is final unless appealed within ten days.

BACKGROUND:

Citing the evolving nature of the traditional banking industry, the applicant requests a zoning consistency determination from the Planning Commission for a bank (Charles Schwab Community Banking and Investment Services) and seeks approval of a CUP for the use.

PROJECT DESCRIPTION:

A. Location and Surrounding Neighborhood

The subject property is located on the west side of University Avenue (Exhibit 1) and is developed with the Old Town Shopping Center commercial buildings. The subject vacant 5,337-square foot tenant space is located on the ground floor of the northern building adjacent to the corner of University Avenue and Elm Street. The property abuts commercial properties to the north, south, and east, and a parking lot to the west.

B. Project Summary

The applicant requests a zoning consistency determination from the Planning Commission for a bank (Charles Schwab Community Banking and Investment Services) and seeks approval of a CUP for the use.

PROJECT DESCRIPTION (continued):

When reviewing a CUP, the deciding body should consider the information in the applicant's submitted materials (Exhibits 4 through 7); however, the key consideration should be the proposed use since the CUP runs with the land and the operational details can change from owner to owner.

C. Zoning Compliance

The intent of the C-2 or Central Business District zone is to encourage the continuance of a viable and predominantly pedestrian-oriented business district for the Town. The C-2 zone allows for a wide variety of retail, service, entertainment, and administrative activities, which are necessary to serve a large trading area. An office use is allowed in the C-2 zone, but may not be located on the ground floor. A bank use is allowed in the C-2 zone with the approval of a CUP and may be located on the ground floor.

If the Planning Commission determines that the proposed use is a bank, the use would be allowed on the ground floor of the C-2 zone with approval of the CUP.

DISCUSSION:

A. Zoning Consistency Determination

The applicant requests a zoning consistency determination from the Planning Commission for a bank (Charles Schwab Community Banking and Investment Services). Traditionally, businesses that provide investment services have been considered office uses and may not be located on the ground floor in the C-2 zone. The applicant has provided a Project Description (Exhibit 4), Letter of Justification (Exhibit 5), and a letter speaking to zoning consistency (Exhibit 6), all of which describe the proposed use as a bank and cite the evolving nature of traditional banking. The applicant requests that the Planning Commission determine that the proposed use is a bank and seeks approval of the CUP for the use to be located on the ground floor in the C-2 zone.

B. Conditional Use Permit Application

As discussed above, if the Planning Commission determines that the proposed use is a bank, the applicant seeks approval of the CUP for the use. The applicant requests hours of operation of 8:00 a.m. to 6:00 p.m., Monday through Friday; 8:00 a.m. to 4:00 p.m., Saturday; and closed, Sunday. The applicant has provided a Project Description (Exhibit 4), Letter of Justification (Exhibit 5), and a letter speaking to zoning consistency (Exhibit 6), all of which describe the operational details of the proposed use.

DISCUSSION (continued):

C. Traffic and Parking

The site was previously a retail use with a parking requirement of one space for every 300 square feet of floor area, or 18 spaces. A bank requires one space for every 250 square feet of floor area, or 22 spaces. The site is part of the Old Town Shopping Center, which provides parking through 215 spaces onsite and 464 spaces in the Parking Assessment District (PAD). Based on an analysis of the existing uses in the Old Town Shopping Center, the additional four spaces required for the proposed use would be accommodated through the surplus spaces located onsite and in the PAD.

D. Conditional Use Permit Findings

If the determination is made that the proposed use is a bank, the Planning Commission must make the following findings in order to grant approval of a CUP:

1. The proposed use of the property is essential or desirable to the public convenience or welfare; and
2. The proposed use would not impair the integrity and character of the zone; and
3. The proposed use would not be detrimental to public health, safety, or general welfare; and
4. The proposed use of the property is in harmony with the various elements or objectives of the General Plan and the purposes of the Town Code.

With regards to the first finding, the use will relocate an existing banking and financial service business to a new location in the Central Business District. With regards to the second finding, the use will not impair the integrity of the zone because limitations will be placed in the conditions of approval to preserve the character of the Central Business District zone. With regards to the third finding, the use will not be detrimental to public health, safety, or general welfare because the conditions of approval will address any potential impacts. With regards to the final finding, the proposed use meets the objectives of the General Plan and Town Code as discussed within this report.

E. General Plan

A bank use is consistent with the Central Business District General Plan land use designation for the property with the approval of a CUP. A bank would support the mixture of community-oriented commercial goods, services, and lodging unique to the Central Business District and would maintain the small-town character of the downtown area.

The goals and policies of the 2020 General Plan applicable to this project include, but are not limited to:

DISCUSSION (continued):

- Policy LU-1.8 Commercial development of any type (office, retail, research and development, etc.) shall be designed in keeping with the small-town character of Los Gatos.
- Policy LU-2.1 Minimize vehicle miles traveled for goods and services by allowing and encouraging stores that provide these goods within walking distance of neighborhoods in Los Gatos.
- Policy LU-9.2 Maintain a variety of commercial uses, including a strong Downtown commercial area combined with Los Gatos Boulevard and strong neighborhood commercial centers to meet the shopping needs of residents and to preserve the small-town atmosphere.

F. CEQA Determination

The project is Categorically Exempt pursuant to the adopted Guidelines for the Implementation of the California Environmental Quality Act, Section 15301: Existing Facilities. No significant effect on the environment will occur since the project uses an existing structure with no increase in floor area.

PUBLIC COMMENTS:

Written notice was sent to property owners and tenants within 300 feet of the subject property. Public comments received before 11:00 a.m., Friday, November 6, 2020, are included as Exhibit 8.

CONCLUSION:

A. Summary

The applicant requests a zoning consistency determination from the Planning Commission for a bank (Charles Schwab Community Banking and Investment Services) and seeks approval of the CUP for the use to be located on the ground floor in the C-2 zone.

No additional square footage is proposed; therefore, there will be no increase in traffic impacts. The increased parking requirement will be accommodated with surplus spaces available onsite and in the PAD. A bank use would be in conformance with the Town Code and consistent with the General Plan.

B. Recommendation

Staff recommends that the Planning Commission review the application materials and determine whether the proposed use is a bank. If the Commissions determines that the use

CONCLUSION (continued):

is a bank, based on the analysis above staff recommends approval of the CUP subject to the recommended conditions of approval (Exhibit 3). If the Planning Commission finds merit with the proposed project, it should:

1. Make the determination that the proposed use is consistent with a bank; and
2. Make the finding that the proposed project is categorically exempt, pursuant to Section 15301 of the California Environmental Quality Act as adopted by the Town (Exhibit 2); and
3. Make the findings as required by Section 29.20.190 of the Town Code for granting approval of a CUP (Exhibit 2); and
4. Approve CUP application U-20-009 with the conditions of approval attached in Exhibit 3.

C. Alternatives

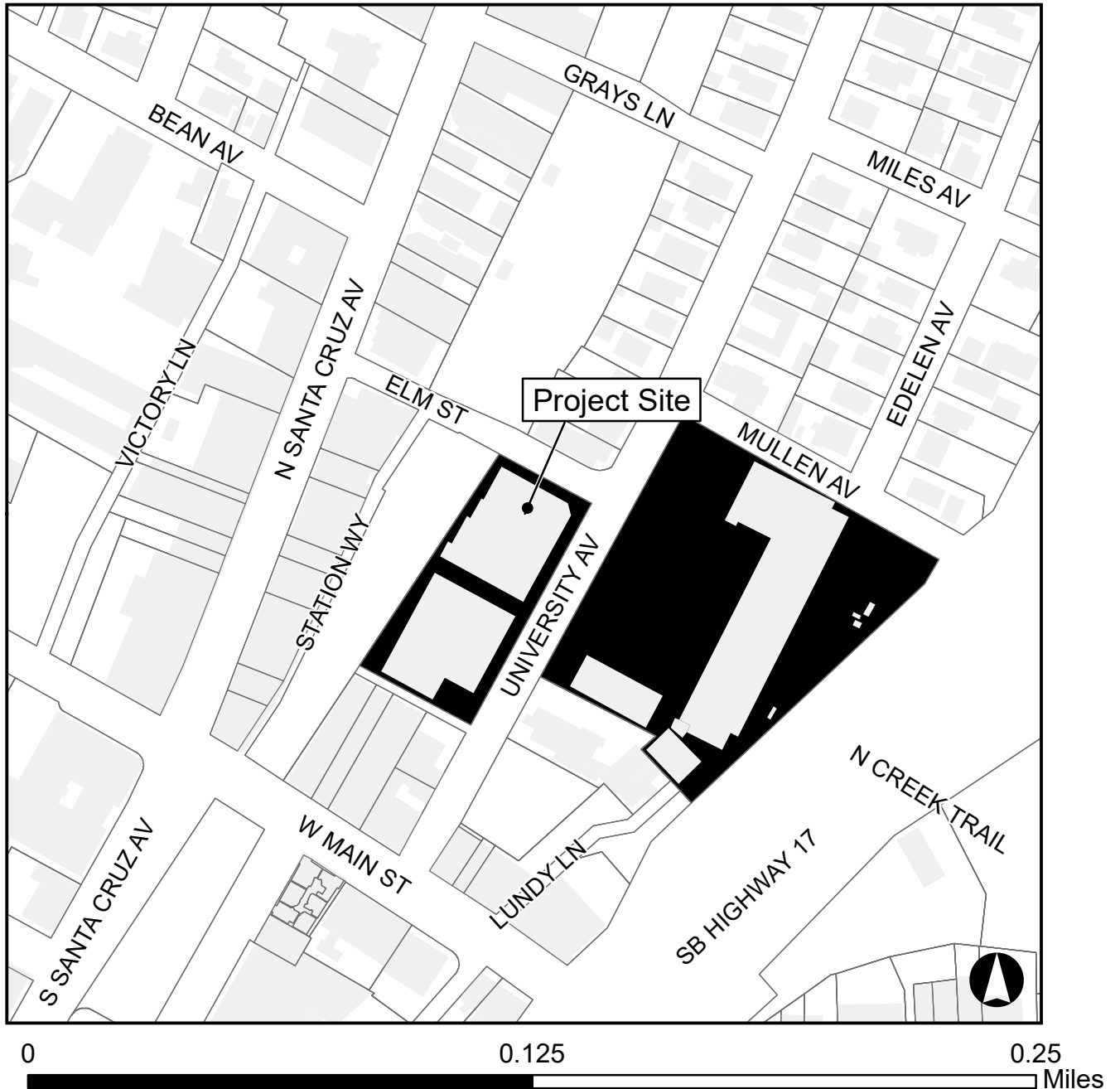
Alternatively, the Commission can:

1. Continue the matter to a date certain with specific direction; or
2. Approve the application with additional and/or modified conditions; or
3. Deny the application.

EXHIBITS:

1. Location map
2. Required Findings for Conditional Use Permit
3. Recommended Conditions of Approval
4. Project Description
5. Letter of Justification
6. Zoning Consistency Determination Letter
7. Floor Plan
8. Photos
9. Public Comment received by 11:00 a.m., Friday, November 6, 2020

# 35 University Avenue



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**PLANNING COMMISSION – November 11, 2020**  
**REQUIRED FINDINGS FOR:**

**35 University Avenue**  
**Conditional Use Permit Application U-20-009**

**Requesting a Zoning Consistency Determination and Approval of a Conditional Use Permit for a Bank (Charles Schwab Community Banking and Investment Services) on Property Zoned C-2:LHP:PD. Located at 35 University Avenue. APN 529-02-044.**  
**PROPERTY OWNER: SRI Old Town LLC.**  
**APPLICANT: Amber DeMaglio**

**FINDINGS**

**Required Finding for CEQA:**

- The project is Categorically Exempt pursuant to the adopted Guidelines for the Implementation of California Environmental Quality Act, Section 15301: Existing Facilities. No significant effect on the environment will occur since the project uses an existing structure with no increase in floor area.

**Required findings for a Conditional Use Permit:**

- As required by Section 29.20.190 of the Town Code for granting a Conditional Use Permit:

The deciding body, on the basis of the evidence submitted at the hearing, may grant a conditional use permit when specifically authorized by the provisions of the Town Code if it finds that:

1. The proposed use of the property is essential or desirable to the public convenience or welfare because it will relocate an existing banking and financial services business to a new location in the Central Business District; and
2. The proposed use would not impair the integrity and character of the zone because limitations will be placed in the conditions of approval to preserve the character of the residential zone; and
3. The proposed use would not be detrimental to public health, safety, or general welfare because the conditions of approval will address any potential impacts; and
4. The proposed use of the property is in harmony with the various elements or objectives of the General Plan and the purposes of the Town Code.

**EXHIBIT 2**

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**Planning Commission –November 11, 2020**  
**CONDITIONS OF APPROVAL**

**35 University Avenue**  
**Conditional Use Permit Application U-20-008**

**Requesting a Zoning Consistency Determination and Approval of a Conditional Use Permit for a Bank (Charles Schwab Community Banking and Investment Services) on Property Zoned C-2:LHP:PD. Located at 35 University Avenue. APN 529-02-044.**  
**PROPERTY OWNER: SRI Old Town LLC.**  
**APPLICANT: Amber DeMaglio**

TO THE SATISFACTION OF THE DIRECTOR OF COMMUNITY DEVELOPMENT:

*Planning Division*

1. APPROVAL: This application shall be completed in accordance with all of the conditions of approval and in substantial compliance with the approved plans. Any changes or modifications to the approved plans shall be approved by the Community Development Director, DRC, or the Planning Commission depending on the scope of the changes.
2. EXPIRATION: The approval will expire two years from the approval date pursuant to Section 29.20.320 of the Town Code, unless the approval has been vested.
3. LAPSE FOR DISCONTINUANCE: If the activity for which the Conditional Use Permit has been granted is discontinued for a period of one (1) year, the approval lapses pursuant to Section 29.20.340 of the Zoning Ordinance.
4. USE: The approved use is a bank.
5. HOURS OF OPERATION: Maximum hours of operation are Monday through Friday, 8:00 a.m. to 6:00 p.m.; and Saturday, 8:00 a.m. to 4:00 p.m.
6. DELIVERIES: Deliveries shall occur between 9:00 a.m. and 4:00 p.m. Deliveries shall not be made from University Avenue or Elm Street.
7. TRASH AND RECYCLING DISPOSAL HOURS: Trash and recycling from the business shall only be emptied between 9:00 a.m. and 9:00 p.m., to limit the noise impacts.
8. SIGN PERMIT: A Sign Permit from the Los Gatos Community Development Department must be obtained prior to any changes to existing signs or installation of new signs.
9. CERTIFICATE OF USE AND OCCUPANCY: A Certificate of Use and Occupancy from the Los Gatos Community Development Department must be obtained prior to commencement of use.
10. BUSINESS LICENSE: A business license from the Town of Los Gatos Finance Department must be obtained prior to the commencement of any new or change of use.
11. TOWN INDEMNITY: Applicants are notified that Town Code Section 1.10.115 requires that any applicant who receives a permit or entitlement from the Town shall defend, indemnify, and hold harmless the Town and its officials in any action brought by a third

EXHIBIT 3

party to overturn, set aside, or void the permit or entitlement. This requirement is a condition of approval of all such permits and entitlements whether or not expressly set forth in the approval, and may be secured to the satisfaction of the Town Attorney.

12. COMPLIANCE MEMORANDUM: A memorandum, in compliance with standard Town practice, shall be prepared and submitted with the building permit detailing how the conditions of approval will be addressed.

DRAFT

## **Project Description**

The Project would involve the introduction of a new Charles Schwab “branch of the future” which will function as a modern, service-oriented bank and financial services use in an existing retail space at 35 University Avenue in the Town (“Project Site”). The retail space is approximately 5,337 square feet in a one story building. From a land use and zoning standpoint, the Site has a General Plan designation of Central Business District, and is zoned C-2, Central Business District. The Project Site is in the Old Town Planned Development, however, this planned development follows the zoning standards for the broader C-2 zone.

The Project would involve tenant upgrades to create a modern “branch of the future” space. This modern space will include a welcome bar, coffee bar, hospitality area, and living room style conference and seminar room where clients or walk-in customers would have an opportunity to meet with Charles Schwab’s bankers and advisors privately. The Project would also involve appropriate exterior upgrades to create an upscale, pedestrian-focused retail storefront that would complement surrounding retail uses and the pedestrian retail focus of the University Avenue area.

The Project is expected to have pedestrian and customer traffic similar to the retail use that previously occupied the site, meaning that no significant environmental impacts are anticipated.

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www.mslegal.com

Michael E. Di Geronimo  
Direct Dial: 925 941 3247  
michael.digeronimo@msrlegal.com

August 18, 2020

Town of Los Gatos Planning  
Commission  
110 E. Main St.  
Los Gatos, CA 95030

Re: Letter of Justification for Proposed Charles Schwab Use at 35 University Avenue

Dear Honorable Commissioners:

This letter outlines the justification for efforts by Federal Realty Investment Trust ("Federal") and Charles Schwab ("Schwab") to locate an innovative community banking and financial services use at 35 University Avenue in the Town ("Project Site"). The Project would allow Schwab to provide a wide range of interactive banking and brokerage services to area residents and small businesses while bolstering the commercial and financial viability of the Town. The Project would also fill an impending vacancy of the Project Site by Gap Stores, the current tenant of the site.

Schwab has operated in the Town for more than twenty years. During that time, Schwab has provided vital financial and banking services to Town residents and small businesses at its existing 335 N. Santa Cruz location. While Schwab's existing location was adequate to meet the financial services needs of its clients twenty years ago, like its competitor banks and financial services institutions, Schwab's business model and the needs of its clients have evolved significantly in recent years. Whereas Schwab used to focus on offering office style financial advice to its clients, it now offers a full range of modern banking and financial services that require a more pedestrian and community focused space. This is at least partially due to the fact that with the advent of online banking and financial "apps" customers are seeking more in person interaction and advice from banks and financial advisors. The Project would meet these changing needs of Town residents and small businesses and help foster the Town's unique "small town" identity while also supporting its commercial viability and wellbeing.

As already outlined in Federal's zoning consistency letter submitted with this application, the Project is consistent with the Town's General Plan and will promote several of the Town's core goals for the Central Business District. These include General Plan goals and policies: (1) aimed at encouraging community-oriented

services that maintain the small-town character of the Town, (2) encouraging development and retention of small businesses and independent stores and shops, and (3) encouraging land use patterns that promote the “pedestrian scale and orientation of the Central Business District.” (Town General Plan LU-14, 29; General Plan Goal 10.) The Project would do this by introducing a modern pedestrian and community-oriented space that will provide a range of modern financial and banking services to local residents and small businesses.

Moreover, as outlined in Federal’s zoning consistency letter, the Project would introduce a modern use that is in all key aspects consistent with bank and savings and loan office uses that are conditionally permitted at the Project Site.

For all of the reasons outlined above we respectfully request that the Commission approve a Conditional Use Permit for the Project. Such an approval would allow the applicant to introduce a strong and vibrant business operator that will be vital to the continued success of the Town’s Central Business District, particularly in these uncertain times.

Very truly yours,

MILLER STARR REGALIA

*Michael E. Di Geronimo*

Michael E. Di Geronimo

cc: Amber Maglio (via email)



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August 18, 2020

**VIA E-MAIL AND U.S. MAIL**

Planning Staff  
Town of Los Gatos  
110 E. Main Street  
Los Gatos, CA 95030

Re: Zoning Consistency Determination for Proposed Charles Schwab Community  
Bank and Brokerage Storefront at 35 University Avenue

Dear Staff:

This office represents SRI Old Town, LLC, a California limited liability company ("SRI"), an entity owned by Federal Realty Investment Trust. SRI is the fee owner of a one-story building at 35 University Avenue in the Town ("Project Site"). The existing tenant of the Project Site, Gap Stores, recently notified SRI that it will soon terminate its lease and vacate the Project Site. To fill this impending vacancy, SRI is working with Charles Schwab ("Schwab") to locate an innovative community financial services storefront at the Project Site that would provide a wide range of interactive banking and brokerage services to the Town and area residents (the "Project").

We are providing this letter in support of our client's application for a conditional use permit for a Schwab branch at the Project Site.

As outlined below, Schwab's proposed use has evolved significantly from the office-type use that Schwab initially introduced at its current location in the Town more than twenty years ago. Instead, consistent with modern banking needs (which includes a full range of financial services) and market changes, the use that Schwab now seeks to introduce is a financial services storefront with all the key features of a bank and with a heavy emphasis on walk-in customers and regular customer interaction. This is exactly the type of pedestrian-oriented and community-focused use that the Town General Plan and Zoning Code envision at the Project Site.

Because Schwab's proposed use will not necessarily look like a traditional bank, Town planning staff previously asked SRI's representatives to confirm that the proposed use is consistent with a banking or savings and loan office use, which are conditionally permitted at the Project Site. Although the Project may look somewhat different than the banks that existed when the Town adopted its zoning code several

decades ago, Schwab is proposing a use that in all key respects is a banking use and should be treated as such by the Town. Banks are conditionally permitted at the Project Site. Accordingly, we request that staff opine that the Project is conditionally permitted at the Project Site in its staff report for SRI's Conditional Use Permit application for the Project.

**I. The Project Would Promote the City's General Plan Goals for the Project Site and Is Conditionally Permitted**

The Project Site has a General Plan Designation of Central Business District, and is zoned C-2, Central Business District. The Project Site is within the Old Town Planned Development, however this planned development follows the zoning standards applicable to the C-2 zone.

**A. The Project Will Promote the Town General Plan's Goals for the Project Site.**

The Project Site is within the General Plan's Central Business District which:

encourages a mixture of community-oriented commercial goods, services, and lodging unique in its accommodation of small-town style merchants and maintenance of small-town character.

(Town General Plan LU-14.)

Within the Central Business District, Land Use Goal 10 seeks to "preserve Downtown Los Gatos as the historic center of the Town" with goods and services available for local residents "while maintaining the existing Town identity, environment, and commercial viability." (TGP LU 29.) Relevant policies in support of this goal include:

Policy LU-10.1: Encourage the development and retention of small businesses and independent stores and shops Downtown that are consistent with small-town character and scale.

Policy LU-10.2: Recognize and encourage the different functions, land use patterns, and use mixes of the various commercial areas within the Downtown. These include: (a) The pedestrian scale and orientation of the Central Business District....

(TGP LU-29, Policy LU-10.1.)

As highlighted in the letter dated February 3, 2020 and attached as **Exhibit A**, Schwab's proposed use would introduce a modern, service-oriented bank that will serve long-standing and new walk-in customers by providing a range of financial services. Schwab will enhance the existing space with a number of retail-style

improvements inspired by retail coffee shops and the location of other retailers of high-end goods and services. Consistent with this, Schwab's community bank would feature a welcome bar, coffee bar, hospitality area, and living room style conference room. In this retail-style space, Schwab staff would offer customers its wide range of community banking and brokerage services in a comfortable, modern space. With respect to the above, it should be noted that almost all mainline banks, such as Wells Fargo, Chase, and Bank of America, also offer their customers brokerage services similar to those offered by Schwab.

For more than twenty years, Schwab has provided vital financial services to Town residents from its 335 N. Santa Cruz location less than half a mile from the Project Site.<sup>1</sup> At its new location, Schwab would continue to serve new and existing clients, including small businesses, but in a more pedestrian and community focused, retail type space that more accurately meets modern banking needs. Consistent with the General Plan, the Project will help support local residents and small businesses, thus maintaining the Town's unique "small town" identity, and support its continued commercial viability and wellbeing.

**B. The Project Would Introduce a Bank Use, Which is Conditionally Permitted at the Project Site.**

From a zoning standpoint, the C-2 zone is "intended to encourage the continuance of a viable and predominantly pedestrian-oriented central business district for the Town." (Town Municipal Code § 29.60.315.) Consistent with this intent, within the C-2 zone, retail businesses are permitted, whereas banks and savings and loan offices are conditionally permitted. (TMC §§ 29.20.180, 29.60.320.) "Office activities" are generally prohibited on the first floor of buildings within the C-2 zone.

As noted above, the Project will introduce a modern community banking and financial services use to the Project Site that will meet the banking and brokerage needs of Town and Area residents. Schwab's use will focus on modern interactive banking and investment services. This reflects the reality that traditional banking attributes such as teller lines and ATMs are growing less utilized and more obsolete with the advent of banking apps, credit cards, and online banking.

Although the Project layout might seem like a Starbucks or Philz Coffee shop or Apple Store more than a traditional bank, Schwab's actual use would function exactly like a modern bank. As noted on the comparison chart attached as **Exhibit B**, the range of banking and financial services offered by Schwab would be identical to those offered by Schwab's traditional banking competitors like Wells Fargo, Bank of America, and Citi. For example, Schwab will offer a full range of banking and credit card services, including checking and savings accounts, credit cards, ATM cards, and cash withdrawals. Schwab will also provide a range of loan

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<sup>1</sup> We note that Schwab's existing location is also zoned C-2 and is on the first floor.

and credit services. Like its competitor banks, Schwab will also provide a full range of investment and retirement services, as well as wealth management and planning services. Accordingly, the use proposed by Schwab fits squarely into the conditional bank use under the Town's zoning code. With respect thereto, it is worth noting that many mainline banks consider Schwab to be a competitor and will seek to exclude them from centers and other retail projects in which the mainline banks are located.

In all material respects, Schwab's proposed use is consistent with a bank or savings and loan office use, both of which are conditionally permitted at the Project Site.<sup>2</sup>

## **II. Conclusion**

Consistent with the above, we request that staff support the Project application and confirm that Schwab's proposed use meets the definition of the use category of banking and savings and loan office use and allow SRI to move forward with the conditional use permit application they filed for the Project. We note that the Town has wide discretion in interpreting its own General Plan and Zoning Code, meaning it is well within the Town's power to make this entirely reasonable and in our view clear interpretation of its Zoning Code. (See *Joshua Tree Downtown Business Alliance v. County of San Bernardino* (2016) 1 Cal.App.5th 677, 696.)

Very truly yours,

MILLER STARR REGALIA

*Michael Di Geronimo*

Michael E. Di Geronimo

cc: Amber Maglio (via email)

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<sup>2</sup> Companies like Schwab who would like to open a store and operate in the Central Business District should be encouraged by the Town to do so. It seems like every day that there is a media story about retailers closing stores due to COVID-19 and the rise of internet shopping. Having financially strong and vibrant business operators like Schwab is vital to the continued success of the Town's business district.

## EXHIBIT A

February 3, 2020

Planning Department  
Community Development Department, Town of Los Gatos  
110 E. Main Street  
Los Gatos, CA 95030

Re: Charles Schwab, 35 University Avenue (Old Town Los Gatos)  
Use Description / Letter of Justification

To whom it may concern:

Charles Schwab and Federal Realty have agreed upon terms for Charles Schwab to occupy the existing (and soon to be former) Gap location in the Old Town Los Gatos project at 35 University Avenue in Los Gatos, CA. This location is part of the C-2 zone and Charles Schwab, as a retail securities brokerage and bank use, will apply for a conditional use permit to occupy the space.

### **Site**

35 University Ave  
Cross Street: Elm Street  
Zoning District: C-2  
See attached Exhibit A for aerial and site plan

### **C-2 Zone Overview**

C-2 Zone: The Central Business District Commercial zone is intended to encourage a viable and predominantly pedestrian-oriented Central Business District. The C-2 zone is designed to facilitate a wide variety of retail, service, entertainment, and administrative uses which are vital to a large trading area.

Office uses shall not be located on the ground floor along streets, alley ways, or public parking lots. There are exception areas (Lyndon, Wood, Victory Lane, South side of Los Gatos-Saratoga), but University and N. Santa Cruz are not included.

Office uses on ground floors that are legal and allowed if the office use is not discontinued for 180 consecutive days. If the office use is discontinued for more than 180 days, then it shall not be resumed.

Examples of Proper C-2 uses: Apparel stores, laundrettes/dry cleaning agencies, travel agencies, antique stores, telephone answering services, artist studios, sales offices (merchandise stored elsewhere), craft studios, auto parts sales and paint shops.

Personal service businesses may be allowed on the ground floor in the C-2 zone with a conditional use permit (CUP). The Community Development Department handles the CUP process and more information can be found in Town Code Sec. 29.20.185. Banks are permitted in the C-2 zone with a CUP.

### **History**

Charles Schwab is currently located at 335 N. Santa Cruz in Los Gatos. We have been a fixture in the Town and have been in the C-2 district for more than 20 years. As the demand for our services in the Town have continued to grow along with the changes in the nature of banking and brokerage transactions that have evolved, the need has come up for more space, which has led us to the current Gap location. This location would allow us to serve our customers and community more effectively, and in an interactive space as the next generation of banking requires.

### **Retail is Changing**

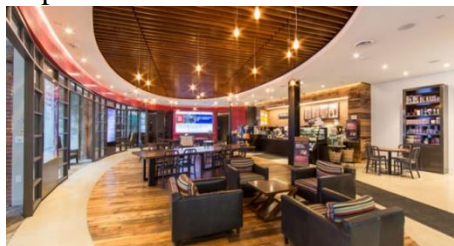
As highlighted with the C-2 zoning above, we feel that the current definition of retail may be outdated and not in line with today's retail landscape. As more consumers make purchases online, customers now seek an interactive experience as they walk into shops, banks or other service providers. Retail now needs to be about that experience for it to succeed long term. In addition, sales have been decreasing in traditional soft goods retail areas leading to significant retail vacancy: Union Square (SF) and downtown Los Gatos as examples. By replacing the vacant spaces with companies that provide both a person to person transaction and a customer experience, we maintain vibrant city centers.

### **Banks are Changing**

- Teller Lines are no longer needed. As people move to online transactions and pay-by-phone applications, the need to utilize a traditional teller line is no longer a part of the modern banking program.
- ATM usage is decreasing, and cash withdrawals have consistently decreased year over year. As noted above, the use of credit cards and the many mobile applications have lessened the need for cash.
- Banks are needed as a "presence" and are shifting the services that they provide onsite. By allowing customers to use the site as more of an interactive customer facing location, they can manage their finances in a more personal manner.
- As the new banking model evolves, classes, seminars, and interactive sessions have become a fixture of the Charles Schwab business model for each branch. This allows Charles Schwab to not only be a community bank and brokerage house, but also a community service.

Many banks are revising their business model in a similar model as Charles Schwab. Below are a few local examples:

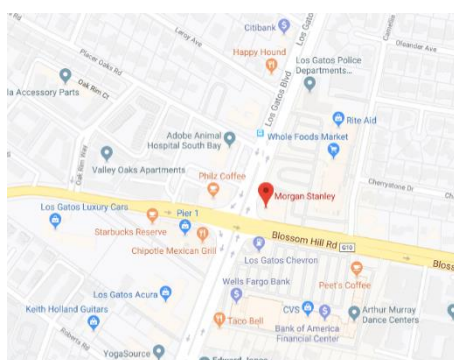
### Capital One



### Chase private client



### Morgan Stanley – In the retail location in the Los Gatos SC on Blossom Hill



### Charles Schwab Overview

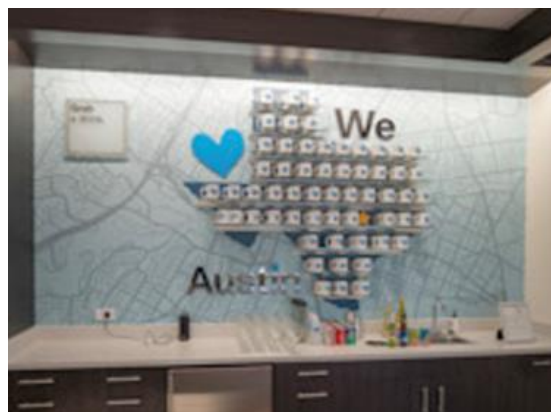
A search of “Charles Schwab” online provides the following description:

*The Charles Schwab Corporation is a bank and stock brokerage firm based in San Francisco, California. It was founded in 1971 by Charles R. Schwab. It is ranked 13th on the list of largest banks in the United States and it is also one of the largest brokerage firms in the United States.*

Charles Schwab Bank – FDIC Insured, and Highest 2019 ranking by JD Power for Direct Retail Banking Customer Satisfaction. Offers High yield checking & savings, mortgage loans, and all other financial products that can be obtained in any other bank.

Charles Schwab, like many other banks noted above, is evolving to meet the modern view of a service-oriented bank. Pictures below are of the “branch of the future” which has launched in Austin and will be on the cutting edge in Los Gatos, the heart of Silicon Valley, where innovation is everywhere. Our new branch model features a welcome bar, coffee bar, hospitality area, and living room style conference room and a seminar room as well as private space where clients or walk-in customers can have an opportunity to meet with our bankers and advisors privately. This new model allows for a hands on experience for the clients of Charles Schwab and a space for a interactive experience for residents of Los Gatos.

**We have leveraged the best practices from other retailers: Apple’s approachable, informative store environment combined with the cozy comfort of Starbucks**



## **Examples**

Charles Schwab operates in the same capacity as other retail banks, focusing on foot traffic, signage, parking, access, and overall convenient locations. They target retail locations throughout the country where zoning is retail, and their use is permitted.

- 211 Main Street, San Francisco, CA – Ground floor retail zoning
- 100 Post, San Francisco, CA – Retail zoning for the 1<sup>st</sup> and 2<sup>nd</sup> floors.
- The Village, Corte Madera, CA – Retail shopping center
- Santa Monica, CA – Retail building (former pet shop)
- Woodland Hills, CA – Retail shopping center
- Raleigh, NC – Stand-alone retail pad building
- Sandy Springs, GA – Single tenant retail
- Cobb, GA – Street front retail building.
- Paramus, NJ - Retail zoning
- Clear Lake, TX – Retail zoning
- Mount Kisko, KY – Street front retail zoning
- Huntington, NY – Retail zoning
- Fort Myers, FL – Retail zoning
- Northbrook, IL – Retail zoning

## **Conclusion**

Charles Schwab has had a long history serving the Town of Los Gatos. We have been an integral part of the community and hope to serve our valued community for many years to come. To do this, we need to move and grow with the demand of our customer base and with the requirements of a changing market. This branch at 35 University Avenue, with its space for group classes, will provide a beneficial for the entire community, not just our existing customers. We will contribute towards creating synergy amongst the current and future tenants, provide a beautiful façade, the level of quality that the Town of Los Gatos demands, and be a positive driver within the community. Charles Schwab plans to have outreach seminars regarding financial planning to anyone in the Los Gatos community; our store will provide a gathering place for residents and visitors. Therefore, we are formally requesting approval to operate at 35 University Avenue with a conditional use permit as a bank use.



We thank you for your time and look forward to meeting in person to answer any additional questions.

Sincerely,  
*Joon H. Lee*

Joon Lee  
Portfolio Director, Corporate Real Estate






Cc: Jeff Kreshek, Federal Realty

## EXHIBIT B

# BANKING COMPARISON – SERVICES OFFERED

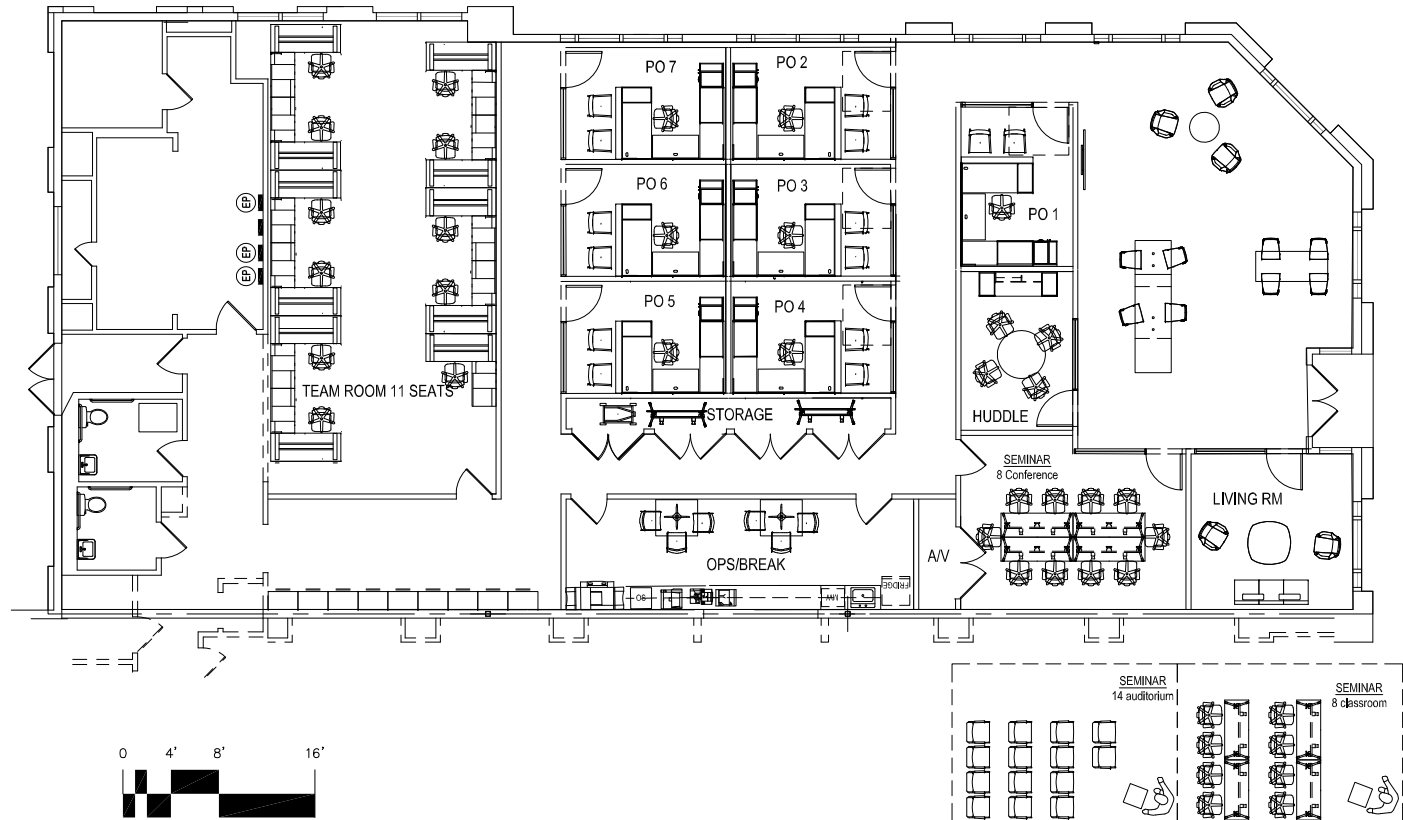
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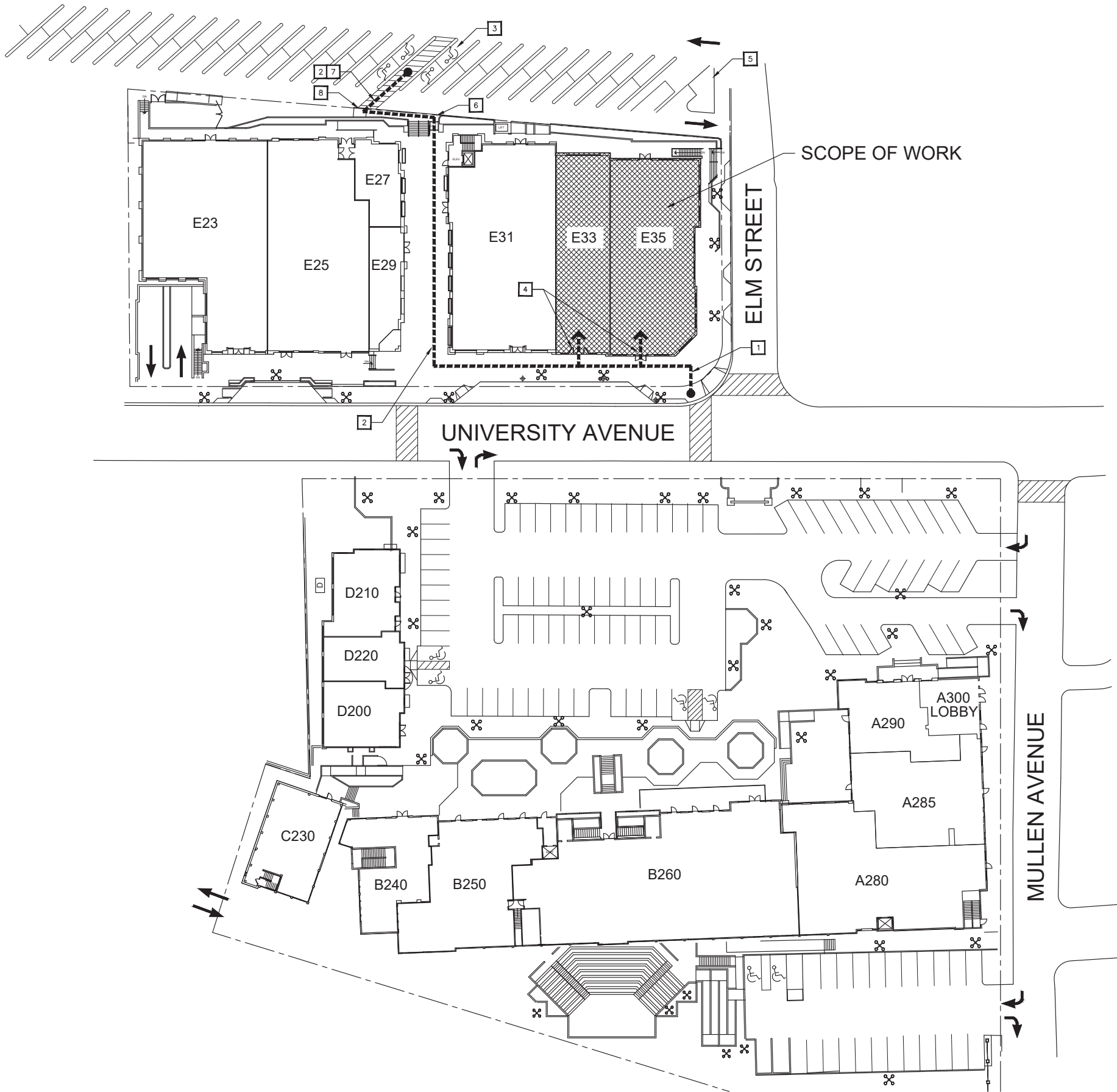


SERVICES					
BANKING & CREDIT CARDS					
CHECKING ACCOUNTS	X	X	X	Charles Schwab Bank	N/A
SAVINGS ACCOUNTS & CDS	X	X	X	Charles Schwab Bank	N/A
CREDIT CARDS	X	X	X	Charles Schwab Bank	N/A
ONLINE BANKING	X	X	X	Charles Schwab Bank	N/A
MOBILE BANKING	X	X	X	Charles Schwab Bank	N/A
ATM CARDS	X	X	X	Charles Schwab Bank	N/A
CASH WITHDRAWALS	X	X	X	Charles Schwab Bank	N/A
LOAND AND CREDIT					
HOME LOANS	X	X	X	Charles Schwab Bank	N/A
HOME EQUITY LINES	X	X	X	Charles Schwab Bank	N/A
PERSONAL LINES OF CREDIT	X	X	X	Charles Schwab Bank	N/A
SMALL BUSINESS LOANS	X	X	X	Charles Schwab Bank	N/A
STUDENT LOANS	X	X	X	Charles Schwab Bank	N/A
AUTO LOANS	X	X	X	Charles Schwab Bank	N/A
INVESTING AND RETIREMENT					
IRAS	X	X	X	X	X
MUTUAL FUNDS	X	X	X	X	X
401K	X	X	X	X	X
529C (EDUCATION ACCOUNT)	X	X	X	X	X
HEALTH SAVINGS ACCOUNT	X	X	X	X	X
BROKERAGE & TRADING ACCOUNTS	Wells Fargo Advisors	Merill Lynch	X	X	X
INSURANCE SOLUTIONS; LIFE, DISABILITY, LONG TERM CARE	X	X	X	X	X
WEALTH MANAGEMENT					
WEALTH PLANNING / FINANCIAL PLANNING	X	X	X	X	X
TRUST & FIDUCIARY SERVICES	X	X	X	X	X
INVESTMENT & ASSET MANAGEMENT	X	X	X	X	X
FINANCIAL LITERACY / SEMINARS	X	X	X	X	X
<div><div>Page 142</div><div><div><a href="https://www.wellsfargo.com/">https://www.wellsfargo.com/</a> <a href="https://www.wellsfargoadvisors.com/">https://www.wellsfargoadvisors.com/</a></div><div><a href="https://www.bankofamerica.com">https://www.bankofamerica.com</a> <a href="https://www.merrilledge.com/">https://www.merrilledge.com/</a></div><div><a href="https://online.citi.com">https://online.citi.com</a></div><div><a href="https://www.schwab.com">https://www.schwab.com</a> <a href="https://www.schwab.com/bank">https://www.schwab.com/bank</a></div><div><a href="https://www.fidelity.com/">https://www.fidelity.com/</a></div></div></div>					

Notes: Charles Schwab Bank was founded in 2003. / We have the ability to have cash...but this is why we don't want to. / Compare the services offered by Schwab originally to what services they offer today. / TD Bank is not part of this acquisition.

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REFERENCE SITE PLAN  
SCALE: 1" = 30'-0"

SHEET NOTES

- 1 EXISTING ACCESSIBLE PATH OF TRAVEL FROM PUBLIC SIDEWALK TO TENANT ENTRANCE.
- 2 EXISTING ACCESSIBLE PATH OF TRAVEL FROM EXISTING ACCESSIBLE PARKING TO TENANT ENTRANCE.
- 3 EXISTING ACCESSIBLE PARKING. SEE DETAIL 1/A0.5. REPAIR OR REPLACE DAMAGED OR MISSING ITEMS.
- 4 EXISTING ACCESSIBLE TENANT ENTRANCE.
- 5 EXISTING ACCESSIBLE SIGNAGE AT ENTRANCE TO PARKING LOT. SEE DETAIL 10/A0.5. REPLACE IF DAMAGED OR MISSING.
- 6 EXISTING ACCESSIBLE SIGNAGE AT PEDESTRIAN ROUTE OF TRAVEL. SEE DETAIL 11/A0.5. REPLACE IF DAMAGED OR MISSING.
- 7 EXISTING ACCESSIBLE PATH STRIPING. SEE DETAIL 12/A0.5. REPAINT IF FADED OR MISSING.
- 8 EXISTING ACCESSIBLE CURB RAMP AND DETECTABLE WARNING SURFACE. SEE DETAILS 2 & 8/A0.5. REPLACE IF DAMAGED OR MISSING.

SITE ACCESSIBILITY

- THE DEVELOPED SITE INCLUDES ALL ACCESSIBILITY REQUIREMENTS FOR EACH BUILDING AND HAS BEEN APPROVED UNDER A SEPARATE BUILDING PERMIT. THE FOLLOWING ITEMS ARE EXISTING AND ARE NOT A PART OF THIS TENANT IMPROVEMENT PERMIT:
- 1. EXISTING ACCESSIBLE PATH FROM PUBLIC SIDEWALK AND FROM BUS STOP TO EACH BUILDING AND TENANT ENTRANCE.
  - 2. EXISTING SIGNAGE AT EACH DRIVEWAY ENTRANCE TO THE SITE INDICATING ACCESSIBILITY.
  - 3. EXISTING ACCESSIBLE PARKING STALLS CLOSE TO EACH BUILDING AND TENANT ENTRANCE.
  - 4. EXISTING ACCESSIBLE PATH FROM ACCESSIBLE PARKING STALLS TO EACH TENANT ENTRANCE.
  - 5. SEE ACCESSIBILITY NOTES AND DETAILS ON SHEETS A0.3 – A0.5.

LEGEND

- SCOPE OF WORK – ALL OTHER ITEMS ARE EXISTING TO REMAIN
- EXISTING ACCESSIBLE PATH OF TRAVEL



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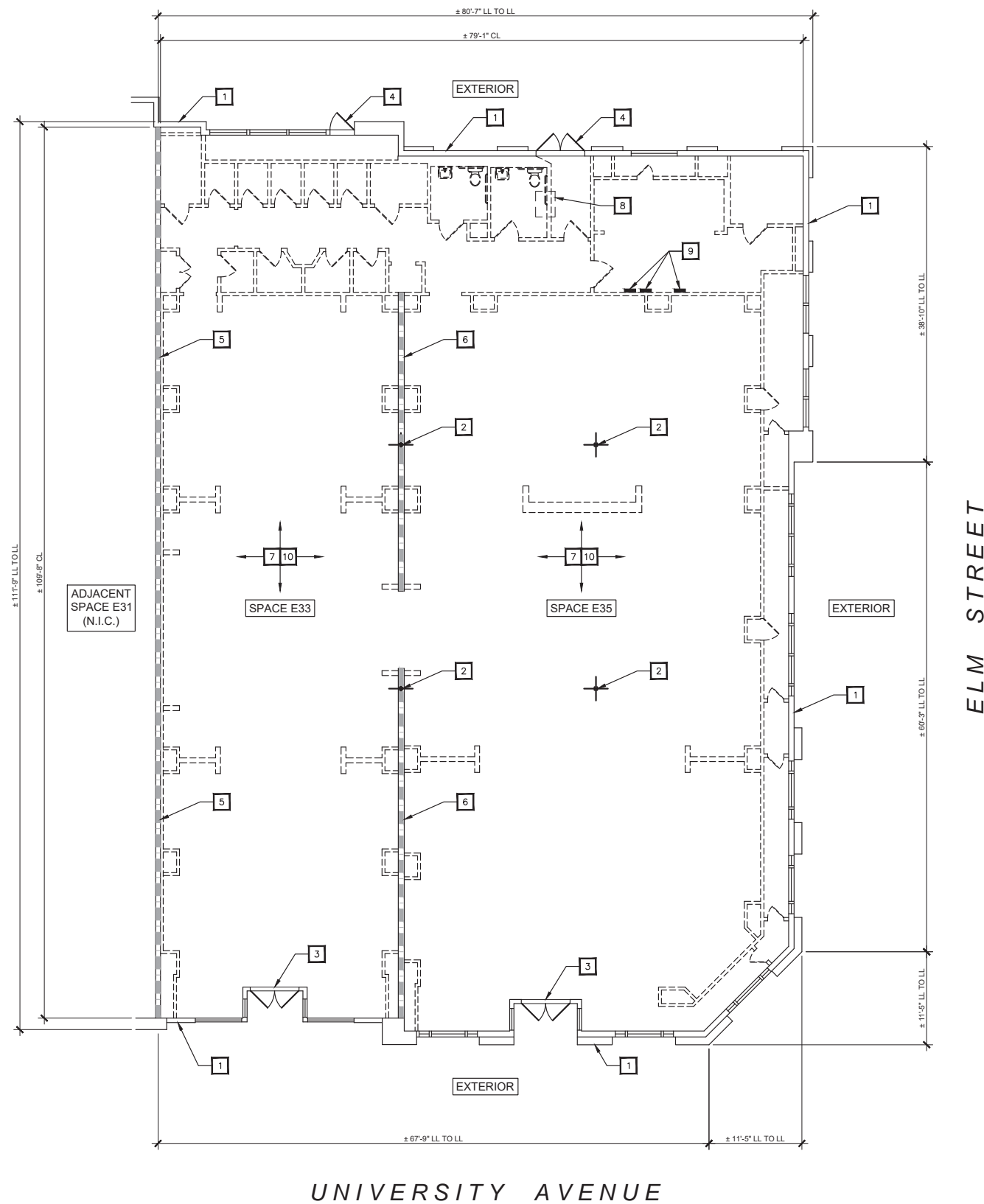
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REFERENCE  
SITE PLAN

A1.1

JOB NO.: FRE36



DEMOLITION FLOOR PLAN  
SCALE: 1/8" = 1'-0"

## SHEET NOTES

- 1 EXISTING EXTERIOR WALL TO REMAIN, TYPICAL.
- 2 EXISTING STRUCTURAL COLUMN TO REMAIN, TYPICAL.
- 3 EXISTING ALUMINUM STOREFRONT ENTRY DOORS TO REMAIN.
- 4 EXISTING REAR EXIT DOOR(S) TO REMAIN.
- 5 EXISTING INTERIOR DEMISING WALL TO REMAIN.
- 6 EXISTING INTERIOR FULL-HEIGHT WALL TO REMAIN.
- 7 EXISTING CONCRETE FLOOR SLAB TO REMAIN.
- 8 EXISTING STEP-DOWN TRANSFORMER ABOVE TO REMAIN. SEE ELECTRICAL DRAWINGS.
- 9 EXISTING ELECTRICAL PANEL. SEE ELECTRICAL DRAWINGS FOR RELOCATION.
- 10 REMOVE INTERIOR WALLS, DOORS, CEILINGS, LIGHT FIXTURES, PLUMBING FIXTURES, EQUIPMENT, AND FINISHES THROUGHOUT TENANT SPACE SHOWN DASHED, UNLESS OTHERWISE NOTED. CAP AND LABEL ALL UTILITIES. SEE ELECTRICAL, MECHANICAL, AND PLUMBING DRAWINGS FOR ITEMS TO REMAIN THAT ARE NOT SHOWN HERE.

## DEMOLITION NOTES

- A. THE CONTRACTOR SHALL OBTAIN APPROVALS FROM THE LOCAL AIR QUALITY MANAGEMENT DISTRICT.
- G. THE CONTRACTOR SHALL OBTAIN ALL PERMITS AND APPROVALS NECESSARY FOR DEMOLITION WORK.
- H. DEMOLITION ACTIVITIES ARE REQUIRED TO CONFORM TO AIR QUALITY MANAGEMENT DISTRICT (AQMD) REGULATIONS SECTION 467. NOTIFICATION SHALL BE FILED WITH THE AQMD AT LEAST 10 DAYS PRIOR TO DEMOLITION.
- I. IF CHARACTERISTIC GASOLINE ODOR IS NOTICED DURING SOIL EXCAVATION ACTIVITIES, AN ENVIRONMENTAL CONSULTANT WILL BE CALLED ON SITE TO IMMEDIATELY EVALUATE SOILS CONDITIONS AND PERFORM AIR MONITORING.
- J. THIS PLAN IS NOT INTENDED TO AND/OR DETERMINE THE METHOD, DETAILS, OR MEANS OF PERFORMING THE DEMOLITION WORK.
- K. ALL WORK SHALL BE PERFORMED IN ACCORDANCE WITH THE STATE AND FEDERAL OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION (OSHA) AND THE STATE SAFETY CODE AND APPLICABLE ORDINANCES OF THE GOVERNING MUNICIPALITY.
- L. PROTECT ALL EXISTING FEATURES NOT DESIGNATED FOR DEMOLITION OR REMOVAL. IF DAMAGED, PROMPTLY REPAIR DAMAGES AT NO ADDITIONAL COST TO THE OWNER.
- M. ALL MATERIALS REMOVED FROM THE SITE SHALL BE DISPOSED OF IN ITS ENTIRETY IN AN APPROPRIATE LEGAL MANNER. FOLLOW ALL LOCAL, STATE, AND FEDERAL REGULATION WHEN DISPOSING OF HAZARDOUS MATERIALS. SEE PRE-DEMOLITION ASBESTOS INSPECTION REPORT, IF PROVIDED.
- N. ALL EXISTING UTILITIES AND OTHER DEMOLITION ITEMS TO BE REMOVED MAY OR MAY NOT BE SHOWN ON THIS PLAN. IT IS THE CONTRACTOR'S RESPONSIBILITY TO COORDINATE WITH THE OWNER, APPLICABLE UTILITY COMPANIES AND THE ENGINEER TO FIELD VERIFY ALL EXISTING FEATURES TO BE REMOVED OR TO REMAIN. NO ADDITIONAL COMPENSATION SHALL BE ALLOWED.
- O. ALL WORK TO BE DEMOLISHED SHALL BE SAW CUT/REMOVED WITH A NEAT AND TRUE EDGE.
- P. SHOULD ARCHAEOLOGICAL MATERIALS BE UNCOVERED DURING GRADING, TRENCHING OR OTHER ON-SITE ACTIVITY, EARTHWORK WITHIN 30 YARDS OF THESE MATERIALS SHALL BE STOPPED UNTIL A PROFESSIONAL ARCHAEOLOGIST WHO IS CERTIFIED BY THE SOCIETY OF PROFESSIONAL ARCHAEOLOGY (SOPA) HAS HAD AN OPPORTUNITY TO EVALUATE THE SIGNIFICANCE OF THE FIND AND SUGGEST APPROPRIATE MITIGATION(S), IF DEEMED NECESSARY.
- Q. SHOULD HUMAN REMAINS BE DISCOVERED, CONSTRUCTION WORK SHALL BE STOPPED AND THE CORONER SHALL BE CONTACTED IMMEDIATELY, PER PUBLIC RESOURCES CODE SECTION 15064.5(E).
- R. PERFORM THE DEMOLITION WITH GREAT CARE AND WITH SMALL TOOLS IN ORDER NOT TO JEOPARDIZE STRUCTURE AND EQUIPMENT THAT IS TO REMAIN.
- S. IF STRUCTURAL MEMBERS NOT SHOWN TO BE REMOVED INTERFERE WITH THE NEW WORK, IMMEDIATELY NOTIFY THE ARCHITECT AND OBTAIN WRITTEN AUTHORIZATION PRIOR TO REMOVING MEMBERS.
- T. REMOVE DEMOLITION ITEMS NOTED COMPLETELY TO THE BASE MATERIALS. DEMOLITION INCLUDES CUTTING BACK EXISTING ITEMS AS REQUIRED TO THE EXTENT THAT INSTALLATION OF NEW WORK CAN BE ACCOMPLISHED.
- U. CLEAN SURFACES REMAINING EXPOSED AFTER DEMOLITION WORK TO MATCH EXISTING ADJACENT SURFACES.

## LEGEND

- ITEM TO BE REMOVED
- ===== EXISTING EXTERIOR WALL TO REMAIN
- ===== EXISTING DEMISING WALL TO REMAIN



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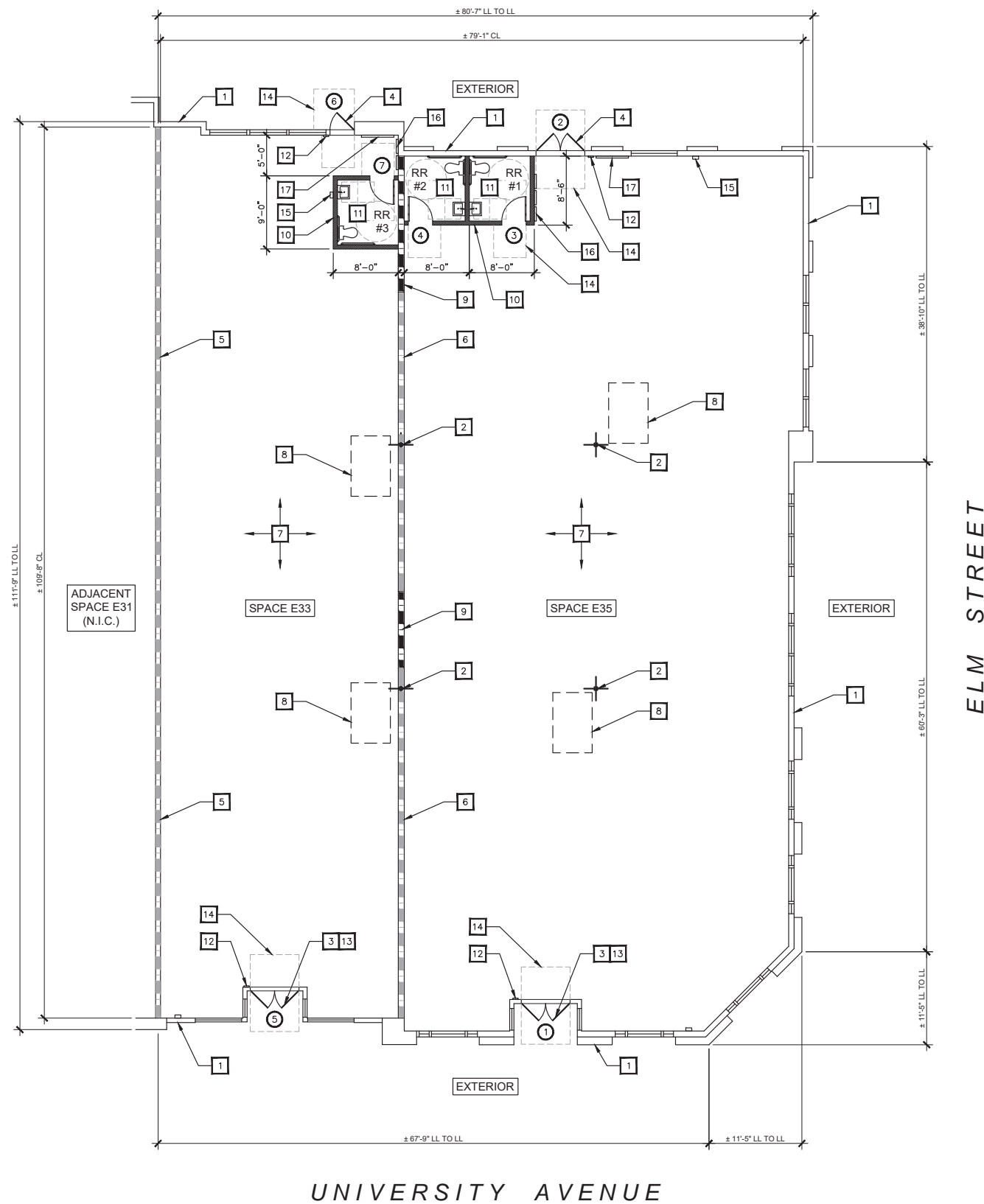
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DEMOLITION  
PLAN

A2.0

JOB NO.: FRE36



**NEW FLOOR PLAN**  
SCALE: 1/8" = 1'-0"

## SHEET NOTES

- EXISTING EXTERIOR WALL TO REMAIN, TYPICAL. PATCH AND REPAIR ANY DAMAGED AREAS. PROVIDE NEW 5/8" GYPSUM BOARD TO ROOF DECK ABOVE WHERE GYPSUM BOARD IS MISSING. PROVIDE LEVEL 4 FINISH.
- EXISTING STRUCTURAL COLUMN TO REMAIN, TYPICAL.
- EXISTING ENTRY DOORS TO REMAIN. VERIFY COMPLIANCE WITH ALL ACCESSIBILITY STANDARDS. REPAIR OR REPLACE NON-COMPLIANT ITEMS. CLEAN ALL SURFACES. SEE DOOR SCHEDULE ON SHEET A8.1.
- EXISTING REAR EXIT DOOR(S) TO REMAIN. VERIFY COMPLIANCE WITH ALL ACCESSIBILITY STANDARDS. REPAIR OR REPLACE NON-COMPLIANT ITEMS. CLEAN ALL SURFACES. SEE DOOR SCHEDULE ON SHEET A8.1.
- EXISTING INTERIOR DEMISING WALL TO REMAIN. PATCH AND REPAIR ANY DAMAGED AREAS. PROVIDE NEW 5/8" TYPE 'X' GYPSUM BOARD TO ROOF DECK ABOVE WHERE GYPSUM BOARD IS MISSING. PROVIDE LEVEL 4 FINISH.
- EXISTING INTERIOR FULL-HEIGHT WALL TO REMAIN. PATCH AND REPAIR ANY DAMAGED AREAS. PROVIDE NEW 5/8" TYPE 'X' GYPSUM BOARD TO ROOF DECK ABOVE WHERE GYPSUM BOARD IS MISSING. PROVIDE LEVEL 4 FINISH. ALL ASPECTS OF THIS WALL MUST MATCH THE NEW DEMISING WALL PER DETAIL 1/A9.1. REPLACE ITEMS IF REQUIRED.
- EXISTING CONCRETE FLOOR SLAB TO REMAIN. PATCH AND REPAIR ALL CRACKS AND HOLES. GRIND SMOOTH & LEVEL. CONTRACTOR SHALL DETERMINE IF EXISTING CONCRETE FLOOR IS LEVEL WITH NO MORE THAN 1/8" VERTICAL CHANGE IN 10'-0" HORIZONTAL DISTANCE. IF LEVELLING COMPOUND IS REQUIRED, DISCUSS OPTIONS WITH OWNER PRIOR TO PROCEEDING.
- EXISTING HVAC UNIT ON ROOF ABOVE. SEE MECHANICAL DRAWINGS.
- NEW DEMISING WALL. ALIGN NEW WALL WITH EXISTING FULL-HEIGHT WALL FOR SMOOTH FLUSH TRANSITION. PROVIDE LEVEL 4 FINISH. SEE DETAIL 1/A9.1.
- NEW RESTROOM WALL. PROVIDE FOUR (4) STUDS BACK-TO-BACK AT TRANSFORMER SUPPORT. SEE REFLECTED CEILING PLAN ON SHEET A3.1 FOR LOCATIONS OF TRANSFORMERS. SEE DETAIL 9/A9.2 FOR TRANSFORMER SUPPORT. SEE DETAILS 5 & 7/A9.1.
- NEW RESTROOM. SEE 7/A9.2.
- NEW TACTILE EXIT SIGN. TEXT TO READ "EXIT". SEE DETAILS 4, 7, & 10/A0.4.
- NEW INTERNATIONAL SYMBOL OF ACCESSIBILITY DECAL VISIBLE FROM EXTERIOR. CENTER ON DOOR AT 5'-0" ABOVE FLOOR. SEE DETAIL 1/A0.4.
- LINE OF ACCESSIBLE LEVEL MANEUVERING CLEARANCE ON EACH SIDE OF DOOR. SEE DETAIL 2/A0.4.
- NEW FIRE EXTINGUISHER. SEE GENERAL NOTE 'B' BELOW. SEE DETAIL 6/A9.2.
- NEW OR RELOCATED ELECTRICAL PANEL. SEE ELECTRICAL DRAWINGS.
- NEW TELEPHONE BOARD, 4'-0" X 4'-0". SEE ELECTRICAL DRAWINGS.

## GENERAL NOTES

- A. ALL INTERIOR DIMENSIONS ARE TO FACE OF NEW STUD, UNLESS OTHERWISE NOTED.
- B. PROVIDE MINIMUM RATED 2A-10B:C FIRE EXTINGUISHERS SUCH THAT AN EXTINGUISHER IS LOCATED WITHIN 75-FOOT TRAVEL DISTANCE FROM ANY POINT IN THE TENANT SPACE. MOUNT SUCH THAT TOP OF EXTINGUISHER IS NO MORE THAN 5'-0" ABOVE THE FLOOR. THE NUMBER, TYPE, AND LOCATION ARE TO BE DETERMINED BY THE LOCAL FIRE DEPARTMENT.
- C. SEE SHEETS A0.3 AND A0.4 FOR ACCESSIBILITY NOTES AND DETAILS.
- D. SEAL ALL CRACKS, CREVICES, AND HOLES.
- E. SEE DETAIL 6, 9, & 12/A9.1 FOR FIRE RATED WALL REQUIREMENTS.

## LEGEND

- EXISTING EXTERIOR WALL TO REMAIN
- EXISTING DEMISING WALL TO REMAIN
- NEW DEMISING WALL
- NEW INTERIOR RESTROOM WALL. PROVIDE FOUR (4) STUDS BACK-TO-BACK AT TRANSFORMER SUPPORT. SEE REFLECTED CEILING PLAN ON SHEET A3.1. SEE DETAIL 9/A9.2.



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**NEW FLOOR PLAN**

**A2.1**

JOB NO.: FRE36







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**Planning Commission**

**Nov. 2, 2020**

**Re: U-20-009**

**Dear Planners**

**The continued loss of prime retail space being converted to professional office and restaurant space has endangered the viability of down town Los Gatos.**

**The applicant has an existing presence downtown but it is in the outskirts of the central business district with little effect on it's neighbors. Allowing them to re-locate next to heart of retail shopping stores is not a wise decision. The conversion of of general retail to office and restaurant use can only lead to continued circulation and parking problems. As we increase the number of restaurant and professional uses, who can afford to pay higher rents, we will loose smaller specialty stores and the loss of ambiance we are so well known for. Tipping the scales to destination businesses has always been balanced in the past but things have changed. The applicant does not have the right to change address. Old town has already peaked out of intensive use on it's property. Lets not lose another curbside retailer. This is a vital visual active corner. It needs to remain general retail not a professional destination location not paying sales tax.**

**Larry Justo Arzie**

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**TOWN OF LOS GATOS  
PLANNING COMMISSION  
REPORT**

MEETING DATE: 11/11/2020

ITEM NO: 3

DESK ITEM

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DATE: November 11, 2020  
TO: Planning Commission  
FROM: Joel Paulson, Community Development Director  
SUBJECT: Requesting a Zoning Consistency Determination and Approval of a Conditional Use Permit (U-20-009) for a Bank (Charles Schwab Community Banking and Investment Services) on Property Zoned C-2:LHP:PD. Located at 35 University Avenue. APN 529-02-044. Property Owner: SRI Old Town LLC. Applicant: Amber DeMaglio.

**RECOMMENDATION:**

Exhibit 10 includes an additional public comment received between 11:01 a.m., Friday, November 6, 2020, and 11:00 a.m., Wednesday, November 11, 2020.

**EXHIBITS:**

**Exhibits previously received with the November 11, 2020 Staff Report:**

1. Location map
2. Required Findings for Conditional Use Permit
3. Recommended Conditions of Approval
4. Project Description
5. Letter of Justification
6. Zoning Consistency Determination Letter
7. Floor Plan
8. Photos
9. Public Comment received by 11:00 a.m., Friday, November 6, 2020

**Received with this Desk Item Report:**

10. Public Comment received between 11:01 a.m., Friday, November 6, 2020, and 11:00 a.m., Wednesday, November 11, 2020.

**PREPARED BY:** Sean Mullin, AICP  
Associate Planner

---

Reviewed by: Planning Manager and Community Development Director

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Los Gatos Planning Commission  
110 E Main St. Los Gatos, CA 95030

Cc: Town Council,  
Town Manager,  
Town Attorney,  
Town Director of Community Development

Dear Los Gatos Planning Commission,

I have reviewed the request for Federal Realty to attain an exemption via a “code interpretation” to locate a professional office/professional service use disguised as a “bank” on the ground floor in C-2. Looking closely at the plans, they are not proposing to open a bank. Professional offices and professional services have historically never been allowed on the ground floor on the main thoroughfares downtown in C-2, and there have been many requests for them through the years. Allowing this exemption, would represent not only a major departure from precedent, but also a major departure from the Downtown vision we have been tirelessly working on via the economic development streamlining processes.

Some folks were very worried that the moment the streamlining processes took effect, we would be flooded with many formula retail stores and low-end food uses. The streamlining processes have been in place now for +/- 18 months (depending on the policy) and we have only seen the advent of high quality food-uses that will add to the vibrant mix in Downtown, and we are at a net loss of Formula Retail uses. This streamlining is unfolding at a reasonable pace, we should not shake it up any further.

I understand the demand for visible ground floor office uses through the years, coming from a landlord and broker prospective, and this is the single change that would quickly devastate the Downtown use mix. You would quickly see the erosion of the retail presence as the dining/shopping attraction evaporates by allowing the professional uses on the ground floor. Further, Old Town has typically attracted larger formula retailers that are an important part of the Downtown mix. A lot of the reason behind relaxing the Formula Retail policy was because there are a lot of physical constraints on N Santa Cruz Ave and Main St that naturally regulate the ability for an abundance of Formula Retail from locating there. Hence, Old Town has been identified as an appropriate place for larger scale Formula Retail uses, why would we now eliminate one great location?

As some of you may know, I have been a major advocate through the years for making adjustments to the policies and Town Code to allow for more flexibility when it comes to uses in the Downtown/C-2 zone, however this is one change that I fear would be not only inconsistent with the Town vision, but cause irreparable damage to our Downtown as we are on the precipice of an economic resurgence given the streamlining policies that have already been put to the test. If ground floor professional services are something the Town wants to consider in the commercial core, it should be looked at carefully and studied, rather than taken on a case-by-case basis. Current analysis leads me to believe we want to encourage “banks” to relocate or reduce their footprint, not add new ones.

Jim Foley



Principal  
Pennant Properties

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A P P E A R A N C E S:

Los Gatos Planning Commissioners:  
Melanie Hanssen, Chair  
Kathryn Janoff, Vice Chair  
Jeffrey Barnett  
Reza Tavana

Town Manager: Laurel Prevetti

Community Development Director: Joel Paulson

Town Attorney: Robert Schultz

Transcribed by: Vicki L. Blandin  
(619) 541-3405



1 CHAIR HANSSEN: Okay. And is that okay with the  
2 Town Attorney? That's not a conflict of interest, is it, or  
3 is it?

4 TOWN ATTORNEY SCHULTZ: It certainly could be.  
5 Unfortunately it's being brought up at this late hour, so  
6 we'll move forward. Off the top of my head I don't believe  
7 so, because you make your financial income off of the  
8 stocks I'm assuming that you have with Schwab and not from  
9 Schwab itself, so your income is derived from the stocks  
10 that you earn as opposed to from Schwab, and so we'll move  
11 forward with it.  
12

13 CHAIR HANSSEN: Okay. Thank you for letting us  
14 know.

15 TOWN ATTORNEY SCHULTZ: And I would just make  
16 certain the Planning Commissioners understands to please  
17 bring these up as soon as possible when you receive a  
18 conflict of interest.

19 CHAIR HANSSEN: Okay, that sounds good. So,  
20 Commissioner Burch is recused and we will go ahead with the  
21 hearing.

22 This item is a request for a Zoning Consistency  
23 Determination and approval of Conditional Use Permit U-20-  
24 009 for a bank, being Charles Schwab Community Banking and  
25 Investment Services, on property zoned C-2:LHP:PD located

1 at 35 University Avenue, APN 529-02-044. The property owner  
2 is SRI Old Town LLC, the Applicant is Amber DeMaglio, and  
3 our project planner is Sean Mullin.

4 Before we go to the Staff Report I would like to  
5 ask for a show of hands from Commissioners who have been  
6 able to visit the site. Okay. Probably everyone has been by  
7 that part of town. Are there any disclosures beyond what we  
8 already heard? Okay.

9 I understand Mr. Mullin will give us the Staff  
10 Report.

11 SEAN MULLIN: Thank you and good evening. Before  
12 you tonight is a request for a determination of the zoning  
13 consistency for Charles Schwab Community Banking and  
14 Investment Services and consideration of a Conditional Use  
15 Permit for that proposed use.

16 The subject property is located in the Old Town  
17 shopping center on the west side of University Avenue in  
18 the C-2 zone. The Applicant proposes to occupy a vacant  
19 ground floor tenant space near the corner of University and  
20 Elm Street.

21 The C-2 zone is intended for predominantly  
22 pedestrian-oriented uses such as retail services and  
23 entertainment. Office uses are allowed in the C-2 zone but  
24 may not be located on the ground floor per the Town Code.  
25

1 The bank use is allowed in the C-2 zone on the ground floor  
2 with the approval of the Conditional Use Permit.

3           Traditionally, businesses that provide investment  
4 services have been considered office uses and may not be  
5 located on the ground floor in the C-2 zone. The Applicant  
6 requests that the Planning Commission determine that the  
7 proposed use is a bank and seeks approval of a Conditional  
8 Use Permit for the use to be located on the ground floor in  
9 the tenant space at 35 University Avenue.

10           The Applicant has provided a Letter of  
11 Justification, project description, and a letter describing  
12 the proposed use that speaks to the consistency of the use  
13 with the C-2 zone.

14           A Desk Item has been distributed to the Planning  
15 Commission providing additional public comment received  
16 after the publishing of the Staff Report, and Staff  
17 recommends that the Planning Commission review the  
18 application materials and determine whether the proposed  
19 use is a bank. If the Commission determines the use is a  
20 bank, Staff recommends approval of the Conditional Use  
21 Permit subject to the recommended Conditions of Approval  
22 included with your Staff Report.

23           This concludes my report and I'm happy to answer  
24 any questions.  
25

1                   CHAIR HANSSEN: Before I ask any other  
2 Commissioners, I did want to clarify it's my understanding  
3 after speaking with Staff yesterday that it is two separate  
4 decisions that are related. One is making a decision about  
5 whether or not this is a bank, and then additionally we  
6 would make a decision to approve or not approve the  
7 Conditional Use Permit. Since we have some Commissioners  
8 that haven't been with us as long and we haven't seen a  
9 Conditional Use Permit for a while, I would remind the  
10 Commission that Conditional Use Permits run with the land,  
11 so if we approve it then whatever that use is will be the  
12 one that carries over even if Schwab wasn't to continue  
13 with it. That was something that I wanted to clarify and  
14 make sure that we had right with Staff.  
15

16                   Then I will ask if anybody has any questions? I  
17 think that Ms. Renn is also here, our Economic Vitality  
18 Manager. Go ahead, Commissioner Tavana.

19                   COMMISSIONER TAVANA: Just a quick question. Was  
20 it mentioned that there was a Desk Item distributed on this  
21 topic?

22                   SEAN MULLIN: Yes, there was a Desk Item  
23 distributed this morning for additional public comment  
24 received after the publishing of the Staff Report.  
25

1 COMMISSIONER TAVANA: I don't think I received  
2 that, but okay, I'll take a look for it.

3 CHAIR HANSSEN: I'm actually not sure I received  
4 it either; I checked and thought maybe I missed it, but I  
5 think it would be helpful.

6 I'm just going to make a suggestion while we're  
7 still on the Staff Report that if we could hear from Ms.  
8 Renn about her thoughts about this application and if it  
9 came to that where there was concern about the Conditional  
10 Use Permit, are there other opportunities to fill this  
11 vacancy left by The Gap?  
12

13 MONICA RENN: Without giving any personal opinion  
14 on the Staff Report or the application I can just say that  
15 I've been working with the Applicants for over a year now.  
16 They do have a current location in town which to date we  
17 have looked at as a legal nonconforming space. As I  
18 understand it, they intend to relocate their space to the  
19 one that's on the application today, the former Gap  
20 building.  
21

22 It's really hard to say what could fill this  
23 space other than this use at this time. Retail was already  
24 changing, it was already shrinking and the format was  
25 looking much different, and then we had the pandemic of

1 course hit in March which has really just turned our  
2 economic situation upside down.

3           It's hard to predict what's going to be next. I  
4 can say that we have had some new businesses looking to  
5 come into town. Very few are retail; they're mostly food  
6 uses or kind of hybrid uses since service isn't really  
7 something that can be done in a lot of places, so it's hard  
8 to predict, not knowing how long we'll be with this  
9 pandemic and what that economic outcome is going to be, how  
10 retail with look in a couple of months.

12           I can just say that to date I haven't received  
13 any inquiries on this space other than from Charles Schwab  
14 and I don't know that we've really had a flood of any other  
15 type of retail. I would say if anything I'm seeing people  
16 looking for a small footprint so that they can have maybe a  
17 brick and mortar footprint as well as some space in the  
18 online world.

19           If you have any other specific questions let me  
20 know if I missed something.

21           CHAIR HANSSEN: Do any Commissioners have any  
22 questions for Ms. Renn or Staff? Vice Chair Janoff.

23           VICE CHAIR JANOFF: Just a quick question for Ms.  
24 Renn. The Desk Item. One of the statements in the Desk Item  
25 indicated that we were on the precipice of an economic boom

1 and that we were going to see... I'm paraphrasing it, I don't  
2 have it in front of me, but the gist of it was we're just  
3 so close on the cusp of this big economic recovery and why  
4 would we install a so-called bank in a retail space? Am I  
5 to understand from previous comments that the likelihood--  
6 well, I guess it's hard to say but I'll say it anyway--the  
7 likelihood of a retail footprint being in this space seems  
8 low at the moment?

9  
10 MONICA RENN: It's really hard to say for this  
11 specific space, mostly because Old Town works a little bit  
12 differently than the rest of downtown predominantly because  
13 it has one single owner. They are able to do a little bit  
14 more programming and do a little bit more kind of  
15 synergistic programming where they're looking at certain  
16 retailers and certain businesses that follow one another  
17 around, whereas downtown you may have any owner that owns  
18 one or two spaces next door to each other, so there's less  
19 of that opportunity to really program a larger space. To  
20 me, Old Town is almost a center inside our downtown, it's a  
21 little hub inside of downtown; it even looks a little bit  
22 different than the rest of downtown in my opinion.

23  
24 I really don't know. I did see the letter that  
25 came in. I think there are some really interesting business  
concepts that are going to come out of the pandemic. I

1 think people have really been forced to look at things  
2 differently and get creative. I think we will see new  
3 business models. I've been very impressed with how well Los  
4 Gatos has weathered this storm and how so many businesses  
5 have stayed relevant and have changed their business  
6 models.

7 I just don't know what could come in here.  
8 Federal Realty has over and over proven to do a good job  
9 with their tenanting, but I just don't know, I can't speak  
10 for them to know if they have somebody else or could find  
11 somebody else.  
12

13 VICE CHAIR JANOFF: Just a quick follow up, if I  
14 might?

15 CHAIR HANSSEN: Go ahead, Vice Chair.

16 VICE CHAIR JANOFF: If the Old Town is owned by  
17 one owner and it has so many stores and the opportunity to  
18 do, as you say, programming and try to recruit stores into  
19 the spaces that would kind of logically fit with the other  
20 retail, and that's not happened—I mean, Gap isn't gone yet—  
21 but presumably they would be looking for a retail fit if  
22 they could find one. Is that a fair statement?

23 MONICA RENN: Well, I think there are a couple  
24 things that go on. Not all the time does a business leave  
25 right when they decide to or right when they stop paying

1 rent. Sometimes a property owner will keep them around. I  
2 have heard this could be the case with Gap. I don't know  
3 that for a fact but I've heard that they have been given  
4 the opportunity to stay in order to not have a vacant space  
5 sit on the corner there.

6           Again, it's hard to say. I know that the formula  
7 that they work with has specifics to it, so it's not like  
8 they can necessarily say we have six people who will  
9 backfill this if this doesn't work out. I think on the flip  
10 side of that they may be looking at if this does work out  
11 this could then provide a draw for another set of retailers  
12 or another set of businesses.

14           It would probably be a question that you could  
15 ask more specifically of one of the representatives that I  
16 see here tonight in the attendee list; they may be able to  
17 give you some more insight on their formula.

18           VICE CHAIR JANOFF: Thank you.

19           CHAIR HANSSEN: Thank you for all that insight,  
20 Ms. Renn. Do any other Commissioners have questions for  
21 Staff at this time? There will be another chance to ask  
22 Staff questions later. Then we will go ahead and open up  
23 the public hearing to allow that Applicant to address the  
24 Commission for up to five minutes.  
25

1                   DIRECTOR PAULSON: Thank you, Chair. It looks  
2 like Mr. Kreshek is going to speak on behalf of the  
3 property owner, and so I'm going to allow him to talk for  
4 up to five minutes on the application.

5                   JEFFREY KRESHEK: Thank you, Commission and Ms.  
6 Renn. I appreciate the thoroughness of the report and the  
7 dialogue thus far. My name is Jeff Kreshek. I'm Senior Vice  
8 President for Federal Realty; I handle the west coast  
9 leasing. We're a publicly traded real estate investment  
10 firm, over 50 years publicly traded on the New York Stock  
11 Exchange.  
12

13                   We've owned this property for 23 years, and I  
14 think that's a very important distinction. We're not a  
15 development company that comes in to develop something, own  
16 something, turns it around and does something else with it.  
17 We stay with our communities for a very long time. Our  
18 average length of hold is well over 23 years on our  
19 portfolio nationally.

20                   I think Ms. Renn really hit the point that we'd  
21 like to make here today: We were going through an evolution  
22 in retail before COVID. So, Vice Chair Janoff, to your  
23 comment in that letter about this precipice, I couldn't  
24 disagree more. Are we on the precipice of the next normal?  
25 Yes. This revitalization, I don't know that I can call it

1 that and I don't know that it goes directly that way, we  
2 are on the precipice of the evolution of retail, and I want  
3 to make sure that it's really understood.

4           When COVID ends, what's happening in retail  
5 doesn't end. What's happening today in retail, and the  
6 changes that are happening, and why community-serving uses  
7 such as Schwab are so important to these downtowns was  
8 happening long before COVID. I believe, Ms. Renn, you and I  
9 met on the property maybe two years ago when we identified  
10 some of these issues and some of these problems, and we  
11 pointed out that retail is evolving, and community-facing,  
12 Amazon-proof type of use such as a bank is a vital part of  
13 any downtown of any project, and you can see it in areas  
14 like Palo Alto, Walnut Creek, even in our very own Santana  
15 Row in San Jose.

16           So, this is not an unusual use to find in a  
17 vibrant retail community and it is customer-centric, and  
18 again—I think it's an important point—it is somewhat  
19 Amazon-proof as well. This is not a service that many  
20 people are doing online, certainly not on the investment  
21 side, but even on the banking side. People still like to  
22 have that relationship, that direct connection, so I think  
23 that's very important to note.  
24  
25

1 I'm happy to take any questions as far as what  
2 the merchandizing strategy is, how we evolve the project.  
3 But you'll notice Sephora is under construction. We  
4 recently were able to add that.

5 And to answer the question that was asked, yes,  
6 it is safe to say that if we could find a retail tenant to  
7 come into this space we would do so, but keep in mind, and  
8 to Ms. Renn's earlier point, retailers today are much, much  
9 smaller. That Gap space is almost 9,000 square feet.  
10 There's not a big universe of large-scale users. As a  
11 matter of fact, if you look at what's happening on the  
12 landscape, the large-scale users have been closing stores  
13 and filing bankruptcies, including Sur la Table, Brooks  
14 Brothers, J. Crew, Forever 21, and a list that goes on and  
15 on; it's been a virtual hit parade lately of store closings  
16 and bankruptcies.

18 But the real focus here is that Schwab's business  
19 has evolved over 20 years. What they were when they took  
20 the original space is not what they are today, and I do  
21 believe we have members of the Schwab team that would like  
22 to speak within the three minutes about how their business  
23 has evolved and how they are a community-serving bank.

24 CHAIR HANSSEN: How much time does the Applicant  
25 have left?

1                   DIRECTOR PAULSON: We've got a little over a  
2 minute-and-a-half and I see a couple of hands up, so I'm  
3 not sure which person would like to speak. I've got a Mr.  
4 Zac and a Mr. O'Marah it looks like, and so I am going to  
5 let Mr. Zac speak, see if he is speaking on behalf of  
6 Schwab.

7                   RICHARD ZAC: Thank you, everyone, for the  
8 opportunity. My name is Richard Zac; I'm the Regional  
9 Manager for Charles Schwab Bank and I just want to take a  
10 couple of minutes to describe a little bit about the  
11 evolution, and then my colleague Pat O'Marah can talk about  
12 our involvement in the community.  
13

14                  Schwab is a modern wealth management company.  
15 We're committed to helping our clients reach their goals  
16 through integrating a human, a local, a branch platform,  
17 along with a very robust online and mobile platform. We  
18 leverage both the power of people and technology. We find  
19 in the branch network many clients like to meet with us  
20 live in person, particularly when they're developing their  
21 plan to manage finances, which is why we have the branch  
22 footprint in the first place.  
23

24                  We're not new to Los Gatos. We've been here for  
25 20 years. In that time our business has really evolved and  
has grown dramatically. Schwab Bank was created in April of

1 2003 after we started in Los Gatos 20 years ago. In that  
2 time, right now today, Charles Schwab Bank is the eleventh  
3 largest bank in the country, \$348 billion dollars in  
4 assets. We are a bank for investors that provides all the  
5 traditional things you might think of with banking:  
6 checking, bill pay, ATM, mortgage, home equity lines, trust  
7 services. And lastly, before I turn it over to Pat, J.D.  
8 Power ranked Schwab Bank the highest in customer  
9 satisfaction in the United States two years in a row.

10  
11 I think my colleague Pat has a few things to add  
12 with respect to our involvement in the community. Pat.

13 DIRECTOR PAULSON: Chair, we've got about five  
14 seconds, so Mr. O'Marah, you're going to need to make this  
15 quick, but the Commission may have questions. Mr. O'Marah,  
16 you can unmute yourself.

17 PAT O'MARAH: Yeah, I don't know that I can add  
18 much in five seconds. I apologize; I had intended for these  
19 to be separate comments.

20 CHAIR HANSSEN: The Applicant will have a chance  
21 to speak again after we take public comments in response to  
22 any public comments that we get, so why don't we go with  
23 that and then let me ask if any Commissioners have a  
24 questions for the Applicant at this moment? I'm not seeing  
25 anyone with their hands raised. Commissioner Barnett.

1 COMMISSIONER BARNETT: Is Schwab chartered as a  
2 bank in the State of California?

3 DIRECTOR PAULSON: Mr. O'Marah or Mr. Zac, either  
4 one, I'm going to allow both of you to talk.

5 RICHARD ZAC: Our registration is in Nevada.

6 COMMISSIONER BARNETT: Okay, thank you.

7 CHAIR HANSSEN: Are there other questions for the  
8 Applicant at this time? I'm not seeing anyone, so that  
9 being said we will move on to public comments. If any  
10 members of the public would like to speak on this item you  
11 may do so for up to three minutes.  
12

13 DIRECTOR PAULSON: The first speaker we have,  
14 Chair, is Ms. Somers.

15 CATHERINE SOMERS: Great, can you hear me?

16 CHAIR HANSSEN: We can hear you.

17 CATHERINE SOMERS: Wonderful. Good evening,  
18 Planning Commissioners. My heart is kind of pounding right  
19 now, I have to say, because this is one of the hardest  
20 deliveries I've given, but I have to leave you with  
21 actually just three words: It's not a bank. And it will be  
22 really a bummer if we allow for that space to turn over  
23 into office space.  
24

25 I'm hoping that all of you will read the Desk  
Item, or at least before you make decisions tonight read

1 the Desk Item that was given to you I think by Jim Foley.  
2 Perhaps his words were a little aggressive when he said  
3 we're on a precipice of new era, but my board has been  
4 working really hard... I don't think I mentioned that I was  
5 the Executive Director of the Chamber of Commerce. My board  
6 has been working really hard on bringing new businesses to  
7 town and we are seeing a lot of interest, and I think  
8 during this pandemic businesses are changing, they're  
9 adapting to new circumstances, we're starting to see some  
10 new developments in different things, we've had a lot of  
11 new businesses open in town and more are coming.  
12

13           We've really worked hard to reach out to Federal  
14 Realty, and that Old Town space is a gem, probably one of  
15 the most valuable and beautiful in our town, and I think  
16 really what needs to happen is that we need to work more  
17 closely possibly with Jeff and Zac and all these other guys  
18 that are on the line here, and develop that as it really  
19 could be developed. I mean, that in and of itself could  
20 make Los Gatos a destination like no other in Northern  
21 California. Better than Santana Row, and I say that  
22 seriously. I think we have just allowed that space to sort  
23 of become a little desolate and a little downtrodden and I  
24 just think if there's something that we can do to work  
25 together.

1 I mean, I agree, the GAP space is a big space,  
2 but I don't think we need to put something in there where  
3 if you look at the floor plans it's office space and that's  
4 all it is. And we need something in there. Maybe it's  
5 divided into a couple of different spaces, but we're more  
6 creative than this and I think working with them we can  
7 actually come up with something that's different and  
8 cutting edge. Maybe it's pop-up studios, I don't know what  
9 it looks like, but I just think that we are selling out if  
10 we allow that to become a Charles Schwab. Thanks.

11  
12 CHAIR HANSSEN: Thank you for your comments. It  
13 looks like Vice Chair Janoff has a question for you.

14 VICE CHAIR JANOFF: Thank you, Ms. Somers. You  
15 stated emphatically that Charles Schwab is not a bank.  
16 That's contrary to the limited research that I've done to  
17 determine that question. Can you tell us why you are  
18 adamant that they are not a bank?

19 CATHERINE SOMERS: I may be a little ignorant  
20 here. I look at the banking institutions that we have along  
21 North Santa Cruz Avenue, which by the way are taking up  
22 some really dead space on North Santa Cruz right now, and  
23 very few customers are going in, the parking is left empty  
24 all the time where we could use that for other uses, but  
25 I've never equated... So, this is just my own personal

1 feelings. I don't know too many people that go into Charles  
2 Schwab to whatever, cash checks or do the regular banking  
3 that we do at a Bank of America or a Wells Fargo or even a  
4 Heritage Bank; it just seems completely different to me. I  
5 agree with you, I perhaps don't know all my facts on that,  
6 but it just seems that...

7 VICE CHAIR JANOFF: That's fine. That's fine,  
8 you've answered the question.

9 CATHERINE SOMERS: I'm sorry.

10 CHAIR HANSSEN: Do other Commissioners have  
11 questions for the speaker? Okay, seeing none, are there  
12 other members of the public that would like to speak in  
13 Public Comments?  
14

15 DIRECTOR PAULSON: I don't see any other hands  
16 raised from the public, so we can go back to the Applicant  
17 and their team, and they would have three minutes.

18 CHAIR HANSSEN: Okay, so the Applicant has up to  
19 three minutes to respond to comments from the public or  
20 comments from the Commission and then Commissioners will  
21 have another chance to ask the Applicant any questions.

22 DIRECTOR PAULSON: I'm going to allow Mr. Kreshek  
23 and Mr. Di Geronimo and Mr. Zac to speak and they can  
24 figure out how they would like to split up their three  
25 minutes.

1  
2           JEFFREY KRESHEK: I'm going to go very quickly.  
3 I'm more than happy to speak with Ms. Somers. Nobody from  
4 the Chamber has reached out to me; I don't know if you've  
5 reached out to others at Federal Realty.

6           As far as demising the space, we will be demising  
7 it into two spaces. Unfortunately, it does not physically  
8 demise into more spaces given the grade change in the  
9 sidewalk on I believe it's the north side, as well as the  
10 bank of gas meters and the limited frontage. This really  
11 does become the most efficient demise of the space so it  
12 doesn't break up into several other smaller spaces. But  
13 I'll let Mr. De Geronimo respond from there.

14           MICHAEL DI GERONIMO: Yes, I just wanted to make  
15 a couple of really quick comments and then turn it over to  
16 Charles Schwab. I'm a land use attorney, a ten-year  
17 planning commissioner of the city that I live in, although  
18 I've been off for a while, but I wanted to make two points.

19           One, that you have broad discretion to sort of  
20 interpret the code the way you want to interpret it, and I  
21 think there's clear evidence here that Schwab is a bank. I  
22 represent several relatively well known banks and I can  
23 tell you that when we do their leases or other deals they  
24 insist on having exclusives that preclude Charles Schwab  
25

1 and similar because the fact is they really have merged  
2 into the same... You know, Wells Fargo offers investment  
3 services, so does Bank of America, and basically they've  
4 all turned into the same sort of type of use.

5           In terms of a good use, if you go to downtown  
6 Walnut Creek there's a Capital One that's literally right  
7 in the middle of downtown that's a very vibrant use and  
8 this is a very similar use that Schwab is proposing, and I  
9 think with the design they have and with the team they have  
10 they will certainly bring customers and people to the area  
11 and that's really what you want in retail today, something  
12 that will activate the area.

13           I think Federal Realty, you've got to trust them.  
14 They're great operators and I think they deserve your  
15 support given how long they've been there and their  
16 expertise.

17           With that, I'd like to turn over the rest of the  
18 time to the members of the Schwab team.

19           RICHARD ZAC: This is Richard Zac again. I would  
20 love to take Ms. Somers on a tour of our branch and to show  
21 our modern approach to wealth management and banking and  
22 how we integrate. We are the eleventh largest bank in the  
23 country, ranked the highest in customer satisfaction. Our  
24 clients and those in the community voted two years in a row  
25

1 the best service. We're a bank for investors. We do all of  
2 the traditional banking services that a Wells Fargo or a  
3 Bank of America would do.

4           The branch that we're proposing in Los Gatos, it  
5 is because of our growth and our 20-year history with the  
6 community; and the workshops, the community events, and the  
7 hospitality events will attract a vibrancy to the downtown  
8 area. Clients will come. We just don't have the space for  
9 it right now in Los Gatos but in other areas across the  
10 country we do, and these are fun opportunities for the  
11 community to learn about investing in general and we hope  
12 to provide that to the folks of Los Gatos and continue to  
13 educate and provide resources to help people have better  
14 outcomes.

16           CHAIR HANSSEN: Is that time?

17           DIRECTOR PAULSON: That's time.

18           CHAIR HANSSEN: All right, do Commissioners have  
19 questions for the Applicant? Go ahead, Commissioner  
20 Barnett.

21           COMMISSIONER BARNETT: I overlooked asking  
22 earlier if the intention was to make any changes to the  
23 exterior of the building. I thought I saw something about  
24 that in the Staff package.  
25

1           JEFFREY KRESHEK: The changes to the building  
2 would just be to accommodate the demise and make sure we  
3 have appropriate storefronts, but we haven't looked at  
4 making any specific architectural changes that I'm aware of  
5 at this point.

6           COMMISSIONER BARNETT: Okay, thank you.

7           CHAIR HANSSEN: I had a couple of questions. One  
8 was did I hear correctly that this current space is going  
9 to be split into two spaces and so there is going to be  
10 another tenant to be sought for the other part?  
11

12           JEFFREY KRESHEK: Correct. Charles Schwab would  
13 be occupying roughly 5,000 square feet of the 8,000 square  
14 feet that is the current Gap space, so there will be a  
15 second storefront. I wasn't part of the project previous to  
16 ten years ago, but if you look at the original plans it  
17 looks as if it might have been two spaces at one point in  
18 time.

19           CHAIR HANSSEN: Okay. Thank you for that. And  
20 then a question for the Schwab team. If I read the comments  
21 that you made that were in our Staff Report, at this new  
22 facility you'd have a coffee bar and so on and so forth. It  
23 reminded me of I've gone into Chase bank and they have dog  
24 biscuits in the lobby, but is that correct that it's going  
25 to be set up for really encouraging walk-in traffic?

1           RICHARD ZAC: Absolutely open. Everyone is  
2 welcome. Coffee, the technology bar, folks available to  
3 help as needed. In addition to that I mentioned community-  
4 centered workshops on investing and how to manage your  
5 finances and your banking better, hospitality events that  
6 include things like the wine tasting and art. We want to  
7 engage in the community as we've done. The idea is to be a  
8 vibrant part of the downtown where we're attracting clients  
9 into a vibrant location where we tear down the barriers  
10 that often occur with banking and investing. Some folks  
11 struggle with making great decisions and so we want to  
12 provide the right resources and through these community  
13 workshops and events to help them become more successful  
14 over time.

16           CHAIR HANSSEN: And kind of a follow up question  
17 to that. Is it typical in your evolving business model for  
18 non-customers that have never done any business with you  
19 before to just walk in?

20           RICHARD ZAC: Absolutely. I think that's the  
21 unique thing about our brand: It does attract folks that  
22 are wanting to just get started. In fact, we just recently  
23 provided a mechanism for folks that have as little as five  
24 dollars to invest or to put into a banking account to come  
25 in and open an account with Schwab.

1 CHAIR HANSSEN: Okay. And then my last question  
2 and then I'll ask if Commissioners have questions, will  
3 there be an ATM at this location as mentioned as one of the  
4 possible functions of one of your branches?

5 RICHARD ZAC: We don't currently have plans to  
6 put an ATM there. Any Schwab client can use any bank in the  
7 country. We are part of every ATM in the network, and if  
8 there happens to be a charge to one of our clients to use  
9 another ATM we will rebate that charge back to the client.  
10

11 CHAIR HANSSEN: All right, thanks. Do other  
12 Commissioners have questions for the Applicant? I'm not  
13 seeing anyone with their hand raised. Okay, so then I will  
14 close the public hearing and ask if Commissioners have any  
15 additional questions for Staff, have comments on the  
16 application, or wish to introduce a motion? And I would say  
17 at this time, as I alluded to earlier, that I think it  
18 would be best if the Commission made two different motions,  
19 one for the determination of the zoning consistency—is  
20 Schwab a bank?—and then a second motion about the CUP. So,  
21 do any Commissioners have any additional questions or  
22 comments? Vice Chair Janoff.

23 VICE CHAIR JANOFF: Question for Ms. Renn. You  
24 mentioned that Schwab is currently in a nonconforming  
25 space. Is it nonconforming because it is not considered a

1 bank and is on the ground floor storefront? What makes it  
2 nonconforming?

3 MONICA RENN: Great question. When they came in-  
4 as one of the speakers indicated, they've been with us for  
5 over 20 years—they came in as an office use. At that time  
6 office was allowed on the ground floor. Since then office  
7 has not been allowed on the ground floor, so it becomes  
8 essentially what we call legal nonconforming.

9  
10 When they leave that space there will be a six-  
11 month period where it can be backfilled with another office  
12 use, and if it does not get backfilled with another office  
13 use in that six months then the use would revert to never  
14 allowing ground floor office there again.

15 The timeline that I wrote down, and I'm sure you  
16 probably heard this as well, is that it was incorporated as  
17 a bank in 2003 well after they were already established in  
18 Los Gatos, so we never changed their use as the town, we  
19 always just considered them an office use, but when they  
20 came to us about 18 months ago they said, "We're really a  
21 bank, and here's why."

22 VICE CHAIR JANOFF: Okay, thank you.

23 CHAIR HANSSEN: I'll make a comment that as far  
24 as the determination of whether they're a bank, I haven't  
25 banked at Schwab but we do have some accounts at Chase, and

1 when we go in the branch on Los Gatos Boulevard, as I was  
2 mentioning they have water bowls and dog biscuits in the  
3 lobby where the ATM is, the tellers are all the way at the  
4 back of the branch, and then when you walk in there are  
5 seating areas where you can wait to talk to a banker, and  
6 this is the business that they're really trying to promote  
7 is that kind of thing where you're interacting with bankers  
8 and asking questions and everything like that.

9  
10 I'll add also that we also do some banking at  
11 Wells Fargo. We went to Wells Fargo recently, I had to do  
12 something inside the branch, which is unusual for me, but  
13 when I was there there was actually a line going around the  
14 corner waiting to go in the bank. There were some people  
15 that wanted to go a teller but other ones that were waiting  
16 to talk to a banker and they were told that they had a 45-  
17 minute wait to talk to a banker.

18 So, I'm not hearing anything about the Schwab  
19 business model that would tell me that they're not a bank.  
20 I think that that's kind of where things are evolving to  
21 and I agree with all the comments about online banking,  
22 that the kind of things that are focusing their business on  
23 and their interactions are changing, so as far as that I  
24 would feel comfortable saying that they were a bank.  
25

1           And then I'll also comment a little bit on the  
2 use. Now that I heard that the use is being split into two  
3 different uses I feel somewhat less concern about putting  
4 this use there, knowing that there is going to be something  
5 else there as well, because it is a very important space.  
6 Vice Chair Janoff, it looked like you had your hand up.

7           VICE CHAIR JANOFF: I too have no issue with  
8 determining that this is in fact a bank. I did some  
9 research online, I think the evidence presented before us  
10 is pretty clear on that, so I don't have a problem with  
11 that.  
12

13           And I agree, hearing that it's only roughly half  
14 of that 9,000 square foot space makes me feel a lot better  
15 about what its impact would be should we approve it.

16           But the other thing that strikes me, we're  
17 talking a lot in the General Plan Advisory Committee about  
18 neighborhood-serving commercial districts. Now, this is the  
19 downtown, it's the beloved downtown, but it still has  
20 neighborhoods to serve, and so it strikes me that it would  
21 not be inappropriate to locate a bank that's in proximity  
22 to both employees and business owners as well as residents  
23 nearby. They are already a presence in town, they're  
24 already a ground floor-although nonconforming-presence in  
25 town, and when you think about cities, when you travel and

1 you do business and you see banks, you see banks amid  
2 retail a lot of places around the world, a lot of places  
3 where we live, so I don't have an issue with making that  
4 finding as well.

5 CHAIR HANSSEN: Okay. Commissioner Barnett.

6 COMMISSIONER BARNETT: I wonder if Staff could  
7 help us understand the policy behind making banks available  
8 on first floors only with a Conditional Use Permit? Is  
9 there some logic to that or is it just historical?  
10

11 DIRECTOR PAULSON: It's definitely historical,  
12 definitely predates my 20-plus years here with the Town. I  
13 think it probably goes along the lines of what Commissioner  
14 Janoff was speaking about, that banks can be helpful to the  
15 vibrancy of a downtown and to the neighboring residential  
16 districts. The mechanism the Town put in place—I couldn't  
17 even tell you when this went into place, it's been here  
18 since I started—probably was okay, we don't want to have  
19 all banks, so let's have a Conditional Use Permit process  
20 so that the Planning Commission can carefully consider  
21 these on a case-by-case basis and determine if it's  
22 appropriate.  
23

24 CHAIR HANSSEN: Does that answer your question,  
25 Commissioner Barnett? Commissioner Tavana.

1 COMMISSIONER TAVANA: I'm still struggling. I  
2 know you can do banking activities with certain Charles  
3 Schwabs. I guess I'll ask my question for Staff, and maybe  
4 this is for the folks with Charles Schwab, but can you  
5 actually deposit a check or withdraw money at this  
6 location? To me, that seems like a standard banking  
7 activity, so I guess will any of those activities be  
8 available on the corner here at this proposed location?  
9

10 DIRECTOR PAULSON: I'm not sure if Mr. Mullin has  
11 that information, but that would have been a great question  
12 for the Applicant and maybe Ms. Renn. If Mr. Mullin doesn't  
13 have that information, Ms. Renn may have some additional  
14 information.

15 SEAN MULLIN: I think Ms. Renn has much more  
16 background with discussing this with the Applicant, so I'll  
17 default to her.

18 MONICA RENN: Unfortunately, I can't answer those  
19 questions. We did talk about those questions at great  
20 length with them. We talked about the ATM fees; we talked  
21 about a lot of those different pieces. And it looks like  
22 the attorney has his hand raised. I know that they did have  
23 some input on different models that they could use if they  
24 were asked to do so.  
25

1 TOWN ATTORNEY SCHULTZ: It's been a while, but my  
2 understanding is that you would be able to deposit checks,  
3 you'd be able to have a checking account, a saving account,  
4 you'd be able to deposit your work check there, but no,  
5 there would be no cash onsite either through the ATM or  
6 being able to come in to obtain cash.

7  
8 DIRECTOR PAULSON: And should the Chair wish to  
9 just open up the public hearing for that specific question,  
10 we could also do that if that would help Mr. Tavana.

11 CHAIR HANSSEN: Why don't we do that? Because I  
12 mean we only have four of us, so I want the Commissioners  
13 to have their questions answered. So, let's go ahead and  
14 open up the public hearing to answer Commissioner Tavana's  
15 question.

16 DIRECTOR PAULSON: So, Mr. Zac, you can go ahead  
17 and answer that question.

18 RICHARD ZAC: Thank you for the question. Yes,  
19 every traditional banking service is a service that we will  
20 provide: checking, bill pay, ATM, check deposits. The only  
21 aspect that we will not deal with is cash, so you wouldn't  
22 be able to walk into this branch and remove cash. It's our  
23 view that modern wealth management is focused...

24 (Mr. Zac's audio goes silent.)  
25

1           DIRECTOR PAULSON: Sorry, I just pushed the wrong  
2 button for Mr. Zac, so I'm going to push the right button.  
3 Mr. Zac, I cut you off there; if you can jump back on.

4           RICHARD ZAC: Mr. Paulson, like you, I think some  
5 of the best things I say is when I'm on mute.

6           But thank you for the question. I was saying that  
7 we provide all of the traditional banking services that  
8 you'd expect: depositing a check right in the branch as  
9 well as all the electronic methods to transfer and move  
10 money around through a debit card, Apple Pay, Venmo; all of  
11 that is available. We feel our vision for the future is  
12 that cash is not a feature, not an area that we want to  
13 focus our growth on, so that would be the one thing that we  
14 would not transact in the branch in Los Gatos. No cash, but  
15 everything else you can imagine in traditional banking  
16 services.

17  
18           COMMISSIONER TAVANA: Would I be able to get a  
19 cashier's check if I were to walk inside?

20           RICHARD ZAC: We would be able to get you a  
21 cashier's check the next day. We would order it in the  
22 branch and we would have it sent to you the next day. It  
23 would be processed offsite. We could give you a Schwab  
24 check in a same sense; we could have that sent to you.

25           COMMISSIONER TAVANA: Thank you.

1 CHAIR HANSSEN: All right, so we will go ahead  
2 and close the public hearing again and see if Commissioners  
3 have any additional questions, and I'd like to encourage to  
4 at least get going on the motion about whether or not  
5 they're a bank, and then we can tackle the other. Vice  
6 Chair Janoff.

7 VICE CHAIR JANOFF: I don't really have a  
8 structure for it, but I would move that I can find that  
9 Charles Schwab Bank is a bank.  
10

11 CHAIR HANSSEN: And do we have a second for the  
12 motion?

13 COMMISSIONER BARNETT: Second the motion.

14 CHAIR HANSSEN: Commissioner Barnett.

15 COMMISSIONER BARNETT: Seconded.

16 CHAIR HANSSEN: Second? Okay. All right, so we  
17 have a motion and a second. Do Commissioners have any  
18 additional comments before we take a roll call vote? And  
19 there are only four of us, so it will go pretty quickly.

20 I think I made my comments earlier. I'm going to  
21 be supporting the motion. I can find that they're a bank  
22 given what I just talked about with some of the other  
23 things I deal with, so I'm comfortable with that  
24 determination.  
25

1 Do any Commissioners want to make any other  
2 comments? Not seeing any. All right, so I will start with  
3 Commissioner Tavana.

4 COMMISSIONER TAVANA: I'm going to say no.

5 CHAIR HANSSEN: Commissioner Barnett.

6 COMMISSIONER BARNETT: Yes.

7 CHAIR HANSSEN: Vice Chair Janoff.

8 VICE CHAIR JANOFF: Yes.

9 CHAIR HANSSEN: And I vote yes as well. Okay, so  
10 it passes 3-1, and are there any appeal rights on this part  
11 of the decision?  
12

13 DIRECTOR PAULSON: There are no appeal rights for  
14 that portion of the decision. This is just an  
15 interpretation of the determination that it's a bank.

16 CHAIR HANSSEN: All right, so that being the  
17 case, it passes 3-1 that the Commission in general believes  
18 that they are in fact a bank, so then we must turn our  
19 attention to the Conditional Use Permit.

20 I would want to ask Staff a question right now  
21 though. How does this work with the fact that they're  
22 splitting the use into two, and what does the current  
23 Conditional Use Permit say about the Gap? Is it general in  
24 terms of retail, or is it a retailer that does clothing?  
25

1 What are we changing the Conditional Use Permit to and  
2 from?

3 SEAN MULLIN: The Gap doesn't have a Conditional  
4 Use Permit because it's retail and it's allowed by right in  
5 that site, so this would be a new Conditional Use Permit.  
6 Your packet includes a floor plan showing the space that  
7 would be applied to, and during plan check of the Building  
8 Permit we would verify that that space was substantially  
9 conforming to the space that was shown in your packet  
10 tonight.

11  
12 CHAIR HANSSEN: So, basically we're proposing a  
13 Conditional Use Permit for roughly one-half of this current  
14 space for them to operate a bank?

15 SEAN MULLIN: That's correct. It's shown on the  
16 floor plan that they provided.

17 CHAIR HANSSEN: And then just for everyone's  
18 education, so if for some reason things didn't work out for  
19 Schwab and they had to vacate that space, the Conditional  
20 Use Permit would be...it would be possible for another bank  
21 to come in without action by the Town?

22 SEAN MULLIN: The answer is yes, and as long as  
23 they agree to operate under the allowances of that use  
24 permit and providing that they come in within I believe  
25

1 it's six months before the uses ceases, then it would be  
2 allowed.

3 CHAIR HANSSEN: And then the Federal Realty  
4 people also would have the opportunity to come back and  
5 propose another use, it's just they would have to get a  
6 different Conditional Use Permit, correct?

7 SEAN MULLIN: If the use permit were triggered,  
8 if this space were to revert to retail, another use that's  
9 allowed by right, then Federal Realty could just have a  
10 lease and have a Use and Occupancy Certificate and a  
11 business license for that new retailer in that example.

12 CHAIR HANSSEN: Because retail is allowed by  
13 right, they wouldn't have to go through any more hurdles if  
14 they needed to find a retail tenant for the space if it  
15 didn't work out for Schwab?

16 SEAN MULLIN: That is correct.

17 CHAIR HANSSEN: Okay, thank you for that. Do  
18 other Commissioners have questions for Staff on this? Vice  
19 Chair Janoff.

20 VICE CHAIR JANOFF: A question for Ms. Renn  
21 again. Can you provide us roughly the vacancy percentage in  
22 the downtown Commercial District, just in rough terms?

23 MONICA RENN: I don't have that off the top of my  
24 head, I might have to come back with it, but I can tell you  
25

1 that roughly we're actually seeing more people coming in  
2 than people leaving at this point, so while we do know that  
3 Gap is leaving, the other half of this space does have an  
4 approved CUP and I understand that Federal Realty does have  
5 a tenant lined up for that, so we are seeing in general  
6 more places becoming full than we are seeing becoming  
7 vacant. So, while I don't know the rate, I can say that  
8 it's getting better.

9  
10 VICE CHAIR JANOFF: Thank you.

11 CHAIR HANSSEN: Anyone else have questions? Okay,  
12 I'm going to make a comment.

13 One of the reasons I was asking all these  
14 questions was I was trying to visualize as things continue  
15 to evolve, you know, where might this go? And I'm going to  
16 say that number one, I feel really comfortable with the  
17 real estate owner, that they have a lot of experience, and  
18 I take a lot of comfort in the fact that they have had this  
19 property for 23 years in Los Gatos and they're not just  
20 flipping properties and turning things around, so that  
21 gives me some comfort.

22 The additional issue of the fact that the space  
23 is being split in two, giving an opportunity to try  
24 something else as well in this prime retail space, gives me  
25 comfort.

1           And then finally, I'll say that I had at one  
2 point worked in financial services for seven years. I think  
3 the financial services industry has made many, many  
4 evolutions and is making a whole other one now in terms of  
5 how they do business, and I do concur with Schwab's  
6 assessment that things are way less focused on cash now and  
7 they're much more focused online, and then your focus is  
8 going to be on wealth management. And if it's true that  
9 people that aren't their customers walk in as street  
10 traffic when they're there, I think it could be a really  
11 good use for the area, so I'm generally in support of the  
12 CUP. So, let me see what the other Commissioners think.  
13 Commissioner Barnett.  
14

15           COMMISSIONER BARNETT: I had one concern, which  
16 is the idea of a precedent, although maybe I'm being  
17 technically correct because of the CUP requirement. But in  
18 the very competitive banking industry I think it would be  
19 bad if we had many, many competitive banks going into the  
20 downtown area on the first floors. I don't have a good  
21 answer for that though.  
22

23           CHAIR HANSSEN: Okay, so that's a concern?

24           COMMISSIONER BARNETT: I'll express it as a  
25 concern.

1 CHAIR HANSSEN: Okay. All right, other  
2 Commissioners? Vice Chair Janoff.

3 VICE CHAIR JANOFF: I think what makes me more  
4 comfortable about thinking favorably about the application  
5 is the property owner's desire to fill the space, and I  
6 feel pretty confident if they had a retail tenant that made  
7 sense or that they could attract—we've got a lot of salons,  
8 you've got a lot of restaurants reducing number of retail—I  
9 think if we could fill it with retail the property owner  
10 probably would have.  
11

12 With all due respect to Ms. Somers, I'm  
13 sympathetic that we'd like to see more retail in that area  
14 but I'm also thinking that, again, as I said, a  
15 neighborhood-serving business does also make sense, and if  
16 they can create vitality and add to the bustle of an area  
17 and draw people that's good for the retail businesses too,  
18 and we want to do whatever we can to make sure that they  
19 stay as vital as possible, so I'm in favor of approving  
20 this application.  
21

22 CHAIR HANSSEN: Commissioner Tavana.

23 COMMISSIONER TAVANA: I'm going to have to say  
24 I'm against this application for multiple reasons.

25 Number one, I don't believe it is a bank. You  
can't do basic banking activities at this branch. While you

1 can do wealth management and other consultation services it  
2 seems like more of an office setting that it's going to be,  
3 so that's number one.

4           Number two, they already have a good location on  
5 Santa Cruz Avenue. I don't see why moving to Old Town will  
6 make them any better. I think they can do a lot of what  
7 they're doing at their current site, so I think it would be  
8 a mistake to approve this.

9           I agree with Catherine Somers. I think we could  
10 find something better for this location. Ms. Renn even said  
11 that we're not losing tenants, we're actually increasing  
12 tenants, and I think somebody will come along that will  
13 better fit this space, so I will be voting no tonight.  
14 Thank you.

15           CHAIR HANSSEN: Well, that's only if there's a  
16 motion to approve it.

17           COMMISSIONER TAVANA: Sorry, yeah. I'm against  
18 the CUP.

19           CHAIR HANSSEN: All right, thank you. I think it  
20 would be helpful maybe to try a motion, and as I asked  
21 earlier, if it turns out that we vote 2-2, that is  
22 tantamount to a denial, is that correct?

23           DIRECTOR PAULSON: That's correct.  
24  
25

1 CHAIR HANSSEN: Okay. So, would someone like to  
2 make a motion one way or the other? I think it's fine to  
3 try and see where we go. Okay, not everyone at one time.  
4 Vice Chair Janoff.

5 VICE CHAIR JANOFF: I'll make a motion. I move to  
6 approve the Conditional Use Permit for a bank, Charles  
7 Schwab Community Banking and Investment Services, on  
8 property zoned C-2:LHP:PD located at 35 University Avenue;  
9 APN 529-02-044; property owner SRI Old Town, LLC; Applicant  
10 Amber DeMaglio. I can make the required findings for CEQA  
11 and I can make the required findings for the Conditional  
12 Use Permit.  
13

14 CHAIR HANSSEN: Okay, thank you for that, and do  
15 we have a second?

16 COMMISSIONER BARNETT: I'll second the motion.

17 CHAIR HANSSEN: Okay, so Commissioner Barnett  
18 seconds the motion, and does anyone else want to make  
19 comments before we take a vote on this matter? I think I  
20 know where everyone stands. Okay, not seeing anyone. So, I  
21 will start with Commissioner Barnett.

22 COMMISSIONER BARNETT: Yes.

23 CHAIR HANSSEN: Commissioner Tavana.

24 COMMISSIONER TAVANA: No.

25 CHAIR HANSSEN: Vice Chair Janoff.

1 VICE CHAIR JANOFF: Yes.

2 CHAIR HANSSEN: And I vote yes as well, so the  
3 motion passes 3-1, and Director Paulson, do we have any  
4 appeal rights for this motion?

5 DIRECTOR PAULSON: Yes, thank you, Chair. Anyone  
6 who is not satisfied with the decision of the Planning  
7 Commission can file an appeal. The appeal forms are  
8 available online. There is a fee for filing the appeal and  
9 the appeal must be filed within ten days.  
10

11 CHAIR HANSSEN: Thank you very much for that. And  
12 thank you to the Commissioners for all of your comments and  
13 stuff. A lot of times, especially with the downtown, these  
14 discussions on CUPs are often difficult because there are  
15 people that have really strong feelings one way or the  
16 other, so I'm glad we were able to talk about this and get  
17 a lot of comments out, and I appreciate everyone's  
18 feedback.  
19  
20  
21  
22  
23  
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25

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**Town of Los Gatos  
Office of the Town Clerk  
110 E. Main St., Los Gatos CA 95030**

I, the undersigned, do hereby appeal a decision of the Planning Commission as follows: (PLEASE TYPE OR PRINT NEATLY)

PROJECT / APPLICATION NO:

U-20-009 (Charles Schwab Professional Office on ground floor in C-2)

ADDRESS LOCATION:

35 University Ave

*Interested person* means:

1. *Residential projects.* Any person or persons or entity or entities who own property or reside within 1,000 feet of a property for which a decision has been rendered, and can demonstrate that their property will be injured by the decision.
2. *Non-residential and mixed-use projects.* Any person or persons or entity or entities who can demonstrate that their property will be injured by the decision.

Section 29.20.275 The notice of appeal shall state specifically wherein it is claimed there was an error or abuse of discretion by the Commission or wherein its decision is not supported by substantial evidence in the record.

1. There was an error or abuse of discretion by the Planning Commission:

There were the minimum amount of Planning Commissioners present to constitute a quorum and some of them appeared to not have had the opportunity to review a letter that outlined the damages this approval would do to the surrounding business community, the precedent it would set by approving a business via conditional use permit that does not align with the prescribed use within the zoning, and not acting in the best faith of the citizens by continuing this item for further discussion.

2. The Planning Commission's decision is not supported by substantial evidence in the record:

**IF MORE SPACE IS NEEDED, PLEASE ATTACH ADDITIONAL SHEETS.**

**IMPORTANT:**

1. **Appellant is responsible for fees for transcription of minutes. A \$500.00 deposit is required at the time of filing.**
2. Appeal must be filed within ten (10) calendar days of Planning Commission Decision accompanied by the required filing fee. Deadline is 5:00 p.m. on the 10<sup>th</sup> day following the decision. If the 10<sup>th</sup> day is a Saturday, Sunday, or Town holiday, then it may be filed on the workday immediately following the 10<sup>th</sup> day, usually a Monday.
3. The Town Clerk will set the hearing within 56 days of the date of the Planning Commission Decision (Town Ordinance No. 1967).
4. Once filed, the appeal will be heard by the Town Council.
5. If the basis for granting the appeal is, in whole or in part, information not presented to or considered by the Planning Commission, the matter shall be returned to the Planning Commission for review.

PRINT NAME: Los Gatos Chamber of Commerce

SIGNATURE: \_\_\_\_\_

DATE: 11/19/2020

ADDRESS: 10 Station Way Los Gatos, CA 95030

PHONE: (408) 354-9300

EMAIL: [catherine@losgatoschamber.com](mailto:catherine@losgatoschamber.com)

\*\*\* OFFICIAL USE ONLY \*\*\*

DATE OF PUBLIC HEARING:

CONFIRMATION LETTER SENT: Date:

### **Pending Planning Department Confirmation**

TO APPLICANT & APPELLANT BY:

DATE TO SEND PUBLICATION:

DATE OF PUBLICATION:

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**RESOLUTION 2020-**

**RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS  
DENYING AN APPEAL OF THE DECISION OF THE PLANNING COMMISSION  
APPROVING A REQUEST FOR A ZONING CONSISTENCY DETERMINATION AND  
A CONDITIONAL USE PERMIT FOR A BANK (CHARLES SCHWAB COMMUNITY  
BANKING AND INVESTMENT SERVICES) ON PROPERTY ZONED C-2:LHP:PD.**

**APN 529-02-044  
ARCHITECTURE AND SITE APPLICATION: U-20-009  
PROPERTY LOCATION: 35 UNIVERSITY AVENUE  
APPELLANT: LOS GATOS CHAMBER OF COMMERCE  
APPLICANT: AMBER DEMAGLIO  
PROPERTY OWNER: SRI OLD TOWN, LLC**

**WHEREAS**, on November 11, 2020, the Planning Commission held a public hearing and considered a request for a zoning consistency determination and a Conditional Use Permit (CUP) for a bank (Charles Schwab Community Banking and Investment Services) on property zoned C-2:LHP:PD. The Planning Commission determined that the proposed use is a bank and approved a CUP subject to conditions of approval.

**WHEREAS**, on November 19, 2020, the appellant filed an appeal of the decision of the Planning Commission approving the zoning consistency determination and a CUP for a bank (Charles Schwab Community Banking and Investment Services) on property zoned C-2:LHP:PD.

**WHEREAS**, this matter came before the Town Council for public hearing on December 15, 2020, and was regularly noticed in conformance with State and Town law.

**WHEREAS**, the Town Council received testimony and documentary evidence from the appellant and all interested persons who wished to testify or submit documents. The Town Council considered all testimony and materials submitted, including the record of the Planning Commission proceedings and the packet of material contained in the Council Agenda Report for their meeting on December 15, 2020, along with any and all subsequent reports and materials prepared concerning this application.

**NOW, THEREFORE, BE IT RESOLVED:**

1. The appeal of the decision of the Planning Commission approving a request for a zoning consistency determination and a CUP for a bank (Charles Schwab Community Banking and Investment Services) on property zoned C-2:LHP:PD is denied and the application is approved.
2. The Town Council hereby adopts all findings, considerations, and conditions of approval set forth in the documents attached as Exhibits A and B.
3. The decision constitutes a final administrative decision pursuant to Code of Civil Procedure section 1094.6 as adopted by section 1.10.085 of the Town Code of the Town of Los Gatos. Any application for judicial relief from this decision must be sought within the time limits and pursuant to the procedures established by Code of Civil Procedure section 1094.6, or such shorter time as required by state and federal Law.

**PASSED AND ADOPTED** at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 15<sup>th</sup> day of December 2020, by the following vote:

COUNCIL MEMBERS:

AYES:

NAYS:

ABSENT:

ABSTAIN:

SIGNED:

MAYOR OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

DATE: \_\_\_\_\_

ATTEST:

TOWN CLERK OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

DATE: \_\_\_\_\_

**TOWN COUNCIL – December 15, 2020**

**REQUIRED FINDINGS AND CONSIDERATIONS FOR:**

**35 University Avenue**

**Conditional Use Permit Application U-20-009**

**Requesting a Zoning Consistency Determination and Approval of a Conditional Use Permit for a Bank (Charles Schwab Community Banking and Investment Services) on Property Zoned C-2:LHP:PD. Located at 35 University Avenue. APN 529-02-044.**

**PROPERTY OWNER: SRI Old Town LLC.**

**APPLICANT: Amber DeMaglio**

**FINDINGS**

**Required Finding for CEQA:**

- The project is Categorically Exempt pursuant to the adopted Guidelines for the Implementation of California Environmental Quality Act, Section 15301: Existing Facilities. No significant effect on the environment will occur since the project uses an existing structure with no increase in floor area.

**Required findings for a Conditional Use Permit:**

- As required by Section 29.20.190 of the Town Code for granting a Conditional Use Permit:

The deciding body, on the basis of the evidence submitted at the hearing, may grant a conditional use permit when specifically authorized by the provisions of the Town Code if it finds that:

1. The proposed use of the property is essential or desirable to the public convenience or welfare because it will relocate an existing banking and financial services business to a new location in the Central Business District; and
2. The proposed use would not impair the integrity and character of the zone because limitations will be placed in the conditions of approval to preserve the character of the residential zone; and
3. The proposed use would not be detrimental to public health, safety, or general welfare because the conditions of approval will address any potential impacts; and
4. The proposed use of the property is in harmony with the various elements or objectives of the General Plan and the purposes of the Town Code.

**TOWN COUNCIL – December 15, 2020**  
**CONDITIONS OF APPROVAL**

**35 University Avenue**

**Conditional Use Permit Application U-20-008**

**Requesting a Zoning Consistency Determination and Approval of a Conditional Use Permit for a Bank (Charles Schwab Community Banking and Investment Services) on Property Zoned C-2:LHP:PD. Located at 35 University Avenue. APN 529-02-044.**

**PROPERTY OWNER: SRI Old Town LLC.**

**APPLICANT: Amber DeMaglio**

TO THE SATISFACTION OF THE DIRECTOR OF COMMUNITY DEVELOPMENT:

*Planning Division*

1. APPROVAL: This application shall be completed in accordance with all of the conditions of approval and in substantial compliance with the approved plans. Any changes or modifications to the approved plans shall be approved by the Community Development Director, DRC, or the Planning Commission depending on the scope of the changes.
2. EXPIRATION: The approval will expire two years from the approval date pursuant to Section 29.20.320 of the Town Code, unless the approval has been vested.
3. LAPSE FOR DISCONTINUANCE: If the activity for which the Conditional Use Permit has been granted is discontinued for a period of one (1) year, the approval lapses pursuant to Section 29.20.340 of the Zoning Ordinance.
4. USE: The approved use is a bank.
5. HOURS OF OPERATION: Maximum hours of operation are Monday through Friday, 8:00 a.m. to 6:00 p.m.; and Saturday, 8:00 a.m. to 4:00 p.m.
6. DELIVERIES: Deliveries shall occur between 9:00 a.m. and 4:00 p.m. Deliveries shall not be made from University Avenue or Elm Street.
7. TRASH AND RECYCLING DISPOSAL HOURS: Trash and recycling from the business shall only be emptied between 9:00 a.m. and 9:00 p.m., to limit the noise impacts.
8. SIGN PERMIT: A Sign Permit from the Los Gatos Community Development Department must be obtained prior to any changes to existing signs or installation of new signs.
9. CERTIFICATE OF USE AND OCCUPANCY: A Certificate of Use and Occupancy from the Los Gatos Community Development Department must be obtained prior to commencement of use.
10. BUSINESS LICENSE: A business license from the Town of Los Gatos Finance Department must be obtained prior to the commencement of any new or change of use.
11. TOWN INDEMNITY: Applicants are notified that Town Code Section 1.10.115 requires that any applicant who receives a permit or entitlement from the Town shall defend, indemnify, and hold harmless the Town and its officials in any action brought by a third party to overturn, set aside, or void the permit or entitlement. This requirement is a condition of approval of all such permits and entitlements whether or not expressly set forth in the approval, and may be secured to the satisfaction of the Town Attorney.

12. COMPLIANCE MEMORANDUM: A memorandum, in compliance with standard Town practice, shall be prepared and submitted with the building permit detailing how the conditions of approval will be addressed.

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**RESOLUTION 2020-\_\_**

**RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS  
GRANTING AN APPEAL OF THE DECISION OF THE PLANNING COMMISSION  
APPROVING A REQUEST FOR A ZONING CONSISTENCY DETERMINATION AND  
A CONDITIONAL USE PERMIT FOR A BANK (CHARLES SCHWAB COMMUNITY  
BANKING AND INVESTMENT SERVICES) ON PROPERTY ZONED C-2:LHP:PD AND  
REMANDING THE MATTER TO THE PLANNING COMMISSION FOR FURTHER  
CONSIDERATION.**

**APN 529-02-044  
ARCHITECTURE AND SITE APPLICATION: U-20-009  
PROPERTY LOCATION: 35 UNIVERSITY AVENUE  
APPELLANT: LOS GATOS CHAMBER OF COMMERCE  
APPLICANT: AMBER DEMAGLIO  
PROPERTY OWNER: SRI OLD TOWN, LLC**

**WHEREAS**, on November 11, 2020, the Planning Commission held a public hearing and considered a request for a zoning consistency determination and a Conditional Use Permit (CUP) for a bank (Charles Schwab Community Banking and Investment Services) on property zoned C-2:LHP:PD. The Planning Commission determined that the proposed use is a bank and approved a CUP subject to conditions of approval.

**WHEREAS**, on November 19, 2020, the appellant filed an appeal of the decision of the Planning Commission approving the zoning consistency determination and a CUP for a bank (Charles Schwab Community Banking and Investment Services) on property zoned C-2:LHP:PD.

**WHEREAS**, this matter came before the Town Council for public hearing on December 15, 2020, and was regularly noticed in conformance with State and Town law.

**WHEREAS**, the Town Council received testimony and documentary evidence from the appellant and all interested persons who wished to testify or submit documents. The Town Council considered all testimony and materials submitted, including the record of the Planning Commission proceedings and the packet of material contained in the Council Agenda Report for their meeting on December 15, 2020, along with any and all subsequent reports and materials prepared concerning this application.

**NOW, THEREFORE, BE IT RESOLVED:**

1. The appeal of the decision of the Planning Commission approving a request for a zoning consistency determination and a CUP for a bank (Charles Schwab Community Banking and Investment Services) on property zoned C-2:LHP:PD is granted and the application is remanded to the Planning Commission for further consideration.
2. The decision does not constitute a final administrative decision and the applications will be returned to Planning Commission for further consideration.

**PASSED AND ADOPTED** at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 15<sup>th</sup> day of December 2020, by the following vote:

COUNCIL MEMBERS:

AYES:

NAYS:

ABSENT:

ABSTAIN:

SIGNED:

MAYOR OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

DATE: \_\_\_\_\_

ATTEST:

TOWN CLERK OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

DATE: \_\_\_\_\_

**RESOLUTION 2020-\_\_**

**RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS  
GRANTING AN APPEAL OF THE DECISION OF THE PLANNING COMMISSION AND  
DENYING THE REQUEST FOR A ZONING CONSISTENCY DETERMINATION AND  
A CONDITIONAL USE PERMIT FOR A BANK (CHARLES SCHWAB COMMUNITY  
BANKING AND INVESTMENT SERVICES) ON PROPERTY ZONED C-2:LHP:PD.**

**APN 529-02-044  
ARCHITECTURE AND SITE APPLICATION: U-20-009  
PROPERTY LOCATION: 35 UNIVERSITY AVENUE  
APPELLANT: LOS GATOS CHAMBER OF COMMERCE  
APPLICANT: AMBER DEMAGLIO  
PROPERTY OWNER: SRI OLD TOWN, LLC**

**WHEREAS**, on November 11, 2020, the Planning Commission held a public hearing and considered a request for a zoning consistency determination and a Conditional Use Permit (CUP) for a bank (Charles Schwab Community Banking and Investment Services) on property zoned C-2:LHP:PD. The Planning Commission determined that the proposed use is a bank and approved a CUP subject to conditions of approval.

**WHEREAS**, on November 19, 2020, the appellant filed an appeal of the decision of the Planning Commission approving the zoning consistency determination and a CUP for a bank (Charles Schwab Community Banking and Investment Services) on property zoned C-2:LHP:PD.

**WHEREAS**, this matter came before the Town Council for public hearing on December 15, 2020, and was regularly noticed in conformance with State and Town law.

**WHEREAS**, the Town Council received testimony and documentary evidence from the appellant and all interested persons who wished to testify or submit documents. The Town Council considered all testimony and materials submitted, including the record of the Planning Commission proceedings and the packet of material contained in the Council Agenda Report for their meeting on December 15, 2020, along with any and all subsequent reports and materials prepared concerning this application.

**NOW, THEREFORE, BE IT RESOLVED:**

1. The appeal of the decision of the Planning Commission approving a request for a zoning consistency determination and a CUP for a bank (Charles Schwab Community Banking and Investment Services) on property zoned C-2:LHP:PD is granted and the application is denied.

2. The decision constitutes a final administrative decision pursuant to Code of Civil Procedure section 1094.6 as adopted by section 1.10.085 of the Town Code of the Town of Los Gatos. Any application for judicial relief from this decision must be sought within the time limits and pursuant to the procedures established by Code of Civil Procedure section 1094.6, or such shorter time as required by state and federal Law.

**PASSED AND ADOPTED** at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 15<sup>th</sup> day of December 2020, by the following vote:

COUNCIL MEMBERS:

AYES:

NAYS:

ABSENT:

ABSTAIN:

SIGNED:

MAYOR OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

DATE: \_\_\_\_\_

ATTEST:

TOWN CLERK OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

DATE: \_\_\_\_\_



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 8

ADDENDUM

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DATE: December 14, 2020  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Deny an Appeal of a Planning Commission Decision Approving a Request for a Zoning Consistency Determination and a Conditional Use Permit (U-20-009) for a Bank (Charles Schwab Community Banking and Investment Services) on Property Zoned C-2:LHP:PD Located at 35 University Avenue. APN 529-02-044. Property Owner: SRI Old Town, LLC. Applicant: Amber DeMaglio. Project Planner: Sean Mullin.

**REMARKS:**

Attachment 8 includes a letter from the applicant to the Town Council received after publishing of the Staff Report.

**ATTACHMENTS:**

**Previously received with the December 15, 202 Staff Report:**

1. November 11, 2020 Planning Commission Staff Report, with Exhibits 1 through 9
2. November 11, 2020 Planning Commission Desk Item, with Exhibit 10
3. November 11, 2020 Planning Commission Verbatim Minutes
4. Appeal of Planning Commission decision, received November 19, 2020
5. Draft Resolution to Deny an Appeal and Approve the Project, with Exhibits A and B
6. Draft Resolution to Grant an Appeal and Remand the Project to Planning Commission
7. Draft Resolution to Grant an Appeal and Deny the Project

**Received with this Addendum Report:**

8. Applicant letter to the Town Council received December 14, 2020

S:\COUNCIL REPORTS\2020\12-15-20\08 35 University - Appeal\Addendum.University Avenue, 35 - APPEAL.docx

**PREPARED BY:** SEAN MULLIN, AICP  
Associate Planner

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Reviewed by: Town Manager, Assistant Town Manager, Town Attorney, and Community Development Director

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Walnut Creek, CA 94596

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Michael E. Di Geronimo  
Direct Dial: 925 941 3247  
michael.digeronimo@msrlegal.com

December 14, 2020

**VIA E-MAIL COUNCIL@LOSGATOSCA.GOV**

Honorable Mayor Sayoc,  
Honorable Vice Mayor Rennie and  
Town Councilmembers  
Town of Los Gatos  
110 E. Main Street  
Los Gatos, CA 95030

Re: Appeal of Planning Commission Approval of Charles Schwab Community  
Banking and Financial Services Use at 35 University Avenue

Dear Honorable Mayor Sayok, Vice Mayor Rennie, and Town Councilmembers:

This office represents SRI Old Town, LLC, a California limited liability company ("SRI") owned by Federal Realty Investment Trust. SRI is working to locate an innovative community banking and financial services use operated by Charles Schwab ("Schwab") at a soon-to-be vacant space at 35 University Avenue in the Town (the "Project"). We submit this letter in response to the appeal filed by the Los Gatos Chamber of Commerce (the "Chamber") on November 19, 2020 (the "Appeal"). The Appeal challenges the Town Planning Commission's lawful approval of a conditional use permit application (No. U-20-009) for the Project after a public hearing on November 11, 2020. As discussed below, the Chamber has not, and cannot meet its burden of proof to show that the Planning Commission's approval of the Project was somehow in error or an abuse of discretion. As a result, the appeal is meritless. We respectfully request that the Town Council deny the Appeal in its entirety and approve SRI's conditional use permit application.

**I. The Project Would Provide Community Focused Banking and  
Investment Services at an Appropriate Location.**

As noted in our prior correspondence to the Town, the Project would introduce a retail-style pedestrian-focused community banking and investment services use at an appropriate location in the Town. (See Letter of Justification, dated August 18, 2020, **Exhibit A**; see also Zoning Consistency Letter, dated August 18, 2020, **Exhibit B**.) These services would be tailored to meet the modern banking and investment needs of local residents and small businesses while also boosting the Town's economic vitality. The Project would also fill an impending vacancy with a resilient business that has a long track record of serving the Town. As the Planning Commission determined, the Project is in all regards a modern banking and financial

services use that is conditionally permitted as a “bank” in the applicable C-2 zone. As noted in SRI’s application materials, the Project will promote the Town General Plan’s community and pedestrian-focused visions for the Project site.

**II. The Chamber Cannot Meet its Burden of Proof and the Appeal Must Fail.**

An appellant challenging a Planning Commission approval “bears the burden to prove that there was an error or abuse of discretion by the Planning Commission” and if neither is proven, the appeal “shall be denied.” (Town Code, § 29.20.295.) An appellant must file a written notice of appeal that states “specifically wherein it was claimed there was an error or abuse of discretion” by the Planning Commission. (Town Code, § 29.20.275.)

The Town Code does not provide its own definition of what constitutes an “abuse of discretion.” However, in similar planning contexts, courts describe an abuse of discretion as an action where a local agency has “not proceeded in the manner required by law” or a decision that is not “supported by substantial evidence in the light of the whole record.” (*See Holden v. City of San Diego* (2019) 43 Cal.App.5th 404, 410.) When determining whether “substantial evidence” supports a decision by a local agency, a reviewing body gives significant deference to that agency’s decision. Substantial evidence is evidence “that is reasonable in nature, credible, and of solid value.” (*Id.*) In applying the “substantial evidence” standard to an agency decision, “all conflicts in the evidence are resolved in favor of the prevailing party and all legitimate and reasonable inferences are made to support the agency’s decision.” (*Id.*) In other words, even if there is conflicting evidence presented to an agency before it makes a decision, that agency’s decision must be upheld if it is supported by substantial evidence.

**A. The Planning Commission Acted Lawfully and No Error Was Committed.**

The Planning Commission has authority to approve conditional use permit applications upon making discretionary findings outlined in Section 29.20.190(a) of the Town Code, and appropriately did so here. Required findings include a determination that a project complies with General Plan and zoning regulations, would be harmonious with the surrounding neighborhood and uses, and would promote - not harm - public welfare. (Town Code, § 29.20.190 (a).) To act, the Planning Commission must first have a quorum at a duly noticed public meeting, defined as a majority of its seven members. After a public hearing, and after receiving public comment, the Planning Commission can then approve conditional use permit applications upon a majority vote of the members constituting a quorum. (Town Code, §§ 20.20.020, 20.20.030. 29.20.420.)

During the November 11, 2020 hearing, a quorum, or a total of four out of seven Commissioners were present to consider the Project application after Commissioner

Burch recused herself. After an approximately one hour hearing, a majority of the quorum present voted to approve the Project pursuant to the required findings. This approval was lawful and entirely consistent with the procedures required by the Town Code.

**B. The Planning Commission's Decision was Supported by Substantial Evidence.**

Substantial evidence supported the Planning Commission's approval of a conditional use permit for the Project. During the November 11, 2020 hearing, the Planning Commission considered SRI's detailed Project application including detailed plans and elevations, a project description, and an explanation as to how the Project is consistent with and will promote relevant goals for the site outlined the Town General Plan and zoning regulations. The Commission received and considered a single letter in opposition to the Project submitted the day before the hearing. The Commission also received a presentation from Planning Staff, the applicant team, and a public comment from the Chamber in opposition to the Project, as well as a public comment in support of the Project. During the hearing, the Town Attorney, Community Development Director, Planning Manager, and Economic Development Manager answered the Planning Commission's questions and discussed the desirability and merits of the Project. Ultimately, after hearing all of the evidence and arguments presented, the Planning Commission duly voted to approve a conditional use permit for the Project. Despite the Chamber's comment in opposition, the Planning Commission's decision was supported by more than enough evidence in support of the Project to constitute substantial evidence.

**III. Conclusion**

As discussed above, on each required basis, the Chamber failed to meet its burden necessary to overturn the Planning Commission's November 10, 2020 approval of a conditional use permit for the Project. We respectfully request that the Council reject the Appeal in its entirety and confirm the Planning Commission's approval of Conditional Use Permit Application number U-20-009.

SRI appreciates your consideration of this letter and looks forward to continuing its work with the Town to keep the downtown area vibrant and filled with first-class tenants, like Charles Schwab.

Very truly yours,

MILLER STARR REGALIA

*Michael Di Geronimo*

Michael E. Di Geronimo

Honorable Mayor Sayoc  
Honorable Vice Mayor Rob Rennie and  
Town Councilmembers  
December 14, 2020  
Page 4

cc: Sean Mullin, Town of Los Gatos, SMullins@losgatosca.gov  
Jeff Kreshek, Federal Realty, jkreshek@federalrealty.com  
Amber Demaglio, Federal Realty, ademaglio@federalrealty.com  
Richard Zak, Charles Schwab, Richard.Zak@schwab.com

# Exhibit A



**MILLER STARR  
REGALIA**

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Walnut Creek, CA 94596

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michael.digeronimo@msrlgal.com

August 18, 2020

Town of Los Gatos Planning  
Commission  
110 E. Main St.  
Los Gatos, CA 95030

Re: Letter of Justification for Proposed Charles Schwab Use at 35 University Avenue

Dear Honorable Commissioners:

This letter outlines the justification for efforts by Federal Realty Investment Trust ("Federal") and Charles Schwab ("Schwab") to locate an innovative community banking and financial services use at 35 University Avenue in the Town ("Project Site"). The Project would allow Schwab to provide a wide range of interactive banking and brokerage services to area residents and small businesses while bolstering the commercial and financial viability of the Town. The Project would also fill an impending vacancy of the Project Site by Gap Stores, the current tenant of the site.

Schwab has operated in the Town for more than twenty years. During that time, Schwab has provided vital financial and banking services to Town residents and small businesses at its existing 335 N. Santa Cruz location. While Schwab's existing location was adequate to meet the financial services needs of its clients twenty years ago, like its competitor banks and financial services institutions, Schwab's business model and the needs of its clients have evolved significantly in recent years. Whereas Schwab used to focus on offering office style financial advice to its clients, it now offers a full range of modern banking and financial services that require a more pedestrian and community focused space. This is at least partially due to the fact that with the advent of online banking and financial "apps" customers are seeking more in person interaction and advice from banks and financial advisors. The Project would meet these changing needs of Town residents and small businesses and help foster the Town's unique "small town" identity while also supporting its commercial viability and wellbeing.

As already outlined in Federal's zoning consistency letter submitted with this application, the Project is consistent with the Town's General Plan and will promote several of the Town's core goals for the Central Business District. These include General Plan goals and policies: (1) aimed at encouraging community-oriented

services that maintain the small-town character of the Town, (2) encouraging development and retention of small businesses and independent stores and shops, and (3) encouraging land use patterns that promote the “pedestrian scale and orientation of the Central Business District.” (Town General Plan LU-14, 29; General Plan Goal 10.) The Project would do this by introducing a modern pedestrian and community-oriented space that will provide a range of modern financial and banking services to local residents and small businesses.

Moreover, as outlined in Federal’s zoning consistency letter, the Project would introduce a modern use that is in all key aspects consistent with bank and savings and loan office uses that are conditionally permitted at the Project Site.

For all of the reasons outlined above we respectfully request that the Commission approve a Conditional Use Permit for the Project. Such an approval would allow the applicant to introduce a strong and vibrant business operator that will be vital to the continued success of the Town’s Central Business District, particularly in these uncertain times.

Very truly yours,

MILLER STARR REGALIA

*Michael E. Di Geronimo*

Michael E. Di Geronimo

cc: Amber Maglio (via email)

# Exhibit B



**MILLER STARR  
REGALIA**

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Michael E. Di Geronimo  
Direct Dial: 925 941 3247  
michael.digeronimo@msrlgal.com

August 18, 2020

**VIA E-MAIL AND U.S. MAIL**

Planning Staff  
Town of Los Gatos  
110 E. Main Street  
Los Gatos, CA 95030

Re: Zoning Consistency Determination for Proposed Charles Schwab Community  
Bank and Brokerage Storefront at 35 University Avenue

Dear Staff:

This office represents SRI Old Town, LLC, a California limited liability company ("SRI"), an entity owned by Federal Realty Investment Trust. SRI is the fee owner of a one-story building at 35 University Avenue in the Town ("Project Site"). The existing tenant of the Project Site, Gap Stores, recently notified SRI that it will soon terminate its lease and vacate the Project Site. To fill this impending vacancy, SRI is working with Charles Schwab ("Schwab") to locate an innovative community financial services storefront at the Project Site that would provide a wide range of interactive banking and brokerage services to the Town and area residents (the "Project").

We are providing this letter in support of our client's application for a conditional use permit for a Schwab branch at the Project Site.

As outlined below, Schwab's proposed use has evolved significantly from the office-type use that Schwab initially introduced at its current location in the Town more than twenty years ago. Instead, consistent with modern banking needs (which includes a full range of financial services) and market changes, the use that Schwab now seeks to introduce is a financial services storefront with all the key features of a bank and with a heavy emphasis on walk-in customers and regular customer interaction. This is exactly the type of pedestrian-oriented and community-focused use that the Town General Plan and Zoning Code envision at the Project Site.

Because Schwab's proposed use will not necessarily look like a traditional bank, Town planning staff previously asked SRI's representatives to confirm that the proposed use is consistent with a banking or savings and loan office use, which are conditionally permitted at the Project Site. Although the Project may look somewhat different than the banks that existed when the Town adopted its zoning code several

decades ago, Schwab is proposing a use that in all key respects is a banking use and should be treated as such by the Town. Banks are conditionally permitted at the Project Site. Accordingly, we request that staff opine that the Project is conditionally permitted at the Project Site in its staff report for SRI's Conditional Use Permit application for the Project.

**I. The Project Would Promote the City's General Plan Goals for the Project Site and Is Conditionally Permitted**

The Project Site has a General Plan Designation of Central Business District, and is zoned C-2, Central Business District. The Project Site is within the Old Town Planned Development, however this planned development follows the zoning standards applicable to the C-2 zone.

**A. The Project Will Promote the Town General Plan's Goals for the Project Site.**

The Project Site is within the General Plan's Central Business District which:

encourages a mixture of community-oriented commercial goods, services, and lodging unique in its accommodation of small-town style merchants and maintenance of small-town character.

(Town General Plan LU-14.)

Within the Central Business District, Land Use Goal 10 seeks to "preserve Downtown Los Gatos as the historic center of the Town" with goods and services available for local residents "while maintaining the existing Town identity, environment, and commercial viability." (TGP LU 29.) Relevant policies in support of this goal include:

Policy LU-10.1: Encourage the development and retention of small businesses and independent stores and shops Downtown that are consistent with small-town character and scale.

Policy LU-10.2: Recognize and encourage the different functions, land use patterns, and use mixes of the various commercial areas within the Downtown. These include: (a) The pedestrian scale and orientation of the Central Business District....

(TGP LU-29, Policy LU-10.1.)

As highlighted in the letter dated February 3, 2020 and attached as **Exhibit A**, Schwab's proposed use would introduce a modern, service-oriented bank that will serve long-standing and new walk-in customers by providing a range of financial services. Schwab will enhance the existing space with a number of retail-style

improvements inspired by retail coffee shops and the location of other retailers of high-end goods and services. Consistent with this, Schwab's community bank would feature a welcome bar, coffee bar, hospitality area, and living room style conference room. In this retail-style space, Schwab staff would offer customers its wide range of community banking and brokerage services in a comfortable, modern space. With respect to the above, it should be noted that almost all mainline banks, such as Wells Fargo, Chase, and Bank of America, also offer their customers brokerage services similar to those offered by Schwab.

For more than twenty years, Schwab has provided vital financial services to Town residents from its 335 N. Santa Cruz location less than half a mile from the Project Site.<sup>1</sup> At its new location, Schwab would continue to serve new and existing clients, including small businesses, but in a more pedestrian and community focused, retail type space that more accurately meets modern banking needs. Consistent with the General Plan, the Project will help support local residents and small businesses, thus maintaining the Town's unique "small town" identity, and support its continued commercial viability and wellbeing.

**B. The Project Would Introduce a Bank Use, Which is Conditionally Permitted at the Project Site.**

From a zoning standpoint, the C-2 zone is "intended to encourage the continuance of a viable and predominantly pedestrian-oriented central business district for the Town." (Town Municipal Code § 29.60.315.) Consistent with this intent, within the C-2 zone, retail businesses are permitted, whereas banks and savings and loan offices are conditionally permitted. (TMC §§ 29.20.180, 29.60.320.) "Office activities" are generally prohibited on the first floor of buildings within the C-2 zone.

As noted above, the Project will introduce a modern community banking and financial services use to the Project Site that will meet the banking and brokerage needs of Town and Area residents. Schwab's use will focus on modern interactive banking and investment services. This reflects the reality that traditional banking attributes such as teller lines and ATMs are growing less utilized and more obsolete with the advent of banking apps, credit cards, and online banking.

Although the Project layout might seem like a Starbucks or Philz Coffee shop or Apple Store more than a traditional bank, Schwab's actual use would function exactly like a modern bank. As noted on the comparison chart attached as **Exhibit B**, the range of banking and financial services offered by Schwab would be identical to those offered by Schwab's traditional banking competitors like Wells Fargo, Bank of America, and Citi. For example, Schwab will offer a full range of banking and credit card services, including checking and savings accounts, credit cards, ATM cards, and cash withdrawals. Schwab will also provide a range of loan

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<sup>1</sup> We note that Schwab's existing location is also zoned C-2 and is on the first floor.

and credit services. Like its competitor banks, Schwab will also provide a full range of investment and retirement services, as well as wealth management and planning services. Accordingly, the use proposed by Schwab fits squarely into the conditional bank use under the Town's zoning code. With respect thereto, it is worth noting that many mainline banks consider Schwab to be a competitor and will seek to exclude them from centers and other retail projects in which the mainline banks are located.

In all material respects, Schwab's proposed use is consistent with a bank or savings and loan office use, both of which are conditionally permitted at the Project Site.<sup>2</sup>

## II. Conclusion

Consistent with the above, we request that staff support the Project application and confirm that Schwab's proposed use meets the definition of the use category of banking and savings and loan office use and allow SRI to move forward with the conditional use permit application they filed for the Project. We note that the Town has wide discretion in interpreting its own General Plan and Zoning Code, meaning it is well within the Town's power to make this entirely reasonable and in our view clear interpretation of its Zoning Code. (See *Joshua Tree Downtown Business Alliance v. County of San Bernardino* (2016) 1 Cal.App.5th 677, 696.)

Very truly yours,

MILLER STARR REGALIA

*Michael Di Geronimo*

Michael E. Di Geronimo

cc: Amber Maglio (via email)

---

<sup>2</sup> Companies like Schwab who would like to open a store and operate in the Central Business District should be encouraged by the Town to do so. It seems like every day that there is a media story about retailers closing stores due to COVID-19 and the rise of internet shopping. Having financially strong and vibrant business operators like Schwab is vital to the continued success of the Town's business district.

## EXHIBIT A

February 3, 2020

Planning Department  
Community Development Department, Town of Los Gatos  
110 E. Main Street  
Los Gatos, CA 95030

Re: Charles Schwab, 35 University Avenue (Old Town Los Gatos)  
Use Description / Letter of Justification

To whom it may concern:

Charles Schwab and Federal Realty have agreed upon terms for Charles Schwab to occupy the existing (and soon to be former) Gap location in the Old Town Los Gatos project at 35 University Avenue in Los Gatos, CA. This location is part of the C-2 zone and Charles Schwab, as a retail securities brokerage and bank use, will apply for a conditional use permit to occupy the space.

### **Site**

35 University Ave  
Cross Street: Elm Street  
Zoning District: C-2  
See attached Exhibit A for aerial and site plan

### **C-2 Zone Overview**

C-2 Zone: The Central Business District Commercial zone is intended to encourage a viable and predominantly pedestrian-oriented Central Business District. The C-2 zone is designed to facilitate a wide variety of retail, service, entertainment, and administrative uses which are vital to a large trading area.

Office uses shall not be located on the ground floor along streets, alley ways, or public parking lots. There are exception areas (Lyndon, Wood, Victory Lane, South side of Los Gatos-Saratoga), but University and N. Santa Cruz are not included.

Office uses on ground floors that are legal and allowed if the office use is not discontinued for 180 consecutive days. If the office use is discontinued for more than 180 days, then it shall not be resumed.

Examples of Proper C-2 uses: Apparel stores, laundrettes/dry cleaning agencies, travel agencies, antique stores, telephone answering services, artist studios, sales offices (merchandise stored elsewhere), craft studios, auto parts sales and paint shops.

Personal service businesses may be allowed on the ground floor in the C-2 zone with a conditional use permit (CUP). The Community Development Department handles the CUP process and more information can be found in Town Code Sec. 29.20.185. Banks are permitted in the C-2 zone with a CUP.

### **History**

Charles Schwab is currently located at 335 N. Santa Cruz in Los Gatos. We have been a fixture in the Town and have been in the C-2 district for more than 20 years. As the demand for our services in the Town have continued to grow along with the changes in the nature of banking and brokerage transactions that have evolved, the need has come up for more space, which has led us to the current Gap location. This location would allow us to serve our customers and community more effectively, and in an interactive space as the next generation of banking requires.

### **Retail is Changing**

As highlighted with the C-2 zoning above, we feel that the current definition of retail may be outdated and not in line with today's retail landscape. As more consumers make purchases online, customers now seek an interactive experience as they walk into shops, banks or other service providers. Retail now needs to be about that experience for it to succeed long term. In addition, sales have been decreasing in traditional soft goods retail areas leading to significant retail vacancy: Union Square (SF) and downtown Los Gatos as examples. By replacing the vacant spaces with companies that provide both a person to person transaction and a customer experience, we maintain vibrant city centers.

### **Banks are Changing**

- Teller Lines are no longer needed. As people move to online transactions and pay-by-phone applications, the need to utilize a traditional teller line is no longer a part of the modern banking program.
- ATM usage is decreasing, and cash withdrawals have consistently decreased year over year. As noted above, the use of credit cards and the many mobile applications have lessened the need for cash.
- Banks are needed as a "presence" and are shifting the services that they provide onsite. By allowing customers to use the site as more of an interactive customer facing location, they can manage their finances in a more personal manner.
- As the new banking model evolves, classes, seminars, and interactive sessions have become a fixture of the Charles Schwab business model for each branch. This allows Charles Schwab to not only be a community bank and brokerage house, but also a community service.

Many banks are revising their business model in a similar model as Charles Schwab. Below are a few local examples:

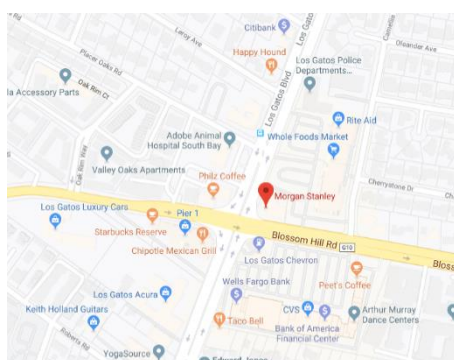
### Capital One



### Chase private client



### Morgan Stanley – In the retail location in the Los Gatos SC on Blossom Hill



## Charles Schwab Overview

A search of “Charles Schwab” online provides the following description:

*The Charles Schwab Corporation is a bank and stock brokerage firm based in San Francisco, California. It was founded in 1971 by Charles R. Schwab. It is ranked 13th on the list of largest banks in the United States and it is also one of the largest brokerage firms in the United States.*

Charles Schwab Bank – FDIC Insured, and Highest 2019 ranking by JD Power for Direct Retail Banking Customer Satisfaction. Offers High yield checking & savings, mortgage loans, and all other financial products that can be obtained in any other bank.

Charles Schwab, like many other banks noted above, is evolving to meet the modern view of a service-oriented bank. Pictures below are of the “branch of the future” which has launched in Austin and will be on the cutting edge in Los Gatos, the heart of Silicon Valley, where innovation is everywhere. Our new branch model features a welcome bar, coffee bar, hospitality area, and living room style conference room and a seminar room as well as private space where clients or walk-in customers can have an opportunity to meet with our bankers and advisors privately. This new model allows for a hands on experience for the clients of Charles Schwab and a space for a interactive experience for residents of Los Gatos.

**We have leveraged the best practices from other retailers: Apple’s approachable, informative store environment combined with the cozy comfort of Starbucks**



## **Examples**

Charles Schwab operates in the same capacity as other retail banks, focusing on foot traffic, signage, parking, access, and overall convenient locations. They target retail locations throughout the country where zoning is retail, and their use is permitted.

- 211 Main Street, San Francisco, CA – Ground floor retail zoning
- 100 Post, San Francisco, CA – Retail zoning for the 1<sup>st</sup> and 2<sup>nd</sup> floors.
- The Village, Corte Madera, CA – Retail shopping center
- Santa Monica, CA – Retail building (former pet shop)
- Woodland Hills, CA – Retail shopping center
- Raleigh, NC – Stand-alone retail pad building
- Sandy Springs, GA – Single tenant retail
- Cobb, GA – Street front retail building.
- Paramus, NJ - Retail zoning
- Clear Lake, TX – Retail zoning
- Mount Kisko, KY – Street front retail zoning
- Huntington, NY – Retail zoning
- Fort Myers, FL – Retail zoning
- Northbrook, IL – Retail zoning

## **Conclusion**

Charles Schwab has had a long history serving the Town of Los Gatos. We have been an integral part of the community and hope to serve our valued community for many years to come. To do this, we need to move and grow with the demand of our customer base and with the requirements of a changing market. This branch at 35 University Avenue, with its space for group classes, will provide a beneficial for the entire community, not just our existing customers. We will contribute towards creating synergy amongst the current and future tenants, provide a beautiful façade, the level of quality that the Town of Los Gatos demands, and be a positive driver within the community. Charles Schwab plans to have outreach seminars regarding financial planning to anyone in the Los Gatos community; our store will provide a gathering place for residents and visitors. Therefore, we are formally requesting approval to operate at 35 University Avenue with a conditional use permit as a bank use.



We thank you for your time and look forward to meeting in person to answer any additional questions.

Sincerely,  
*Joon H. Lee*






Joon Lee  
Portfolio Director, Corporate Real Estate

Cc: Jeff Kreshek, Federal Realty

## EXHIBIT B

# BANKING COMPARISON – SERVICES OFFERED

MAY 21, 2020

SERVICES					
BANKING & CREDIT CARDS					
CHECKING ACCOUNTS	X	X	X	Charles Schwab Bank	N/A
SAVINGS ACCOUNTS & CDS	X	X	X	Charles Schwab Bank	N/A
CREDIT CARDS	X	X	X	Charles Schwab Bank	N/A
ONLINE BANKING	X	X	X	Charles Schwab Bank	N/A
MOBILE BANKING	X	X	X	Charles Schwab Bank	N/A
ATM CARDS	X	X	X	Charles Schwab Bank	N/A
CASH WITHDRAWALS	X	X	X	Charles Schwab Bank	N/A
LOAND AND CREDIT					
HOME LOANS	X	X	X	Charles Schwab Bank	N/A
HOME EQUITY LINES	X	X	X	Charles Schwab Bank	N/A
PERSONAL LINES OF CREDIT	X	X	X	Charles Schwab Bank	N/A
SMALL BUSINESS LOANS	X	X	X	Charles Schwab Bank	N/A
STUDENT LOANS	X	X	X	Charles Schwab Bank	N/A
AUTO LOANS	X	X	X	Charles Schwab Bank	N/A
INVESTING AND RETIREMENT					
IRAS	X	X	X	X	X
MUTUAL FUNDS	X	X	X	X	X
401K	X	X	X	X	X
529C (EDUCATION ACCOUNT)	X	X	X	X	X
HEALTH SAVINGS ACCOUNT	X	X	X	X	X
BROKERAGE & TRADING ACCOUNTS	Wells Fargo Advisors	Merill Lynch	X	X	X
INSURANCE SOLUTIONS; LIFE, DISABILITY, LONG TERM CARE	X	X	X	X	X
WEALTH MANAGEMENT					
WEALTH PLANNING / FINANCIAL PLANNING	X	X	X	X	X
TRUST & FIDUCIARY SERVICES	X	X	X	X	X
INVESTMENT & ASSET MANAGEMENT	X	X	X	X	X
FINANCIAL LITERACY / SEMINARS	X	X	X	X	X
Page 236	<a href="https://www.wellsfargo.com/">https://www.wellsfargo.com/</a> <a href="https://www.wellsfargoadvisors.com/">https://www.wellsfargoadvisors.com/</a>	<a href="https://www.bankofamerica.com">https://www.bankofamerica.com</a> <a href="https://www.merrilledge.com/">https://www.merrilledge.com/</a>	<a href="https://online.citi.com">https://online.citi.com</a>	<a href="https://www.schwab.com">https://www.schwab.com</a> <a href="https://www.schwab.com/bank">https://www.schwab.com/bank</a>	<a href="https://www.fidelity.com/">https://www.fidelity.com/</a>

Notes: Charles Schwab Bank was founded in 2003. / We have the ability to have cash...but this is why we don't want to. / Compare the services offered by Schwab originally to what services they offer today. / TD Bank is not part of this acquisition.

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**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 8

DESK ITEM

DATE: December 15, 2020  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Deny an Appeal of a Planning Commission Decision Approving a Request for a Zoning Consistency Determination and a Conditional Use Permit (U-20-009) for a Bank (Charles Schwab Community Banking and Investment Services) on Property Zoned C-2:LHP:PD Located at 35 University Avenue. APN 529-02-044. Property Owner: SRI Old Town, LLC. Applicant: Amber DeMaglio. Project Planner: Sean Mullin.

**REMARKS:**

The following discussion includes several questions asked by Council Members and staff's response in *italics*.

- What are the updated appeal criteria?

*Pursuant to updated Town Code Section 29.20.020, an interested person for non-residential projects is any person or persons or entity or entities who can demonstrate that their property will be injured by the decision.*

*Pursuant to updated Town Code Section 29.20.295, in the appeal and based on the record, the appellant (interested person) bears the burden to prove that there was an error or abuse of discretion by the Planning Commission or wherein its decision was not supported by substantial evidence in the record as required by Section 29.20.275. If neither is proved, the appeal should be denied. If the appellant meets the burden, the Town Council shall grant the appeal and may modify, in whole or in part, the determination from which the appeal was taken or, in its discretion, return the matter to Planning Commission. If the basis for granting the appeal is, in whole or in part, information not presented to or considered by the Planning Commission, the matter shall be returned to the Planning Commission for review.*

**PREPARED BY:** SEAN MULLIN, AICP  
Associate Planner

Reviewed by: Town Manager, Assistant Town Manager, Town Attorney, and Community Development Director

REMARKS (continued):

- What is the definition of a bank? Does the Town use the dictionary definition if there is no Code definition?

*The Town Code does not include a definition of a bank. Traditionally, businesses that provide investment services have been considered office uses by the Town. The applicant provided a Project Description (Attachment 1, Exhibit 4), Letter of Justification (Attachment 1, Exhibit 5), and a letter speaking to zoning consistency (Attachment 1, Exhibit 6), all of which describe the proposed use as a bank and cite the evolving nature of traditional banking. This application was forwarded to the Planning Commission to determine if the proposed use is considered a bank.*

*Staff has reviewed the municipal codes of several neighboring jurisdictions and provides the following definitions of "bank" to aid in this discussion:*

<i>Campbell</i>	<i>Not defined.</i>
<i>Cupertino</i>	<i>"Banks" means financial institutions including federally-chartered banks, savings and loan associations, industrial loan companies, and credit unions providing retail banking services to individuals and businesses. This classification does not include payday lending businesses or check cashing businesses.</i>
<i>Gilroy</i>	<i>"Bank" means financial institutions including federally chartered banks, savings and loan associations, industrial loan companies, and credit unions providing retail banking services to individuals and businesses. This classification of bank does not include payday lending businesses or check cashing businesses, and as a result, the establishment, expansion, or relocation of such businesses is prohibited.</i>
<i>Los Altos</i>	<i>"Banks (commercial)" means financial institutions including federally-chartered banks, savings and loan associations, industrial loan companies, and credit unions providing retail banking services to individuals and businesses. This classification does not include payday lending businesses or check cashing businesses, and as a result, the establishment, expansion, or relocation of such businesses is prohibited.</i>
<i>Los Altos Hills</i>	<i>Not defined.</i>
<i>Milpitas</i>	<i>Not defined.</i>
<i>Monte Sereno</i>	<i>Not defined.</i>
<i>Morgan Hill</i>	<i>Banks and Financial Institutions. A financial institution providing retail banking services. Includes only those institutions serving walk-in customers or clients, including federally chartered banks, savings associations, industrial loan companies, and credit unions providing retail banking services to individuals and businesses. This classification expressly excludes payday lending businesses or check cashing businesses, and as a result, the establishment, expansion, or relocation of such businesses is prohibited.</i>

REMARKS (continued):

<i>Mountain View</i>	<i>Banks and financial services. Financial institutions, including banks and trust companies; lending and thrift institutions, credit agencies; brokers and dealers in securities and commodity contracts; security and commodity exchanges; holding (but not predominantly operating) companies; and other investment companies; vehicle finance (equity) leasing agencies. See also "Automatic teller machine."</i>
<i>Palo Alto</i>	<i>Not defined.</i>
<i>San Jose</i>	<i>"Retail Bank" refers to commercial and non-profit banks and credit unions which are primarily focused on in-person customer services such as, checking and savings accounts, mortgages, personal loans, and debit or credit card services.</i>
<i>Santa Clara</i>	<i>Not defined.</i>
<i>Saratoga</i>	<i>Not defined.</i>
<i>Sunnyvale</i>	<i>Not defined.</i>

- Can the Council debate the bank determination of the Planning Commission or is that issue resolved?

*Yes, the Council may debate the determination of the Planning Commission that the proposed use is a bank as this is a de novo hearing.*

- What is the rubric for determining an appropriate use?

*The Town Code indicates that there are uses which can be specified for each zone which, in practically all instances, will be mutually compatible. In addition, there are other uses which might be compatible with ordinarily allowed uses if properly located and regulated. These are called conditional uses. They are listed in Section 29.20.185. However, the listing of a conditional use does not indicate that the use must be allowed. There will be locations or instances where a specified conditional use is inappropriate in a zone regardless of the extent of regulation if the findings can be made.*

*Sec. 29.20.190. - Findings and decision for Conditional Use Permits.*

- a) The deciding body, on the basis of the evidence submitted at the hearing, may grant a conditional use permit when specifically authorized by the provisions of this chapter if it finds that:*

- 1) The proposed uses of the property are essential or desirable to the public convenience or welfare;*
- 2) The proposed uses will not impair the integrity and character of the zone;*
- 3) The proposed uses would not be detrimental to public health, safety or general welfare;*

REMARKS (continued):

- 4) *The proposed uses of the property are in harmony with the various elements or objectives of the general plan and the purposes of this chapter.*
  - 5) *A hazardous waste facility proposal is subject to the California Health and Safety Code, Article 8.7, Section 25199—25199.14 and shall be consistent with the Santa Clara County Hazardous Waste Management Plan.*
- How broadly do we view new information that was not available at the Planning Commission hearing? In other words, is there a low bar for sending things back to the Commission?

*Section 29.20.295 of the Town Code states:*

*“If the basis for granting the appeal is, in whole or in part, information not presented to or considered by the Planning Commission, the matter shall be returned to the Planning Commission for review.”*

*In the context of the updated Ordinance language discussion, “information not presented to or considered by the Planning Commission” anticipated instances with a significant change in the project description from what was presented to the Planning Commission.*

ATTACHMENTS:

Previously received with the Staff Report:

1. November 11, 2020 Planning Commission Staff Report, with Exhibits 1 through 9
2. November 11, 2020 Planning Commission Desk Item, with Exhibit 10
3. November 11, 2020 Planning Commission Verbatim Minutes
4. Appeal of Planning Commission decision, received November 19, 2020
5. Draft Resolution to Deny an Appeal and Approve the Project, with Exhibits A and B
6. Draft Resolution to Grant an Appeal and Remand the Project to Planning Commission
7. Draft Resolution to Grant an Appeal and Deny the Project

ATTACHMENTS (continued):

Previously received with the Addendum:

8. Applicant letter to the Town Council received December 14, 2020



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 9

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DATE: December 9, 2020  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Comprehensive Annual Financial Report (CAFR):  
a. Receive the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2020, and  
b. Adopt a Resolution Confirming June 30, 2020 Fund Balances in Accordance Fiscal Year 2019/20 Final Audit and Town Council General Fund Reserve Policy

**RECOMMENDATION:**

Comprehensive Annual Financial Report (CAFR):

- a. Receive the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2020 (Attachment 1), and
- b. Adopt a Resolution Confirming June 30, 2020 Fund Balances in Accordance with Fiscal Year

**BACKGROUND:**

The Town contracts with an independent certified public accountant to examine the books, records, inventories, and reports of all officers and employees who receive, handle, or disburse public funds each fiscal year (FY). The FY 2019/20 audit was performed by Badawi & Associates, an experienced firm specializing in audit services for California public agencies. The firm also compiled the Draft CAFR for the Town of Los Gatos (see Attachment 1).

The information contained in the CAFR provides detailed financial information which the Los Gatos community and others can use to better understand the fiscal standing of the Town. In addition, the financial information contained in the document is one element that the credit rating agencies review annually to affix a credit rating for the Town's outstanding debt obligations. In 2020, Moody's rating service affirmed the Town's general credit rating of Aaa, the highest rating possible.

**PREPARED BY:** Stephen Conway  
Finance Director

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

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DISCUSSION:

The Council Finance Committee met on Monday, December 7, 2020 to review and provide comments on the draft Fiscal Year (FY) 2019/20 CAFR. Mr. Badawi presented the highlights of the CAFR through a series of slides (see Attachment 3) and Committee members discussed the information in an interactive format with staff and Mr. Badawi. In addition, prior to the Committee meeting, Committee Members provided staff with questions regarding their CAFR review for which staff provided responses that can be found in the Desk Item portion of Attachment 4.

The Council Finance Committee also received written public comments and provided an opportunity for public testimony. The Committee reviewed, discussed, and provided comments on the Draft CAFR and its accompanying Desk Item. Based upon the suggestions from the Committee to expand or highlight specific areas of concern, staff has made changes to the draft CAFR and its narratives. These changes include an expanded discussion of COVID-19 impacts to the final quarter of FY 19/20 and ongoing known and significant impacts to FY 20/21 in the Management's Discussion and Analysis Financial Highlights section beginning on page 18 of the CAFR. Staff also highlighted the increasing costs of net governmental expenses (governmental cost by function less revenues generated by that function) as reported in the Town's Statement of Activities. In addition, staff also added more discussion regarding the growth of the Town's unfunded pension obligation to the CAFR's Transmittal Letter which begins on page 1 of the CAFR.

In light of the recognition of operating surpluses of revenue above expenditures of approximately \$5.6M (2019) and \$3.2M in 2020, staff is recommending assignment of Measure G 2018 District Sales Tax collected to date. Per the Town's General Fund Reserve Policy, surplus revenues above expenditures are placed into the Town's Reserve for Capital/Special Projects. Staff recommends an additional assignment of General Fund Reserves recognizing a total of \$1,224,521.96 in District Taxes collected less \$43,060 in State of California administration fees from first date of receipt in FY 2018/19 through June 30, 2020. The recommendations reassign the District tax net proceed amounts in the draft CAFR previously assigned for General Fund Capital/Special Projects Reserve by \$1,181,162 and increases the amount assigned for District Sales Tax in the same amount. This assignment facilitates the Town's ability to track both receipt and use of this source of funding as required by Town ordinance and described in the FY 2020/21 – 2024/25 Five-Year Capital Improvement Program (CIP) transmittal letter.

The redline version of the attached CAFR represents the culmination of recommended enhancements and changes based on Finance Committee comments, continued staff analysis, public comments, and continued auditor review while maintaining appropriate CAFR presentation based on governmental accounting and municipal standards.

DISCUSSION (continued):

In addition to the above-mentioned disclosures in the CAFR, staff has prepared a separate agenda item for the December 15, 2020 Council meeting to provide an update on the status of major operating revenues including property tax, sales tax, and transient occupancy taxes. Given the unprecedented economic impacts related to COVID-19, staff wanted the Council and the public to have an update prior to the Mid-Year Budget review currently scheduled for late February 2021. The update includes the current status of how these revenues are performing as compared to the FY 2020/21 Adopted Budget and prior FY actuals.

Highlights of the draft audited financial results include:

Independent Auditor's Report (pages 13 through 15)

The auditor has given the Town's financial statements a "clean" audit opinion for the year ended June 30, 2020 (see the first paragraph on Page 14) giving reasonable assurance that the financial statements are "free of material misstatement."

Management's Discussion and Analysis (MD&A) (pages 18 through 37)

Page 18 of the CAFR begins the MD&A section of the report wherein summaries are presented for the Town on an entity-wide basis and fund type basis. Information is provided in this section with a year-to-year view, explaining how fund balances have changed between fiscal years ending June 30, 2019 and June 30, 2020. Information is also presented on the adopted General Fund budget to actuals and any significant budget adjustments made during FY 2019/20 (page 31 through 33).

Statement of Net Position (page 41)

The Statement of Net Position serves as a useful indicator of a government's financial position. The Town had net assets of \$114.85 million at fiscal year-end as compared to \$114.82 million the prior year, an overall small increase of \$30K over the prior fiscal year.

The largest portion of the net assets, \$111.7 million, represents the Town's investment in its capital assets and infrastructure. Restricted assets of \$7.1 million are resources that are subject to external restrictions on how they may be used. As of June 30, 2020, unrestricted net position reports a deficit of approximately \$3.97 million, a small improvement from the prior year. The unrestricted net position reported the prior year was a deficit of approximately \$4.64 million. The deficit in unrestricted net position is primarily due to the Town's outstanding long term pension and Other Post Employment Benefit (OPEB) liabilities.

DISCUSSION (continued):

Basic Financial Statements (pages 41 through 98, including footnotes)

This section contains basic financial statements, including the “entity-wide” Statement of Net Position and Statement of Activities, financial statements for the fund types including Governmental Funds (such as the General Fund), Proprietary Funds, and the Private Purpose Trust Funds (Redevelopment Successor Agency). The footnotes section provides details on significant items such as the Town’s cash and investments (Note 2 beginning on page 70), its long term obligations (Certificates of Participation) related to bonded debt (Note 6 page 76), the net pension liability for both the Town’s miscellaneous and safety pension plans (Note 9 pages 81-89), and a discussion of the Town’s other post-employment benefit plan (Note 10 pages 89-94).

Required Supplementary Information (pages 100 through 104)

The Schedules of Pension Plan Contributions are provided in this section.

Supplementary Information (pages 106 through 121)

This section provides budget to actual information for “non-major” funds which represent less than 10% of the Town’s total assets/liabilities/revenues or expenditures.

Statistical Section (pages 125 through 155)

This section presents demographic statistics and ten-year historical financial data for the Town, including information on assessed valuations, fund balances, debt, property tax rates, personnel (full-time equivalent) history, principle employers, and other financial and demographic disclosures.

CONCLUSION:

As noted in the auditor’s opinion, the CAFR fairly presents the fiscal year ending June 30, 2020 financial activity for the Town of Los Gatos.

FISCAL IMPACT:

There is no fiscal impact associated with this item.

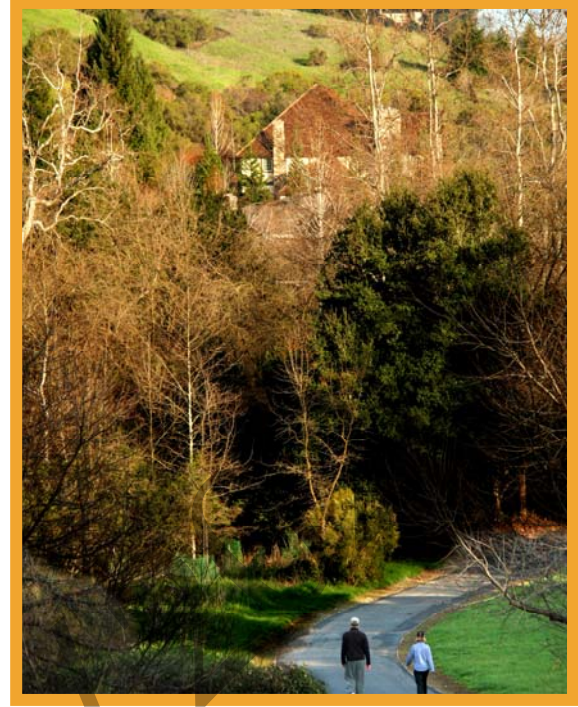
Attachments:

1. Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.
2. Fund Balance Resolution Establishing June 30, 2020 Fund Balances
3. Independent Auditor Presentation to the Council Finance Committee
4. Finance Committee December 7, 2020 Staff Report with Desk Item



# TOWN OF LOS GATOS

## CALIFORNIA



## Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2020

ATTACHMENT 1

Draft  
12/10/2020

**Cover Photos: Ken Benjamin and Liv Ames**

**TOWN OF LOS GATOS  
CALIFORNIA**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2020**

Draft  
12/10/2020

PREPARED BY THE  
OFFICE OF THE TOWN MANAGER

Draft  
12/10/2020

## 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 Gatos 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 31,493. 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.

Draft  
12/10/2020

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**TABLE OF CONTENTS**

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**INTRODUCTORY SECTION:**

Letter of Transmittal.....	1
Organizational Chart.....	7
Principal Officers.....	8
GFOA Award .....	9

**FINANCIAL SECTION:**

<b>Independent Auditor's Report .....</b>	<b>13</b>
---	-----------

<b>Management's Discussion and Analysis.....</b>	<b>18</b>
--	-----------

**Basic Financial Statements:**

Government-Wide Financial Statements:

Statement of Net Position .....	42
Statement of Activities.....	43

Fund Financial Statements:

Governmental Funds:

Balance Sheet .....	46
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	47
Statement of Revenues, Expenditures and Changes in Fund Balances.....	48
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	49
Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP) General Fund .....	50

Proprietary Funds – Internal Service Funds:

Statement of Net Position .....	52
Statement of Revenue, Expenses and Changes in Net Position.....	53
Statement of Cash Flows .....	54

Fiduciary Funds:

Statement of Fiduciary Net Position .....	56
Statement of Changes in Fiduciary Net Position .....	57

Notes to the Basic Financial Statements.....	60
--	----

**Required Supplementary Information:**

Schedule of Proportionate Share of Net Pension Liability:

CalPERS Misc. Agent-Multiple Employer Plan .....	100
CalPERS Safety Cost-Sharing Plan .....	101

Schedule of Pension Plans Contributions

Miscellaneous Agent Multiple-Employer Plan .....	101
Safety Cost-Sharing Plan.....	101

Actuarial Methods and Assumptions used for Pension Actuarially

Determined Contributions.....	102
-------------------------------	-----

Schedule of Changes in Net OPEB Liability and Related Ratios .....	103
--	-----

Schedule of Employer Contributions .....	103
--	-----

Actuarial Methods and Assumptions used for 2019/20 OPEB Actuarially

Determined Contribution .....	104
-------------------------------	-----

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**TABLE OF CONTENTS**

---

**SUPPLEMENTARY INFORMATION:**

**Major Governmental Fund Schedules (other than the General Fund):**

Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual (GAAP) Appropriated Reserves Fund .....	107
--	-----

**Nonmajor Governmental Funds:**

Combining Balance Sheets .....	108
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances .....	110
Budgeted Nonmajor Funds Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP) .....	112

**Internal Service Funds:**

Combining Statement of Net Position .....	116
Combining Statement of Revenue, Expenses and Changes in Net Position .....	117
Combining Statement of Cash Flows .....	118

**Private Purpose Trust Funds:**

Combining Statement of Fiduciary Net Position .....	120
Combining Statement of Changes in Fiduciary Net Position .....	121

**STATISTICAL SECTION:**

Net Position by Component .....	127
Changes in Net Position .....	128
Fund Balances, Governmental Funds .....	130
Changes in Fund Balances, Governmental Funds .....	132
Assessed Value and Estimated Actual Value of Taxable Property .....	134
Direct and Overlapping Property Tax Rates .....	135
Principal Property Tax Payers .....	136
Property Tax Levies and Collections .....	138
Ratios of Outstanding Debt by Type .....	139
Direct and Overlapping Governmental Activities Debt .....	140
Legal Debt Margin .....	142
Demographic and Economic Statistics .....	144
Principal Employers .....	146
Full-time Equivalent Town Government Employees by Function/Program .....	150
Operating Indicators by Function/Program .....	152
Capital Assets Statistics by Function/Program .....	154

**OTHER INDEPENDENT AUDITOR'S REPORTS:**

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 .....	159
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## INTRODUCTORY SECTION

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12/10/2020

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## TOWN OF LOS GATOS

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### OFFICE OF THE TOWN MANAGER

(408) 354-6832

FAX: (408) 399-5786

December XX, 2020

Honorable Mayor and Town Council,

I am pleased to submit the Town's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2020. This report was prepared by the Finance Department in conjunction with the Town Manager's Office, which assumes responsibility for the accuracy of the data and the completeness and fairness of the presentation and all disclosures. The information in this report is intended to present 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, 2020, 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 Comprehensive Annual 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 auditors' 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 Comprehensive Annual 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 Badawi & Associates, the Town's independent certified public accountants.

This Comprehensive Annual 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 laws of California in 1887. The Town is located in the foothills and level terrain of the Santa Clara Valley, in an area 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 31,439. This 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 for 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**

Like other communities across the nation and Silicon Valley, the Town was confronted with the societal and economic realities associated with the global COVID-19 pandemic. The Town entered the new Fiscal Year (FY) in a relatively strong economic environment; however, from the initial COVID-19 cases reported in January 2020, to the ultimate sequestering of the local economy in March, FY 2019/20 concluded against recessionary winds. Economically sensitive revenues, such as Sales Tax and Transient Occupancy Tax (TOT), experienced immediate contractions as the public was only allowed limited access to businesses, and leisure and business travel temporarily ceased. The Town's Property Tax revenues remained relatively strong into the close of the FY as inventories

of available homes remained low and suburban communities benefited from a flight from more urban markets.

General Fund revenues (not including transfer-ins) decreased 2.1% from the prior year. Property tax revenues remain a significant source of support for General Fund operations, comprising approximately 43% of General Fund revenues in FY 2019/20. For FY 2019/20 property tax receipts of \$18.3 million were \$1.0 million higher than the prior year's collection, reflecting the continued desirability of the Town, its environment, culture, and educational opportunities. While the impacts of remote work and work from home on property values are yet to be fully understood, it should be noted that valuation projections by the Santa Clara County Assessor's Office in the 2020-2021 Annual Report caution that 2021 could be a significant transition year for real estate values.

The Town relies heavily on sales tax revenues to support General Fund operations, comprising approximately 18% of General Fund revenues in FY 2019/20. For FY 2019/20 sales tax receipts of \$7.5 million were \$0.6 million lower than the prior year's collection. Sales tax revenues decreased because of the unprecedented disruption to business activity due to COVID-19 mitigation restrictions. One bright spot in sales tax receipts were steady increases in the Town's 1/8 cent District Sales Tax as the local tax captured a larger share of the increase in online sales during shelter-in-place.

The Town is preparing for continued increases in pension employer rates. The Town's pension plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns relative to the assumed rate of return, changes in actuarial assumptions, and demographic shifts which have outweighed any positive plan experiences. Recognizing these challenges, the Council has adopted or programmed additional discretionary pension funding strategies in excess of \$20.0 million including the first additional discretionary payment (ADP) directly to CalPERS of \$4,753,965 in October 2019. In addition, the Council initiated the prefunding of other post-employment benefit (OPEB) obligations beginning from zero funding status in 2009 leading to the current 67.9% funding status from zero in 2019.

While the Town Council has been proactively working to manage the anticipated cost escalation in its pension and OPEB expense, pension and OPEB related obligations continue to be one of the Town's greatest long-term cost drivers. In the past five years the Net Pension Obligation has increased 45.9% from \$39.2 million as of the June 30, 2014 actuarial valuation to the current Net Pension Obligation of \$57.2 million as of June 30, 2019. ~~Data from the June 30, 2019 actuarial valuations show total Net Pension (\$57.2) and~~ In addition, for the same time period the Town's Net OPEB Obligation has decreased 34.5% from \$13.9 million to \$9.1 million. ~~OPEB (\$9.1)~~ As of June 30, 2019 the Town had total pension and OPEB net liabilities of \$66.3 million.

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 9 and changes to Healthcare Trend and Discount rates as illustrated in Note 10.

For detailed information about the Town employees' retirement plan please refer to Note 9 of the Notes to Basic Financial Statements Section. For detailed information about the Town OPEB obligations please refer to Note 10 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 the reductions to various sources of local government revenue such as the elimination of redevelopment tax increment in 2012 and increasing costs associated with unfunded federal and state mandates, the Town has managed to maintain high service levels through increased efficiency and prudent fiscal management as evidenced by General Fund's resilience through the unprecedented events of FY 2019/20. 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.

### **MAJOR CAPITAL PROJECT INITIATIVES**

Major capital asset and infrastructure initiatives were once again a priority for the fiscal year. Approximately \$7.8 million in Town infrastructure and other capital asset improvements were expended in FY 2019/20, including \$5.8 million in street improvement projects Town-wide to major arterials and neighborhood collector streets to improve the pavement condition of the Town's streets. Other investments included \$0.7 million in equipment purchases, \$0.4 million in traffic signal improvements, \$0.4 million in building improvements, and \$0.3 million in bicycle and pedestrian projects to enhance user safety.

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 control 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 control 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 Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. This is the 25<sup>th</sup> 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 Badawi & Associates performs this function for the Town of Los Gatos, and their report is included in the financial section of the CAFR.

### **ACKNOWLEDGEMENTS**

The preparation of this Comprehensive Annual 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 Gitta Ungvari, Finance and Budget Manager, Mark Gaeta, Accountant; Melissa Ynegas, Finance Analyst; Diane Howard, Finance Analyst; and Maurice De Castro, Accountant and Finance Analyst for their efforts in preparing this report.

Respectfully submitted,



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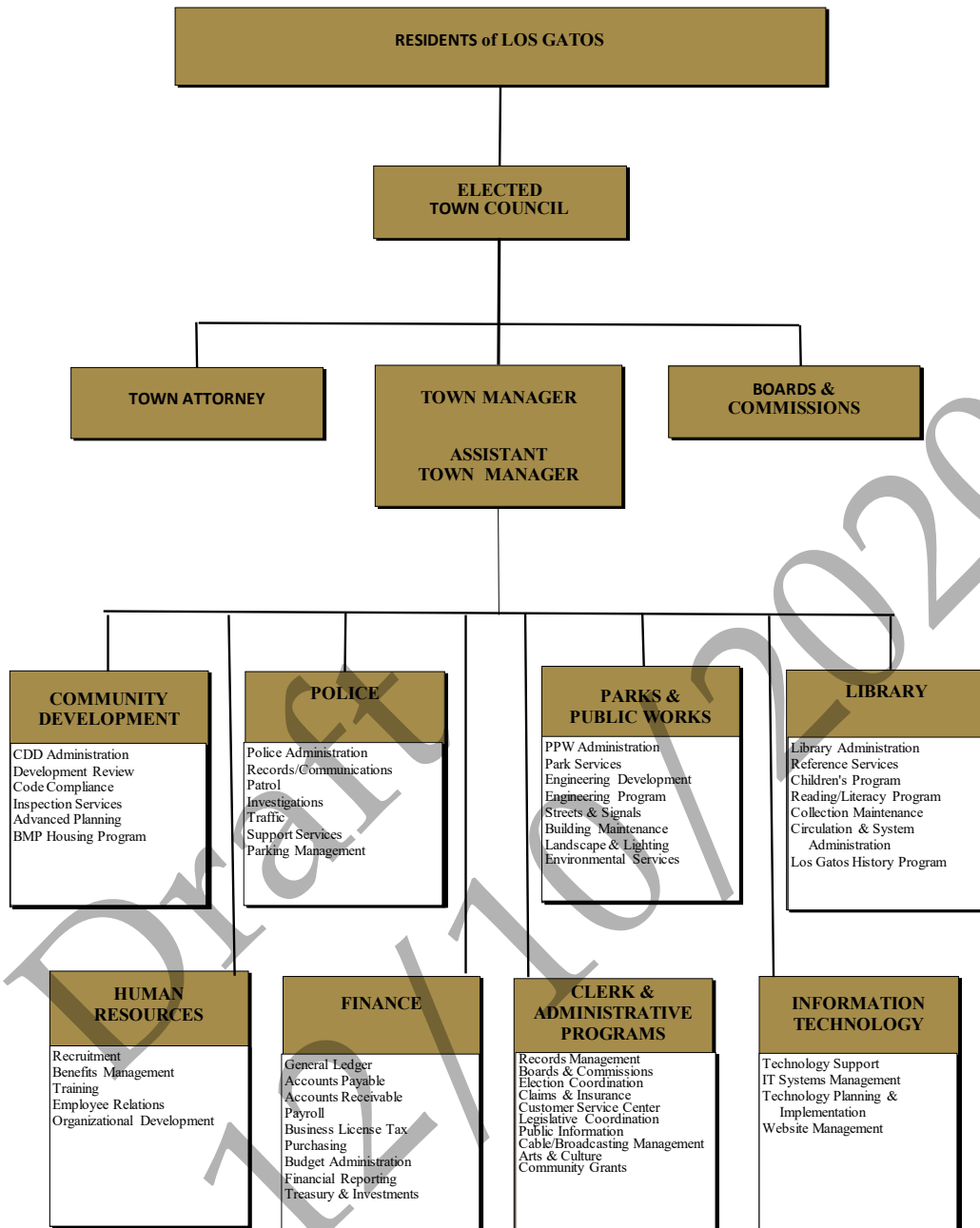
Laurel Prevetti  
Town Manager



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Stephen D. Conway  
Director of Finance

# TOWN OF LOS GATOS ORGANIZATIONAL CHART FY 2019/20



**TOWN OF LOS GATOS  
PRINCIPAL OFFICERS  
JUNE 30, 2020**

**TOWN COUNCIL**

Mayor  
Vice Mayor  
Council Member  
Council Member

Marcia Jensen  
Barbara Spector  
Rob Rennie  
Marico Sayoc

**COUNCIL APPOINTEES**

Town Manager  
Town Attorney

Laurel Prevetti  
Robert Schultz

**APPOINTED OFFICIALS**

Assistant Town Manager  
Chief of Police  
Community Development Director  
Parks and Public Works Director  
Library Director  
Finance Director  
Human Resources Director

Arn Andrews  
Peter Decena  
Joel Paulson  
Matt Morley  
Ryan Baker  
Stephen Conway  
Lisa Velasco



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Town of Los Gatos  
California**

For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

June 30, 2019

*Christopher P. Morill*

Executive Director/CEO

Draft  
12/10/2020

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**FINANCIAL SECTION**

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12/10/2020

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## 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, and the aggregate remaining fund information of the Town of Los Gatos, California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

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, and the aggregate remaining fund information of the Town as of June 30, 2020, 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension-related schedules and OPEB-related schedules on pages 18-37, 50, and 100-104 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.

### *COVID-19 Pandemic*

As discussed in Note 15 to the basic financial statements, the Town was impacted by the COVID-19 pandemic during the year. Our opinion is not modified with respect to this matter.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Los Gatos, California's basic financial statements. The introductory section, major funds (other than General fund and Special revenue funds) budgetary schedules, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The major funds (other than General fund and Special revenue funds) budgetary schedules, combining and individual nonmajor fund financial statements 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 are fairly

To the Honorable Mayor and Members of the Town Council  
of the Town of Los Gatos  
Los Gatos, California  
Page 3

stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory 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 DATE, 2020 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.

Badawi and Associates  
Certified Public Accountants  
Berkeley, California  
DATE, 2020

Draft  
12/10/2020

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## **Management's Discussion and Analysis**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Town of Los Gatos's Comprehensive Annual Financial Report (CAFR) presents management's discussion and analysis of the Town's financial performance during the fiscal year that ended on June 30, 2020. 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 exceeded liabilities at the close of FY 2019/20 by \$114,851,031 (total net position).
- The Town's total net position increased by \$32,000 during the fiscal year largely as a result of a small excess of total governmental activities revenues above governmental expenses and uses of financial resources.
- Reported unrestricted net position is negative (\$3,967,178) compared to (\$4,642,167) the prior year. The improvement in unrestricted net position resulted largely from the use of approximately \$8.0 million in unrestricted cash balances in the Town's General Fund Appropriated Reserve (GFAR) fund during the year to invest in the Town's infrastructure and equipment. Unrestricted net position represents all resources not included as net investment in capital or restricted assets.
- The Town's economically sensitive major revenues of sales tax and transient occupancy taxes (TOT) were negatively impacted by the COVID-19 pandemic and its related disruptions to normal local economic activity. Sales taxes declined \$0.6 million from the prior year while TOT declined \$0.8million from the prior period. The impacts to revenues began in March 2020, as shelter-in-place orders were instituted and continued through the end of the fiscal year. Revenue impacts have continued into FY 2020/21 primarily evidenced by TOT revenue declines relative to prior years. For more information on COVID-19 impacts, please refer to Note 15.
- The decline in sales taxes and TOT was partially offset by continued growth in property tax revenues (\$1.0 million).
- Total expenses as reported in the Statement of Activities increased \$3.8 million from the prior year. The increase was driven by a combination of different factors detailed under the Government Activities Expenditures Discussion. A primary contributing factor was the increasing cost of negotiated salary and related benefit increases offered to all Town bargaining units during the fiscal year and lower amounts of vacant positions primarily in the public safety function.

- The cost of all governmental activities this year was \$48.0 million. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately supported for these activities was \$33 million. This is because those who directly benefited from the programs paid \$10.3 million, and other governments and organizations subsidized certain programs with operating grants and contributions of \$3.8 million and capital grants and contributions of \$0.9 million. Overall, the Town's governmental program revenues were \$15.0 million. The Town paid for the remaining "public benefit" portion of governmental activities with \$33 million in taxes and general revenues including interest and miscellaneous revenues. This \$33 million in net cost of governmental activities is an approximate 9% increase from the prior fiscal year, resulting largely from the increasing cost of negotiated salary and related benefit increases offered to all Town bargaining units during the fiscal year and lower amounts of vacant positions primarily in the public safety function.
- At the end of FY 2019/20, General Fund balance was \$29,335,497 compared to \$38,343,155 in the prior year. The ending fund balance of \$29,335,497 represents approximately 66.3% of General Fund expenditures for the current fiscal year excluding transfers-out to the Town's capital projects funds and internal service funds. The reduction in General Fund ending fund balances was primarily from:
  - \$4.8 million of General Fund restricted cash balances for an additional discretionary payment (ADP) made to CalPERS in October 2019. The ADP to CalPERS was to pay down a portion of the Town's actuarially determined unfunded pension liability beyond the mandated annual payments.
  - Additionally, the General fund transferred approximately \$7.0 to the Town's capital projects fund to provide funding for Town infrastructure improvements.
  - \$1.0 million transfer to the Town's workers compensation internal service fund from General Fund reserves to provide additional funding available to meet ongoing claims activity.
  - This reduction of General fund balance was partially offset by an approximate \$3.1 million excess operating revenues above operating expenditures (excluding the ADP payment and transfers out to other funds) for the year.
- Total fund balances for all governmental funds at year end were \$50,170,882, a decrease of approximately \$3.4 million or (6.4%) from the prior year. Governmental fund balances decreased primarily due to:
  - \$7.8 million of capital outlay expenditures made from the Town's capital projects funds.
  - \$4.8 million ADP payment made to CalPERS in October 2019 from the General fund.
  - These uses were partially offset by the Town's capital projects funds recording approximately \$2.2 million in increases from the prior year's level of receipts of intergovernmental (grants) revenues during the fiscal year.
- At fiscal year end, the Town's General Fund restricted cash assets included \$669,978 placed in its recently established Town's IRS Section 115 Pension Trust.

- The Town's total capital assets increased by \$4,157,637 to \$111,700,225 net of depreciation.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the CAFR 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 CAFR 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. The Town has no business-type activities for accounting purposes.

### **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. The notes to the Basic Financial Statements can be found on pages 60-98 of this report.

## 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 CAFR to describe the changes between 2019 and 2020.

### Net Position Discussion

As shown below, the Town's combined net position for the year ended June 30, 2020 was \$114.85 million, reflecting a small increase of approximately \$30K to the prior years' net position of \$114.82 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.

<b>Town of Los Gatos</b>		
<b>Net Position</b>		
<b>Governmental Activities</b>		
<b>For the Year Ended June 30, 2020</b>		
	2020	2019
Current and other Assets	\$ 75,995,161	\$ 79,464,869
Capital Assets	111,700,225	107,542,588
Total Assets	\$187,695,386	\$ 187,007,457
Deferred Outflows - Pension/OPEB	17,441,310	13,521,349
Current Liabilities	18,093,199	17,002,972
Long-Term Liabilities Outstanding	69,465,025	66,521,231
Total Liabilities	\$ 87,558,224	\$ 83,524,203
Deferred Inflows - Pension/OPEB	2,727,441	2,185,494
Net Position		
Net Investment in Capital Assets	111,700,225	107,542,588
Restricted	7,117,984	11,918,688
Unrestricted	(3,967,178)	(4,642,167)
Total Net Position	\$114,851,031	\$ 114,819,109

Current and other assets decreased \$3.5 million from the prior year, primarily due to an approximate \$4.8 million decrease in restricted cash deposits. The decrease is primarily related to the budgeted October 2019 additional discretionary payment (ADP) made by the Town to CalPERS to reduce the Town's actuarial unfunded pension liability beyond the mandated annual payments. Capital assets increased \$4.2 million net of depreciation expense totaling approximately \$3.9 million for the year, much of which is related to the infrastructure investments made throughout the Town including:

- Approximately \$5.8 million in street repair and resurfacing and curb and gutter work Town-wide,
- Approximately \$0.7 million to complete the Almond Grove Street Rehabilitation project,
- \$0.3 million in bicycle and pedestrian improvements, and
- \$0.2 million in energy efficiency upgrades made to the Town's facilities among other current year capital projects.

Deferred Outflows increase of \$3.9 million was primary due to the additional discretionary payment made in October 2019 to reduce the Town's unfunded pension liability.

Current liabilities increased \$1.1 million from the prior year primarily due to increases in accounts payable (\$400K) and accrued payroll (\$285K), claims payable (\$141K), and unearned revenue (\$403K), offset by an decrease in deposits payable and amount due to other governments (\$161K).

Long-term liabilities increased \$3.0 million. The increase is primarily due to the \$3.6 million increases in pension liabilities measured as of June 30, 2019. Due to the actuarial measurement date the ADP payment of approximately \$4.8 made by the Town in October 2019 will be reflected in the subsequent actuarial valuation. There was an additional increase of \$343K for compensated absences from the prior year. These increases were offset by a \$900K reduction in net other post employment benefits (OPEB) liabilities due to the continued additional discretionary funding of the unfunded OPEB liability. See Note (9) and Note (10) of Notes to the Financial Statements for more information on Town's pension and other post retirement benefit plans.

Deferred Inflows increased by \$0.5 million resulting primarily from the difference between projected and actual earnings on investments.

The largest segment of the Town's net position, representing \$111.7 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 our 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 \$7.1 million representing approximately \$6.4 million for capital projects and \$670K placed in trust for unfunded pension/OPEB obligations.

As of June 30, 2020, unrestricted net position reports an approximate \$675K increase from a deficit of approximately (-\$4.64 million) the prior year to an ending deficit balance of approximately (-\$3.97 million). The deficit in governmental unrestricted net position is primarily due to the Town's outstanding long term pension and OPEB liabilities. It is not uncommon for governments with these types of long term liabilities to report a deficit in unrestricted net

position. A deficit in unrestricted net position is not the only measure to assess the Town's fiscal health, other factors can also be important to consider such as an expanding and growing property tax base and the condition of the Town's infrastructure including streets, parklands, civic center and library, police operations building , neighborhood center, corporation yard and other improvements.

### **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.

Draft  
12/10/2020

**Town of Los Gatos**  
**Statement of Activities**  
**For the Year Ended June 30, 2020**

	<u>2020</u>	<u>2019</u>
<b>Revenues:</b>		
Program revenues:		
Charges for Services	\$ 10,288,351	\$ 11,350,345
Operating Grants and Contributions	3,854,188	2,175,277
Capital Grants and Contributions	850,113	146,792
General Revenues:		
Property Taxes	18,330,426	17,321,347
Sales Taxes	7,531,425	8,158,152
Franchise Taxes	2,495,792	2,475,916
Other Taxes	1,911,774	2,726,743
Motor Vehicle in Lieu	24,526	14,689
Investment Earnings	2,428,470	1,809,128
Miscellaneous	323,940	2,407,840
Total Revenues	<u>48,039,005</u>	<u>48,586,229</u>
<b>Expenses:</b>		
Police Department	20,446,188	16,635,726 (1)
Parks and Public Works	11,803,005	10,627,716
General Government	7,405,368	8,163,991 (1)
Community Development	5,001,958	5,064,637
Library Services	3,347,523	3,059,294
Sanitation	3,041	684,673
Total Expenses	<u>48,007,083</u>	<u>44,236,037</u>
Change in Net Position	<u>31,922</u>	<u>4,350,192</u>
Net Position, beginning	114,819,109	110,468,917
Net Position, Ending	<u>\$ 114,851,031</u>	<u>\$ 114,819,109</u>

(1) In staff's review of the prior year's Statement of Activities it was discovered an error had been made in the reversal of current year OPEB contributions which was allocated across all departments in error. The credit should have only been charged to general governmental expenses in the prior year. This correction has no effect on net position but changes the expense totals by function but no effect on total expenses on the Statement of Activities for the prior fiscal year ending June 30, 2019.

## Governmental Activities Revenue Discussion

The Statement of Activities shown above details how the \$48.0 million in Governmental Activities revenue was derived. As categorized in the Statement of Activities as program revenues, approximately \$10.3 million or 21.4% of the revenues were recorded from those who directly benefited from the program as a charge for service. Another \$4.7 million or 9.8% of the revenues were sourced from operating/capital grants and contributions. The remaining \$33.0 million or 68.8% represents general revenues of the Town, including taxes, intergovernmental revenues, and other miscellaneous revenues.

Program revenues increased by approximately \$1.3 million from the prior year. This is largely due to the Town's effort to qualify for a number of new operational and capital grants from the federal and state government.

The Town's revenues related to Governmental Activities decreased by approximately \$1.9 million from the prior year, a combination of approximately \$1.0 million increase in property taxes and \$620K increase in investment earnings offset by approximately \$630K declines in sales taxes, \$815K in other taxes the majority of the decline coming from loss of transient occupancy taxes, and a \$2.0 million reduction in miscellaneous revenues explained largely by the \$1.8 million one-time gain on the sale recorded to miscellaneous revenues in the prior fiscal year associated with the Winchester land sale.

Property tax is the largest individual revenue source for the Town and collections finished the year \$1.0 million higher than the previous year. This increase was mostly due to an increase in secured taxes as strong demand for residential Town property continued, the approval of the annexations of County pockets with tax revenues accruing to the Town effective FY 2019/20, and new developments driving property values higher. It's important to note that assessed valuations for FY 2019/20 were established on the tax roll in January 2019 and collected in FY 2019/20 and accordingly do not reflect COVID-19 impacts to secured or unsecured property.

At \$7.5 million, sales taxes represent the second largest individual revenue source for the Town. Sales taxes decreased \$0.6 million from the previous year largely due to the economic impacts related to COVID-19 which began in March 2020. The decline was slowed by the receipt for the full fiscal year of FY 2019/20 of a new additional 1/8 cent District Sales Tax approved by the Los Gatos voters in the fall of 2018.

Franchise taxes, the Town's third largest revenue source, finished the year at \$2.5 million, reflecting only a very small increase \$20K from the previous fiscal year.

Investment earnings increased \$619K from the prior year. The primary factor responsible for this growth was the increase in the value of portfolio investments due to the dramatic reduction in prevailing interest rates as a result of the market's reaction to COVID-19. As interest rates decline interest bearing investments increase in value which led to year end (\$1.2M of which approximately \$600K had been recognized in the previous fiscal year) additional investment

gains. These non-cash or paper gains are recognized as investment income as a result of the “mark to market value” procedure required by GASB 31.

Miscellaneous revenues decreased by approximately \$2.1 million from the prior year. The substantial decrease is due to a gain on sale of property recognized the prior fiscal year, the largest segment of which was the approximate \$1.9 million gain on sale of the Winchester land sale finalized in May 2019.

#### Governmental Activities Expenses Discussion

The Town provides residents and visitors with the following functional services: General Government is comprised of six departments (Town Council, Town Clerk, Town Manager, Town Attorney, Human Resources, Information Technology, and Finance) providing services in general governance, information technology, executive management, economic vitality, legal, records management, risk management, human resources, finance, and accounting. The Town’s Police Department (public safety) provides general law enforcement, crime prevention, dispatch and responses to emergency and non-emergency calls for services. 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 enforcement services. The Library Department provides library, local history and cultural services to the community.

Total expenses increased \$3.8 million from the prior year. The increase was driven largely by the combination of the following factors:

- Negotiated salary increases and subsequent benefit increases. All non-sworn and management employees received a 3% across the board salary increase and sworn employees received a 4% across the board salary increase.
- General Government expenses increased \$1.2 million from the prior year. The largest share of this increase is a result of a \$416K allocation of this cost center’s share of Internal Service Fund expenses over revenues in FY 2019/20 for which the prior year allocation was a decrease to this cost center of \$346K for its share of Internal Service Fund revenue above expenses. The net difference between fiscal years for this allocation is approximately \$762K between fiscal years.
- Public safety expenses grew by approximately \$2.7 million from the prior year. There are three chief drivers of this increase. First, \$1.9 million of the increase is the pension expense calculated for the Town’s safety risk pool pension plan for the current fiscal year of \$5,646,706 compared to \$3,706,313 expensed in the prior fiscal year. Second, lower position vacancies throughout the fiscal year compared to the prior year added to the increase. Third, the cost of negotiated salary increases and related benefits including the

increased pension contributions for miscellaneous or “non-safety” pension plan positions contributed.

- Parks and Public Works expenses grew by approximately \$0.7 million from the prior year driven primarily by negotiated salary increases and related benefits, increased required employer pension contributions, and increases to depreciation expenses for Town infrastructure.
- Community Development expenses decreased by \$360K for the year due to approximately \$221K lower volume in “pass-through” expenditures for private development activity offsetting cost increases from negotiated salary increases and related benefits and increased required employer pension contributions.
- Library Services expense increased approximately \$288K from the prior year primarily from negotiated salary increases and related benefits and increased required employer pension contributions.
- Sanitation expenses for urban runoff decreased approximately \$682K from the prior year. In the prior fiscal year, the Town received program management fees from the West Valley Sanitation District and expensed those fees for program management. Effective fiscal year 2019/20, the West Valley Clean Water Authority receives its funding through property tax bill assessments and related expenses are paid through the Authority.

## **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 \$7.2 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 \$7.2 million restricted fund balance, \$0.7 million is in the General Fund representing amounts placed in an IRS Section 115 trust dedicated as to use for pension expenses. \$6.3 million is restricted for capital projects, and \$0.2 million for maintenance and repairs.

**Committed Fund Balance** – The Town has \$15.4 million in fund balance classified as committed to indicate that the Town Council previously committed how the money will be spent. Of the \$15.4 million committed fund balance, \$15.1 million is committed to the General Fund, of which \$10.9 million is for budget stabilization and catastrophe response and \$4.5 million is for additional discretionary payments toward pension and OPEB unfunded liabilities.

**Assigned Fund Balance** – The Town has \$27.5 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 assigned fund balance is the Reserve for Capital and Special projects with a balance of approximately \$10 million which is the primary funding source 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 (8) of the Notes to the Financial Statements.

Major Governmental Funds results for the year included the following:

Draft  
12/10/2020

**TOWN OF LOS GATOS**  
**TOTAL GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

<b>REVENUES</b>	<b>2020</b>	<b>2019</b>
Property Taxes	18,368,466	17,359,435
Sales Taxes	7,531,425	8,158,152
Other Taxes	1,911,774	2,726,742
Licenses & Permits	4,818,671	5,173,876
Intergovernmental	4,292,453	2,310,655
Charges for Services	5,309,470	5,584,504
Fines and Forfeitures	271,117	510,266
Franchise Fees	2,495,792	2,475,916
Interest	2,428,453	1,809,164
Use of Property	31,039	32,960
Other	376,922	579,755
Total Revenues	47,835,582	46,721,425
<b>EXPENDITURES</b>		
Current:		
Public Safety	15,793,815	14,945,407
General Government	13,024,146	8,004,254
Parks and Public Works	8,168,599	7,962,135
Community Development	4,473,790	4,577,495
Library Services	2,700,802	2,493,617
Sanitation and Other	162,837	628,240
Capital Outlay	7,861,972	7,888,914
Total Expenditures	52,185,961	46,500,062
Excess Revenues over Expenditures	(4,350,379)	221,363
Proceeds from sales of assets	1,566	1,912,316
Transfers in	8,935,260	4,264,131
Transfers out	(8,628,719)	(3,323,756)
Total Other Financing Sources (Uses)	308,107	2,852,691
Net Changes in Fund Balances	(4,042,272)	3,074,054
Beginning/Ending Fund Balances As Restated	54,007,454	50,560,772
Ending Fund Balances	49,965,182	53,634,826

Overall, Total Governmental Funds revenues finished \$1.3 million or 2.8% higher than the prior year, while total expenditures finished \$5.7 million or 12.2% higher than the prior year. The net result is that Governmental Funds income before transfers and other financing sources and uses decreased by \$3.8 million. Of Total Governmental Funds revenues, General Fund revenues totaled \$42. million or nearly 89% of the total \$48.0 million. Total General Fund operating revenues decreased by \$900K, resulting from the net effect of:

- \$1.0 million increase in property tax collections,
- \$600K increase in investment income,
- \$150K increase in intergovernmental revenues for the year,
- \$800K decreases in other taxes,
- \$600K decrease in sales tax, and
- \$500K decrease in licenses and permits.

The declines in revenues from the prior year were impacted by the COVID-19 pandemic and its related restrictions which began in March 2020 and continued through the end of the fiscal year. COVID-19 and its associated economic impacts are expected to continue across the entire spectrum of economic activity both locally and nationally.

General Fund expenditures represent approximately \$44.3 million of the Total Governmental Fund expenditures of \$52.2 million compared to \$38.0 million of total Governmental Funds expenditures of \$46.5 million in the prior year. The increase in governmental funds expenditures was led by an approximate \$5.0M increase in general governmental and an \$850K increase in public safety expenditures from the prior year. The increase in general governmental expenditures was largely attributable to a \$4.8 million ADP paid in October 2019 to pay down an additional portion of the Town's actuarial unfunded pension liability beyond mandated annual payments. Increases in public safety expenditures from the prior year were influenced by lower levels of staff vacancy savings and associated increases in salary and benefits from the prior year. Additionally, salary and benefit cost increases resulting from labor negotiations and mandated increases in employer pension contribution rates were also a contributing factor to increases to all Town departments and services.

### **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 decreased \$0.7 million in the current year. This decrease reflects the use of approximately \$788K transferred from the Town's Facilities Maintenance Fund to provide a funding source for the Town's Capital projects for the Civic center and Recreation building restroom renovations, waterproofing, deck railing repairs, and fire suppression for the Town's IT server room. Equipment Replacement net position was reduced by scheduled fleet and equipment replacements totaling approximately \$540K and transfers out

of approximately \$580K to be used as a funding source for the computer aided dispatch system for the Police department (\$525K) and the purchase of a new patrol vehicle (\$55K). These uses of net position were offset by an approximate \$1.1 million transfer from the Town's General Fund to the Town's Workers Compensation Internal Service fund.

## GENERAL FUND BUDGETARY HIGHLIGHTS

### Changes to the Original Budget

Comparing the FY 2019/20 original budget (or adopted) General Fund expenditures of \$43,256,352 (excluding budgeted transfers-out and debt payments that are reimbursed) to the final adjusted budget of \$47,997,219 indicates a net increase of approximately \$4.7 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
\$43,256,352	\$4,740,867	\$47,997,219

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

- Use of \$4,232,500 of Pension/OPEB Reserve to make additional discretionary payments (ADPs)
- \$122,820 expenditure budget adjustment for Transportation Analysis Guideline development consultation services from available General Plan Deposit Account
- \$102,000 expenditure budget adjustment for police safety equipment utilizing grant received by the Town
- \$54,797 budget expenditure for tasers and cameras from available Equipment Replacement Fund balance
- \$50,000 expenditure budget increase due to increased water utility costs for Town Parks.
- \$47,000 for tree service expenses from available Tree Replacement account
- \$24,219 increase expenditures for Youth Collection to utilize Library Grant received by the Town
- \$22,677 expenditure budget adjustment traffic signal controller's equipment and service
- \$22,669 increase to salary and benefits for the Town Manager and the Town Attorney
- \$16,165 expenditure budget increase to move temporary FTE hours inadvertently budgeted in the Facilities Maintenance Internal Service Fund.
- \$15,000 to fund additional services by the Town of Los Gatos Chamber of Commerce
- \$10,800 expenditure budget increase for Emergency Operation Center equipment utilizing grant received by the Town

- \$20,220 miscellaneous budget increase in various programs

### **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, 2020 reports an approximate overall favorable variance with the final budget of approximately \$2.1 million. This favorable variance was created largely by the net effect of the following factors:

- Approximately \$661K of expenditures below budget for FY 19/20 work paid from General Plan Update fees (a dedicated revenue source which funds this expenditure). All savings in this budget are carried over to the next fiscal year to be continue the General Plan Update project.
- Actual revenues ended the fiscal year at \$1.6 million below final budgeted revenues. Unfavorable variances from budget were experienced beginning in March 2020 related to the COVID-19 pandemic and its related restrictions. The following economically sensitive revenues experienced declines:
  - An unfavorable variance of (\$1.2 million) sales tax collections
  - An unfavorable variance of (\$1.0 million) Transient Occupancy Tax collections
  - An unfavorable variance of (\$619K) in licenses and permits
  - An unfavorable variance of (213K) in fines and forfeitures
  - An unfavorable variance of (202K) in charges for services
- A favorable variance of \$1.6 million in investment earnings for year. The Town received additional investment earnings for the year in its pension/OPEB trust which was not anticipated during FY 19/20 budget development and a positive trend of interest rates leading to additional interest accrued in year end mark to market valuations.

Significant factors affecting actual expenditures include:

- Community Development expenditures reflected a \$1.3 million favorable variance explained largely by staff vacancies with salary and benefit savings of approximately \$332K, and the General Plan Update expenditures being approximately \$661K lower than budgeted because the budget reflected the entire contract amount which has not been fully executed through the end of the fiscal year. An additional \$208K favorable variance reflects the fiscal year actual activity in the Department pass through program that depends on the timing and the volume of the development projects.
- Public safety expenditures had a favorable variance of approximately \$1.2 million. An \$839K saving is reflecting limited term vacancies in Police Officer, Police Record Specialist,

and Dispatcher positions, and savings of \$363K due to decreased service cost of crossing guards and parking violation services, and travel activity due to the Shelter in Place order.

- Administrative Services reflected a favorable balance of approximately \$501K in large measure due to savings in salary and benefits due to partial year vacancies in the Finance and Clerk Departments positions and savings in special events cost due to cancellation of events.
- Parks and Public Works reflects a favorable variance of approximately \$190K reflecting partial vacancies during the year.
- Library services reflected a favorable variance of \$260K due mainly to salary and benefit savings from staff vacancies in the Library Technology Specialist position and other temporary vacancies.

## **CAPITAL ASSETS**

As of June 30, 2020, the Town's investment in capital assets for its governmental activity is recorded at \$111,700,225 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress, and machinery and equipment. Capital assets increased \$4.2 million net of depreciation expense totaling approximately \$3.9 million for the year.

During FY 2019/20, the Town's approximate \$7.8 million investment in capital assets for the current year represented approximately 4.1% of total assets for governmental activities. Major capital asset events during the current fiscal year include the following:

- \$5.8 million in street repair and resurfacing and curb and gutter work Town-wide, approximately \$0.7 million to complete the Almond Grove Street Rehabilitation project;
- \$0.7 million in equipment purchases, including \$0.5 million in vehicle fleet replacements, and \$0.2 million in mobile cash barriers, license plate recognition system, and other building improvements;
- \$0.4 million in traffic signal improvements;
- \$0.4 million expended on building improvements, retaining walls, park improvements, and parking lot improvement projects;
- \$0.3 million in bicycle and pedestrian improvements; and
- \$0.2 million in energy efficiency upgrades made to the Town's facilities among other current year capital projects.

**Town of Los Gatos**  
**Net Investment in Capital Assets**  
**For the Year Ended June 30, 2020**

	Governmental Activities
Infrastructure	\$ 63,337,364
Buildings	23,341,210
Land	20,294,810
Equipment	2,682,698
Construction in Progress	2,044,143
	<u><b>\$ 111,700,225</b></u>

Additional information on the Town's capital assets is found in Note 5 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 2020/21 budget, the Town Council and management considered the following factors:

- In response to the economic impact of COVID-19 pandemic, the Town modified its revenue forecast downward in the FY 2020/21 Budget. For additional details, see Note 15. The FY 2020/21 operating budget is a balanced budget, with the use of General Fund reserves dedicated for one-time uses. The FY 2020/21 Budget reflect maintaining high service levels with little to no increases in the employee headcount. The budget identified contingencies should revenues come in below projected amounts. The Town is carefully monitoring its revenues sources and will identify any modification at the mid-year budget discussion.
- The Town continues to focus on priority issues that involve maintaining public safety and Town infrastructure including streets and parks; and providing library, community development, and other services. These priorities are coordinated with other Core Goals that protect the Town's fiscal health and ensure cost efficient and effective delivery of Town-wide administrative services. The Town's proactive approach to reducing operating expenditures, identifying revenue enhancements, and implementing operating efficiencies has been an effective fiscal approach.
- Specific trends affecting the fund balance forecast include:
  - General property tax collections represent approximately 32.1% (not including the State's property tax "backfill" shifts) of the Town's General Fund revenues. Property tax collections are expected to increase 3.9% in **FY 2020/21** from the prior year's tax

collections. This increase is primary due to the additional tax collection from the recently annexed parcels. This forecast is based on data from the Santa Clara County Tax Assessor's Office. The Town closely monitor its actual collection and other legislative changes regarding property tax. See Note 16 for more detail.

- The Town anticipates a decrease in general sales tax for FY 2020/21. Sales tax estimates of \$7.9 million for FY 2020/21 were budgeted reflecting a 0.2% decrease from the prior year's adopted sales tax budget.
- The Town's investment portfolio experienced a slight decrease in its overall weighted average annual yield, reducing from 2.05% at June 30, 2019 to 1.86% at June 30, 2020. Prevailing interest rates at the end of fiscal year were at historic lows due to economic impacts of the COVID-19 pandemic and were anticipated to remain at these low levels for the foreseeable future which will likely lower yields on the investment portfolio in the future.
- Transient Occupancy Tax (TOT) revenues are expected to be significantly lower in FY 2020/21 as personal and business-related travel are susceptible to the economic impact of Covid-19 pandemic.
- The Town's pension plans over the past several decades, like all other CalPERS participants, have experienced unfavorable 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 \$24.7 million for the safety cost sharing plan and \$32.5 million for the miscellaneous plan based upon data from CalPERS. 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 \$26.7 million. Conversely, an increase in the discount rate from 7.15% to 8.15% would decrease the total net pension liability for both Miscellaneous and Safety by \$22.0 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 3.25%

termination return rate results in a \$103.1 million termination liability. For the Safety plan, a 3.25% termination return rate results in a \$91.9 million termination liability.

- For detailed information about the Town employees' retirement plan please refer to Note 9 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 Stephen Conway, Director of Finance, at 110 East Main Street, Los Gatos, California, 95030; email at [sconway@losgatosca.gov](mailto:sconway@losgatosca.gov); or phone at (408) 354-6828.

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## Basic Financial Statements

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## **TOWN OF LOS GATOS, CALIFORNIA**

### **COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

#### **GOVERNMENT WIDE FINANCIAL STATEMENTS STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES**

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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 is the entire Town's transactions are accounted for, regardless of when cash changes hands, and all material internal transactions between funds have been eliminated.

The Statement of Net Position reports 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 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**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 71,609,969
Restricted cash and investments	784,191
Receivables:	
Accounts	1,459,473
Interest	317,209
Intergovernmental	1,555,607
Materials, supplies and deposits	30,960
Long term notes receivables	237,752
Long-term prepaid pension obligations	
Capital Assets:	
Nondepreciable	22,338,953
Depreciable, net of accumulated depreciation	89,361,272
Total Assets	<u>187,695,386</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension contributions subsequent to measurement date	10,753,665
Pension related amounts	4,179,339
OPEB contributions subsequent to measurement date	2,508,306
Total Deferred Outflows of Resources	<u>17,441,310</u>
<b>LIABILITIES</b>	
Accounts payable	3,772,685
Accrued payroll and benefits	1,700,778
Due to other governments	37,969
Unearned Revenue	4,596,403
Deposits	6,736,953
Claims payable	1,248,411
Long-term liabilities:	
Due within one year:	
Compensated absences	335,642
Due in more than one year:	
Net OPEB liability	9,126,387
Net pension liabilities	57,230,935
Compensated absences	2,772,061
Total Liabilities	<u>87,558,224</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension related amounts	2,098,547
OPEB related amounts	628,894
Total Deferred Inflows of Resources	<u>2,727,441</u>
<b>NET POSITION</b>	
Net investment in capital assets	111,700,225
Restricted for:	
Capital projects	6,257,756
Pension	669,978
Lighting and landscape repairs and maintenance	190,250
Total Restricted Net Position	7,117,984
Unrestricted	(3,967,178)
Total Net Position	<u>\$ 114,851,031</u>

**TOWN OF LOS GATOS  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and
					Changes in Net Position
					Governmental Activities
Governmental Activities:					
General government	\$ 7,405,368	\$ 1,470,324	\$ 12,290	\$ 8,258	\$ (5,914,496)
Public safety	20,446,188	1,549,207	952,045	9,100	(17,935,836)
Parks and public works	11,803,005	3,674,222	2,824,638	832,755	(4,471,390)
Community development	5,001,958	3,351,753	15,864	-	(1,634,341)
Library services	3,347,523	11,522	49,351	-	(3,286,650)
Sanitation	3,041	231,323	-	-	228,282
Total Governmental Activities	<u>\$ 48,007,083</u>	<u>\$ 10,288,351</u>	<u>\$ 3,854,188</u>	<u>\$ 850,113</u>	<u>(33,014,431)</u>
General revenues:					
Taxes:					
Property taxes					18,330,426
Sales taxes					7,531,425
Franchise taxes					2,495,792
Other taxes					1,911,774
Motor vehicle in lieu					24,526
Investment earnings					2,428,470
Miscellaneous					<u>323,940</u>
Total general revenues					33,046,353
Change in Net Position					31,922
Net Position - Beginning					<u>114,819,109</u>
Net Position - Ending					<u>\$ 114,851,031</u>

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**TOWN OF LOS GATOS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**  
**FUND FINANCIAL STATEMENTS &**  
**MAJOR GOVERNMENTAL FUNDS**

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***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, 2020. 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  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2020**

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash & Investments	\$ 36,974,140	\$ 18,951,321	\$ 6,598,756	\$ 62,524,217
Restricted Cash & Investments	669,978	-	-	669,978
Receivables:				
Accounts	930,815	-	19,277	950,092
Interest	317,209	-	-	317,209
Intergovernmental	1,414,965	480,888	140,642	2,036,495
Other assets	30,960	-	-	30,960
Long term notes	159,000	-	78,752	237,752
<b>Total Assets</b>	<b>\$ 40,497,067</b>	<b>\$ 19,432,209</b>	<b>\$ 6,837,427</b>	<b>\$ 66,766,703</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 957,782	\$ 2,561,695	\$ 4,181	\$ 3,523,658
Accrued payroll and benefits	1,696,044	-	4,734	1,700,778
Due to other governments	37,969	-	-	37,969
Unearned revenue	1,732,822	2,798,786	64,855	4,596,463
Deposits	6,736,953	-	-	6,736,953
<b>Total Liabilities</b>	<b>11,161,570</b>	<b>5,360,481</b>	<b>73,770</b>	<b>16,595,821</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	-	205,700	-	205,700
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>205,700</b>	<b>-</b>	<b>205,700</b>
<b>FUND BALANCE</b>				
Restricted for:				
Capital Outlay	-	88,937	6,168,819	6,257,756
Pension	669,978	-	-	669,978
Repairs and Maintenance	-	-	190,250	190,250
Committed to:				
Budget Stabilization	5,427,603	-	-	5,427,603
Catastrophic	5,427,603	-	-	5,427,603
Pension/OPEB	4,532,500	-	-	4,532,500
Assigned to:				
Open Space	410,000	-	-	410,000
Parking	-	1,460,210	-	1,460,210
Sustainability	140,553	-	-	140,553
Capital/Special Projects	8,787,958	-	-	8,787,958
Comcast PEG	-	50,000	-	50,000
Market Fluctuations	1,218,732	-	-	1,218,732
Compensated Absences	1,539,408	-	-	1,539,408
Capital Projects	-	12,266,881	-	12,266,881
Measure G 2018 District Sales Tax	1,181,162	-	-	1,181,162
Special Revenue Funds	-	-	404,588	404,588
<b>Total Fund Balances</b>	<b>29,335,497</b>	<b>13,866,028</b>	<b>6,763,657</b>	<b>49,965,182</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 40,497,067</b>	<b>\$ 19,432,209</b>	<b>\$ 6,837,427</b>	<b>\$ 66,766,703</b>

**TOWN OF LOS GATOS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO**  
**THE GOVERNMENT-WIDE STATEMENT OF NET POSITION-GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2020**

<b>Fund Balance - Total Governmental Funds</b>	\$ 49,965,182
Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds because of the following:	
<b>CAPITAL ASSETS</b>	
Capital assets used in the Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds.	111,700,225
<b>ALLOCATION OF INTERNAL SERVICE FUND NET POSITION</b>	
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.	7,731,080
<b>DEFERRED INFLOWS OF RESOURCES</b>	
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.	205,700
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Contributions subsequent to the measurement date will not be included in the calculation of the Town's net pension liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources.	14,933,004
<b>DEFERRED INFLOWS OF RESOURCES</b>	
In the Government-Wide financial statements certain pension amounts are deferred and amortized over a period of time, however, in the governmental funds no transactions are recorded.	(2,098,547)
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Contributions subsequent to the measurement date will not be included in the calculation of the Town's net OPEB liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources.	2,508,306
<b>DEFERRED INFLOWS OF RESOURCES</b>	
In the Government-Wide financial statements certain OPEB amounts are deferred and amortized over a period of time, however, in the governmental funds no transactions are recorded.	(628,894)
<b>LONG-TERM LIABILITIES</b>	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.	
Net Pension Liability	\$ (57,230,935)
Net OPEB Liability	(9,126,387)
Compensated absences	(3,107,703)
	(69,465,025)
<b>Net Position - Governmental Activities</b>	<b>\$ 114,851,031</b>

**TOWN OF LOS GATOS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	General	Appropriated Reserves	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property Taxes	\$ 18,330,425	\$ -	\$ 38,041	\$ 18,368,466
Sales Taxes	7,531,425	-	-	7,531,425
Other Taxes	1,877,338	-	34,436	1,911,774
Licenses & Permits	4,053,537	407,340	357,794	4,818,671
Intergovernmental	1,104,075	1,938,684	1,249,694	4,292,453
Charges for Services	4,447,213	862,257	-	5,309,470
Fines and Forfeitures	271,117	-	-	271,117
Franchise Fees	2,495,792	-	-	2,495,792
Interest	2,266,134	47,219	115,100	2,428,453
Use of Property	31,039	-	-	31,039
Other	307,812	69,110	-	376,922
Total Revenues	42,715,907	3,324,610	1,795,065	47,835,582
<b>EXPENDITURES</b>				
Current:				
General Government	13,024,146	-	-	13,024,146
Public Safety	15,793,815	-	-	15,793,815
Parks and Public Works	8,139,106	-	29,493	8,168,599
Community Development	4,473,790	-	-	4,473,790
Library Services	2,700,802	-	-	2,700,802
Sanitation and Other	-	-	162,837	162,837
Capital Outlay	138,384	5,919,125	1,804,463	7,861,972
Total Expenditures	44,270,043	5,919,125	1,996,793	52,185,961
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(1,554,136)	(2,594,515)	(201,728)	(4,350,379)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sales of assets	656	910	-	1,566
Transfers in	599,669	8,325,591	10,000	8,935,260
Transfers (out)	(8,053,847)	(433,952)	(140,920)	(8,628,719)
Total Other Financing Sources (Uses)	(7,453,522)	7,892,549	(130,920)	308,107
<b>NET CHANGES IN FUND BALANCES</b>	(9,007,658)	5,298,034	(332,648)	(4,042,272)
<b>BEGINNING FUND BALANCES, as restated</b>	38,343,155	8,567,994	7,096,305	54,007,454
<b>ENDING FUND BALANCES</b>	\$ 29,335,497	\$ 13,866,028	\$ 6,763,657	\$ 49,965,182

**TOWN OF LOS GATOS**  
**RECONCILIATION OF THE 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, 2020**

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ (4,042,272)</b>
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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)	\$ 7,995,690	
Proceeds from sale of assets	(1,566)	
Loss on sale of assets	(904)	
Current Year Depreciation	(3,835,585)	4,157,635

**UNAVAILABLE REVENUES**

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.	205,700
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**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.	760,089
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**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.	(56,098)
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**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 expense of the internal service fund is reported with governmental activities.	(723,363)
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**COMPENSATED ABSENCES EXPENSE**

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.	(269,769)
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<b>CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<b>\$ 31,922</b>
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**TOWN OF LOS GATOS**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (GAAP)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Property Taxes	\$ 17,970,500	\$ 18,352,880	\$ 18,330,425	\$ (22,455)
Sales Taxes	8,001,917	8,723,000	7,531,425	(1,191,575)
Other Taxes	2,855,730	2,857,285	1,877,338	(979,947)
Franchise Fees	2,458,520	2,458,520	2,495,792	37,272
Licenses & Permits	4,672,534	4,672,534	4,053,537	(618,997)
Intergovernmental	988,441	1,165,460	1,104,075	(61,385)
Charges for Services	4,454,336	4,649,235	4,447,213	(202,022)
Fines and Forfeitures	483,950	483,950	271,117	(212,833)
Interest	629,774	629,774	2,266,134	1,636,360
Use of Property	35,793	35,793	31,039	(4,754)
Other	286,077	286,077	307,812	21,735
Total Revenues	42,837,572	44,314,508	42,715,907	(1,598,601)
<b>EXPENDITURES</b>				
Current:				
General Government:				
Town Council	240,605	240,605	206,164	34,441
Town Attorney	621,391	628,793	559,010	69,783
Administrative Services	4,815,138	4,881,105	4,380,504	500,601
Non-Departmental	3,873,255	8,201,520	7,878,468	323,052
Total General Government	9,550,389	13,952,023	13,024,146	927,877
Public Safety	16,940,786	16,995,583	15,793,815	1,201,768
Community Development	5,760,099	5,760,099	4,473,790	1,286,309
Parks & Public Works	8,070,068	8,328,730	8,139,106	189,624
Library Services	2,935,010	2,960,784	2,700,802	259,982
Capital Outlay	-	-	138,384	(138,384)
Total Expenditures	43,256,352	47,997,219	44,270,043	3,727,176
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	(418,780)	(3,682,711)	(1,554,136)	2,128,575
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	1,000	1,201,000	656	(1,200,344)
Transfers In	538,536	593,333	599,669	6,336
Transfers Out	(7,753,140)	(8,053,847)	(8,053,847)	-
Total Other Financing Sources (Uses)	(7,214,604)	(7,460,514)	(7,453,522)	(1,194,008)
<b>NET CHANGES IN FUND BALANCES</b>	\$ (7,633,384)	\$ (11,143,225)	(9,007,658)	\$ 934,567
<b>BEGINNING FUND BALANCE, as restated</b>			38,343,155	
<b>ENDING FUND BALANCE</b>			\$ 29,335,497	

**TOWN OF LOS GATOS, CALIFORNIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**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  
PROPRIETARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2020**

	<b>Governmental Activities Internal Service Funds</b>
<b>ASSETS</b>	
Cash & investments	\$ 9,085,752
Restricted cash & investments	114,213
Accounts Receivable	28,553
Total Assets	<u>9,228,518</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	249,027
Total current liabilities	<u>249,027</u>
Noncurrent liabilities:	
Claims payable	1,248,411
Total noncurrent liabilities	<u>1,248,411</u>
Total Liabilities	<u>1,497,438</u>
Restricted for workers compensation claims	114,213
Unrestricted	7,616,867
Total Net Position	<u><u>\$ 7,731,080</u></u>

**TOWN OF LOS GATOS  
PROPRIETARY FUNDS  
STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	<b>Governmental Activities Internal Service Funds</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 3,209,982
Interest	7
Use of money and property	165,652
Other local taxes	34,437
Other	596,752
	<u>4,006,830</u>
Total Operating Revenues	<u>4,006,830</u>
<b>OPERATING EXPENSES</b>	
Services and Supplies	3,549,649
	<u>3,549,649</u>
Total Operating Expenses	<u>4,423,652</u>
Operating Income	(416,822)
Transfers in (Note 4)	1,061,256
Transfers out (Note 4)	(1,367,797)
	<u>(306,541)</u>
Net transfers	(306,541)
Change in Net Position	(723,363)
<b>BEGINNING NET POSITION</b>	<u>8,454,443</u>
<b>ENDING NET POSITION</b>	<u><u>\$ 7,731,080</u></u>

**TOWN OF LOS GATOS  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	<b>Governmental Activities Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 4,089,772
Payments to suppliers	(3,620,655)
Claims paid	(733,825)
Net cash provided (used) by operating activities	(264,708)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers In/(Out)	(306,541)
Net cash provided (used) by noncapital financing activities	(306,541)
Net Increase(Decrease) in Cash and Investments	(571,249)
Cash and investments - beginning of year	9,771,214
Cash and investments - end of year	\$ 9,199,965
<b>FINANCIAL STATEMENT PRESENTATION</b>	
Cash & investments	\$ 9,085,752
Restricted cash & investments	114,213
Total	\$ 9,199,965
Reconciliation of Operating Income to Cash Flows from Operating Activities:	
Operating Income	\$ (416,822)
Change in assets and liabilities:	
Receivables, net	82,942
Accounts payable	(70,864)
Claims payable	140,178
Due to other government	(142)
Cash Flows From Operating Activities	\$ (264,708)

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**FIDUCIARY FUNDS**

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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.

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

**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, 2020**

	<b>Total Private Purpose Trust Funds</b>
<b>ASSETS</b>	
Cash and investments (Note 2)	\$ 2,343,505
Restricted cash and investments (Note 2)	1,987,621
Accounts receivable	8,750
Loans receivable (Note 3)	575,425
Capital assets (Note 5):	
Nondepreciable	5,257,422
Depreciable, net of accumulated depreciation	1,423,701
<b>Total Assets</b>	<b>11,596,424</b>
<b>LIABILITIES</b>	
Accounts payable	3,064
Due to other governments (Note 13)	2
Interest payable	285,390
Long-term debt (Note 6):	
Due within one year	1,250,000
Due in more than one year	14,461,545
<b>Total Liabilities</b>	<b>16,000,001</b>
<b>NET POSITION</b>	
Held in trust	(4,403,577)
<b>Total Net Position</b>	<b>\$ (4,403,577)</b>

**TOWN OF LOS GATOS  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	<b>Total Private Purpose Trust Funds</b>
<b>ADDITIONS</b>	
Property taxes	\$ 1,949,284
Investment earnings	53,652
Gifts, bequests and endowments	61,809
Other	<u>1,905,024</u>
Total Additions	<u>3,969,769</u>
<b>DEDUCTIONS</b>	
Program expenses of former RDA	1,916,701
Interest and fiscal agency expenses of RDA	651,462
Library services	82,626
Depreciation expense	<u>101,692</u>
Total Deductions	<u>2,752,481</u>
<b>CHANGE IN NET POSITION</b>	1,217,288
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>(5,620,865)</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ (4,403,577)</u></u>

Draft  
12/10/2020

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## Notes to Basic Financial Statements

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**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 primarily 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, 2020 was 31,439.

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 solely 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 these boards are separate from and independent of the Town administration.

**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*.

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

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**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. However, interfund services provided and used are not eliminated in the process of consolidation. These statements present *governmental activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange 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 funds are aggregated funds and reported as non-major 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 non-major 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 inflows 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, 2020**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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, which are provided to other departments on a cost-reimbursement basis. Those services include workers compensation, self-insurance, facilities maintenance, information technology, and equipment replacement.

**Fiduciary Funds** include Private-Purpose Trust 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:

**Library Private Purpose Trust Fund** provides for the servicing of donations and bequests to the Town's Library Program and includes the following:

- **History Project Private Purpose Trust Fund** was established to provide for the servicing of donations, bequests, grant monies and expenditures to the history project partnership of Los Gatos Public Library and the Museum of Los Gatos.
- **Clelles Ness Private Purpose Trust Fund** was established by Ansten R. Ness, M.D. and the Board of Library Trustees for the Town of Los Gatos, as a memorial to his wife, Clelles Ness to use the income and principal of the trust estate to provide materials and services not ordinarily available from public funds.
- **Susan E. (Betty) McClendon Private Purpose Trust Fund** is a bequest to the Los Gatos Public Library from the estate of Susan McClendon established to be used solely for children's services.
- **Barberra J. Cassin Private Purpose Trust Fund** is a bequest to the Town from the estate of Barberra J. Cassin established to be distributed to the Los Gatos Public Library for the purpose of establishing an endowment fund, which is to be used for the support of science, the arts and humanities projects.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**RDA Successor Agency Private Purpose Trust Fund** accounts for the assets, liabilities and operations transferred from the dissolution of the Town's Redevelopment Agency in 2012, 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, proprietary and fiduciary fund 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 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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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 *GASBS 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.

**Pension** - 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 Town'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. 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, 2018
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

**Other Postemployment Benefits (OPEB)**

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 plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently 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, 2019
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**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.

**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.

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** - 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 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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**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 acquisition value on the date contributed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value. Capital assets, including infrastructure, are recorded if acquisition or construction costs exceed \$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

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.

**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%

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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	\$ 2,837,934
Addition	1,705,099
Payments	<u>(1,435,330)</u>
Ending Balance	<u>\$ 3,107,703</u>
Compensated Absences Current Portion	<u>\$ 335,642</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 fund. Only compensated absences liabilities related to retirements as of the end of the fiscal year 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 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 straight-line 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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**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 is 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."

**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 Council Resolution which is a 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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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 **December 11, 2020**, 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 generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

**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 for and collects property taxes on the following schedule:

	<b><u>Secured</u></b>	<b><u>Unsecured</u></b>
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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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

1. 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.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through adoption of Town resolution by Council.
4. 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.
5. 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.
6. Budgeted amounts are as originally adopted or as amended by Town Council. Individual budget adjustments or amendments were not material in relation to original appropriations, except for an increase in non-departmental expenditures related to a discretionary lump-sum payment to CalPERS for the pension liability.

**Excess of Expenditures over Appropriations** - There were no significant expenditures in excess of budget during the year ended June 30, 2020.

**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 restrictions, 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**

In fiscal year 2020, the City did not adopt any new GASB statements.

**NOTE 2 - CASH AND INVESTMENTS**

The Town pools cash from all sources and all funds except Restricted Cash and Restricted Investments so that it can be invested at the maximum yield, consistent with the primary objectives of safety and liquidity, while ensuring 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 next 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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 2 - CASH AND INVESTMENTS, CONTINUED**

**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 \$15,285,669 and the book balance was \$13,801,981 as of June 30, 2020. 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.

**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 is under the day to day administration of the State Treasurer. As of June 30, 2020, the Town had approximately \$12.2 million in LAIF and used a fair value factor of 1.004912795 to calculate the fair value of the investments in LAIF. Of that amount, 96.63% is invested in non-derivative financial products and 3.37% 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 securities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 2 - CASH AND INVESTMENTS, CONTINUED**

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 risk 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 money market fund and investment in LAIF are 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, 2020.

**Risk Disclosures, Continued**

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

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Portfolio Percentage</u>
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	N/A	\$65 million
Money Market Funds	N/A	20%

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 2 - CASH AND INVESTMENTS, CONTINUED**

The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2020:

Investment Type/Cash Deposit	Available for Operations	Restricted	Total	Concentration of Credit Risk	Minimum Rating	Input Level	Time to Mature (Years)	Weighted Average Maturity
US Treasury Securities	\$ 8,054,756	\$ -	\$ 8,054,756	13.40%	Aaa	2	1-4	2.58 years
US Instrumentality Security	23,940,487	-	23,940,487	39.82%	Aaa	2	0-4	2.02 years
Corporate Securities	15,802,160	-	15,802,160	26.28%	A3	2	0-4	2.38 years
Government Securities Money Market Mutual funds	145,920	-	145,920	0.24%	Not Rated	2	n/a	n/a
LAIF	12,185,932	-	12,185,932	20.27%	Not Rated	n/a	n/a	n/a
Total investments	60,129,255	-	60,129,255	100.00%				
Cash Deposit with Banks	13,801,981	2,101,834	15,903,815					
Money Market Accounts	17,388	-	17,388					
Investment held in pension trust	-	669,978	669,978					
Cash on hand at Town	4,850	-	4,850					
Town Cash and Investments	<u>\$73,953,474</u>	<u>\$ 2,771,812</u>	<u>\$76,725,286</u>					

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.

	Total Town	Fiduciary Funds	Total
Cash and Investments available for operations	\$ 71,609,969	\$ 2,343,505	\$ 73,953,474
Restricted cash and investments	784,191	1,987,621	2,771,812
Total cash and investments	<u>\$ 72,394,160</u>	<u>\$ 4,331,126</u>	<u>\$ 76,725,286</u>

**NOTE 3 - LONG-TERM NOTES RECEIVABLE**

The Town had the following long-term notes receivable as of June 30, 2020:

Description	Interest Rate	Maturity	Balance
<b>General Fund:</b>			
Rehab Loan to Charities	Various	Various	\$ 159,000
Total General Fund			<u>159,000</u>
<b>Community Development Block Grant Fund (CDBG):</b>			
Housing Conservation Loans	0-5%	Various	78,752
Total CDBG			<u>78,752</u>
Total Long Term Notes Receivable - Government-Wide Statement of Net Position			<u>237,752</u>
<b>Successor Agency Affordable Housing</b>			
Project Match	Various	Various	<u>575,425</u>
Total Long Term Notes Receivable			<u>\$ 813,177</u>

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 3 - LONG-TERM NOTES RECEIVABLE, CONTINUED**

**Active Home Loans and Housing Conservation Loans** - The Town used CDBG Funds (funded through federal grants) 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, 2020, no interest or principal payments have been made.

**NOTE 4 - INTERFUND TRANSACTIONS**

**Interfund Receivables and Payables** - Amounts due to or due from other funds reflect interfund 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.

**Transfers** - With Council approval resources may be transferred from one fund to another. Transfers 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, 2019 were as follows:

	Transfer In	Transfer Out
General Fund	\$ 599,669	\$ 8,053,847
Appropriated Reserve Fund	8,325,591	433,952
Non-major Gov't Funds	10,000	140,920
Internal Service Funds	1,061,256	1,367,797
Total Transfers	<u>\$ 9,996,516</u>	<u>\$ 9,996,516</u>

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 5 - CAPITAL ASSETS**

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

	Balance at June 30, 2019	Adjustments and Additions	Transfers and Retirements	Balance at June 30, 2020
Capital Assets not being Depreciated				
Land	\$ 20,294,810	\$ -	\$ -	\$ 20,294,810
Construction in Progress	13,718,006	2,294,775	(13,968,638)	2,044,143
Total Capital Assets not being Depreciated	34,012,816	2,294,775	(13,968,638)	22,338,953
Capital Assets being Depreciated				
Buildings and Improvements	30,178,972	51,645	1,664,497	31,895,114
Equipment & Vehicle	11,484,761	654,980	(403,346)	11,736,395
Infrastructure - All Other	25,275,447	922,122	-	26,197,569
Infrastructure - Streets	63,014,800	4,072,168	10,631,392	77,718,360
Total Capital Assets being Depreciated	129,953,980	5,700,915	11,892,543	147,547,438
Less Accumulated Depreciation for:				
Buildings and Improvements	7,923,246	630,658	-	8,553,904
Equipment & Vehicle	8,827,268	627,306	(400,877)	9,053,697
Infrastructure - All Other	6,431,634	775,417	-	7,207,051
Infrastructure - Streets	33,242,060	1,802,203	(1,672,749)	33,371,514
Total accumulated depreciation	56,424,208	3,835,584	(2,073,626)	58,186,166
Net Capital Assets being Depreciated	73,529,772	1,865,331	13,966,169	89,361,272
<b>Governmental Activity Capital Assets, Net</b>	<b>\$ 107,542,588</b>	<b>\$ 4,160,106</b>	<b>\$ (2,469)</b>	<b>\$ 111,700,225</b>

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	\$ 181,357
Community Services	52,599
Public Safety	476,528
Parks & Public Works	2,747,628
Library	377,217
Sanitation	255
Total Governmental Activities	<u>\$ 3,835,584</u>

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 5 - CAPITAL ASSETS, CONTINUED**

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

	Balance at June 30, 2019	Adjustments and Additions	Transfers and Retirements	Balance at June 30, 2020
Capital Assets not being Depreciated				
Land	\$ 5,257,422	\$ -	\$ -	\$ 5,257,422
Total Capital Assets not being Depreciated	5,257,422	-	-	5,257,422
Capital Assets being Depreciated				
Buildings and Improvements	4,067,708	-	-	4,067,708
Total Capital Assets being Depreciated	4,067,708	-	-	4,067,708
Less Accumulated Depreciation for:				
Buildings and Improvements	2,542,315	101,692	-	2,644,007
Total accumulated depreciation	2,542,315	101,692	-	2,644,007
Net Capital Assets being Depreciated	1,525,393	(101,692)	-	1,423,701
<b>Successor Agency Capital Assets, Net</b>	<b>\$ 6,782,815</b>	<b>\$ (101,692)</b>	<b>\$ -</b>	<b>\$ 6,681,123</b>

**NOTE 6 - 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. As of February 1, 2012, the Town transferred long-term debt issued by the Redevelopment Agency to the Successor Agency trust as a part of the RDA dissolution. The following summarizes the changes in long-term debt in the Successor Agency trust fund during the fiscal year ended June 30, 2020:

Long Term Debt	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Deletion	Ending Balance	Due Within One Year	Due in More Than One Year
2002 COP	2.5 -5%	8/1/2031	\$10,725,000	\$ 6,430,000	\$ 365,000	\$ 6,065,000	\$ 385,000	\$ 5,680,000
2010 COP	2.5 - 4.25%	8/1/2028	15,675,000	10,100,000	830,000	9,270,000	865,000	8,405,000
Subtotal COP			26,400,000	16,530,000	1,195,000	15,335,000	1,250,000	14,085,000
Premiums			735,095	414,200	37,655	376,545		376,545
Total Long-Term Debt			\$27,135,095	\$16,944,200	\$ 1,232,655	\$15,711,545	\$ 1,250,000	\$14,461,545

**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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

---

**NOTE 6 - LONG-TERM OBLIGATIONS, CONTINUED**

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.

Future debt service requirements of the 2002 and 2010 Certificates of Participation are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2021	1,250,000	658,494	1,908,494
2022	1,300,000	599,850	1,899,850
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
2026-2030	6,670,000	979,200	7,649,200
2031-2032	1,860,000	142,500	2,002,500
Total COP Debt Service	<u>\$ 15,335,000</u>	<u>\$ 3,815,607</u>	<u>\$ 19,150,607</u>

The Successor Agency must maintain a required amount of cash and investments with the trustee under the terms of the COPs' debt agreements. These funds are pledged as reserves to be used if the Successor Agency fails to meet its obligations under the debt agreements and totaled \$1,987,621 as of June 30, 2020. The California Government Code requires these funds to be invested in accordance with Town ordinances, bond indentures or State statutes. All these funds have been invested as permitted under the Code.

**NOTE 7 - 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, 2020.

**NOTE 8 - 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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 8 - FUND BALANCES, CONTINUED**

As of June 30, 2020, fund balances were classified as follows:

	Beginning Balance	Adjustments	Adjusted Beginning Balance	Additions	Deletions	Ending Balance
<b>Restricted for</b>						
Capital Outlay	\$ 6,695,233	\$ -	\$ 6,695,233	\$ 1,522,139	\$ (1,959,616)	\$ 6,257,756
Pension	5,015,316	-	5,015,316	420,459	(4,765,797)	669,978
Repairs and Maintenance	208,139	-	208,139	41,603	(59,492)	190,250
<b>Committed to:</b>						
Budget Stabilization	5,419,222	-	5,419,222	8,381	-	5,427,603
Catastrophic	5,419,222	-	5,419,222	8,381	-	5,427,603
Pension/OPEB Reserve	4,232,500	-	4,232,500	300,000	-	4,532,500
Almond Grove Street Project	2,579,997	-	2,579,997	-	(2,579,997)	-
<b>Assigned to:</b>						
Open Space	562,000	-	562,000	-	(152,000)	410,000
Parking	1,460,210	-	1,460,210	-	-	1,460,210
Sustainability	140,553	-	140,553	-	-	140,553
Capital/Special Projects	13,262,303	-	13,262,303	1,434,141	(5,908,486)	8,787,958
Carryover Encumbrances	413,729	-	413,729	-	(413,729)	-
Comcast PEG	50,000	-	50,000	-	-	50,000
Market Fluctuations	-	-	-	1,218,732	-	1,218,732
Vehicle Maintenance & Stores Reserve	1,040,375	-	1,040,375	-	(1,040,375)	-
Workers' Compensation	1,232,654	-	1,232,654	-	(1,232,654)	-
Compensated Absences	1,232,653	372,628	1,605,281	-	(65,873)	1,539,408
Capital Projects	4,344,618	-	4,344,618	11,650,201	(3,727,938)	12,266,881
Measure G 2018 District Sales Tax	-	-	-	1,181,162	-	1,181,162
Special Revenue Funds	326,102	-	326,102	78,486	-	404,588
Total Fund Balance - All Governmental Funds	\$53,634,826	\$ 372,628	\$54,007,454	\$15,879,484	\$(15,121,052)	\$49,965,182

**Restricted**

*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.

*Pension* amounts are cash and investments held for the purpose of paying for the pension liabilities. Monies are held in an IRS Section 115 Trust over which the Town has control.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 8 - FUND BALANCES, CONTINUED**

**Committed**

**Stabilization Arrangements**

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 one-time 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. In the fiscal year ending June 30, 2018 the Town approved an update to its General Fund reserve policy providing to the extent possible that additional annual deposits be calculated and placed into this reserve with the goal of moving the payment of the unfunded pension liability from a 29-year to a 20-year amortization period.

*Almond Grove Street Project* committed fund balance was used for the infrastructure repairs, improvements and construction along Almond Grove Street.

**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.

*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.

*Carryover Encumbrances* assigned fund balance is used for encumbered items re-appropriated in the following year.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 8 - FUND BALANCES, CONTINUED**

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

*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.

*Vehicle Maintenance & Stores Reserve* assigned fund balance is to be used for maintaining the Town's fleet and providing mail and printing services.

*To Workers' Comp* assigned fund balance is to be used for future payments to employees due to illness or injury as a result of being employed by the Town.

*Compensated Absences* assigned fund balance will be used for vacation and sick-pay benefits owed to employees as of June 30, 2020 that were not an obligation of the General Fund because of their long-term nature.

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

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

**NOTE 9 - EMPLOYEES' RETIREMENT PLAN**

**Summary of Pension Amounts**

	Miscellaneous Plan	Safety Plan	Total Plans
Deferred Employer Pension Contributions	\$ 8,188,460	\$ 2,565,205	\$ 10,753,665
Deferred Outflows - Pension Related Amounts	\$ 761,117	\$ 3,418,222	\$ 4,179,339
Net Pension Liability	\$ 32,535,248	\$ 24,695,687	\$ 57,230,935
Deferred Inflows - Pension Related Amounts	\$ 482,199	\$ 1,616,348	\$ 2,098,547
Pension Expense	\$ 5,163,057	\$ 5,646,706	\$ 10,809,763

**(a) General Information about the Pension Plans**

**Plan Description** - 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/forms-publications>. The Town relies upon actuarial and investment data provided by CalPERS for inclusion and analysis in this report.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

**(a) General Information about the Pension Plan, Continued**

**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 non-duty 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 Plan's provisions and benefits in effect at June 30, 2020, are summarized as follows:

Hire Date	Miscellaneous			Safety	
	Tier 1	Tier 2	PEPRA	Tier 1	PEPRA
		Prior to September 15, 2012	On or after January 1, 2013	Before January 1, 2013 with reciprocity or member of CalPERS	On or after January 1, 2013
Benefit Formula	2.5% @ 55	2% @ 60	2% @ 62	3% @ 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	60	62	50	57
Monthly benefits as a % of eligible compensation	2% to 2.5%	1% to 2.5%	1.5% to 2.5%	3%	2% to 2.7%
Required employee contribution rates	8.00%	7.00%	6.75%	9.00%	12.75%
Required employer contribution rates		10.226%		23.654%	13.900%
Required payment of unfunded liability		\$ 2,328,669		\$1,485,723	\$6,600

**Employees Covered**

At June 30, 2020, the following employees were covered by the benefit terms for the Miscellaneous and Safety Plans:

	Miscellaneous	Safety
Active	120	35
Transferred	95	9
Separated	79	33
Retired	249	83
Total	543	160

**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 both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the cost 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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

**(b) Net Pension Liability**

Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 (GASB 68), requires public employers to comply with accounting and financial reporting standards related to the recognition and calculation of pension obligations. Under GASB 68, employers that participate in a defined benefit pension plan administered as a trust or equivalent arrangement are required to record their portion of the net pension liability, pension expense, and deferred outflows/deferred inflows of resources related to pensions in their financial statements as part of their financial position.

The Town's net pension liability for the Miscellaneous Plan is measured as the total pension liability, less the pension plan's fiduciary net position.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used. For the Safety Plan, net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018 rolled forward to June 30, 2018 using standard update procedures. The Town's proportion of the net pension liability (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 the measurement date June 30, 2019 was as follows:

	Proportionate Share of Net Pension Liability
Proportion - June 30, 2018	0.235831%
Proportion - June 30, 2019	0.241003%
Change - Increase (Decrease)	0.005172%

A summary of principal assumptions and methods used to determine the net pension liability is shown below.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

**(b) Net Pension Liability, continued**

*Actuarial Assumptions* - The June 30, 2018 valuation was rolled forward to determine the June 30, 2019 total pension liability, based on the following actuarial methods and assumptions:

	Miscellaneous Agent Multiple Employer Plan	Safety Cost Sharing Plan
Valuation Date	June 30, 2018	June 30, 2018
Measurement Date	June 30, 2019	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.50%	2.50%
Salary Increases	Varies by Entry Age and Service	
Mortality Rate Table <sup>1</sup>	Derived using CalPERS' Membership Data for all Funds	
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies	

1. The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report that can be found on the CalPERS website.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.15% for the Plan and reflects the long-term expected rate for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS conducted cash flow projections for plans with a higher likelihood of running out of assets with too high of a discount rate. Based on the testing, none of the tested plans ran 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** – Every four years, CalPERS performs an Asset Liability Management (ALM) review of possible asset allocation alternatives for the Public Employees' Retirement Fund (PERF) investment portfolio. The review examines potential new investment policy portfolios and their impact on the CalPERS Fund. The ALM review also incorporates actuarial-based information to reflect the implications of the various asset allocation alternatives on parameters such as the employer contribution rate. This periodic review is the primary process by which the PERF investment portfolio and actuarial assumptions evolve to reflect the market opportunity set, demographic assumptions and experience, and plan status.

The last ALM was performed in 2017 and the long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

**(b) Net Pension Liability, continued**

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 (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 adjusted to account for administrative expenses.

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.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	50.00%	4.80%	5.98%
Global Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	-	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	-	-0.92%
Total	100%		

(a) An expected inflation of 2.00% used for this period.

(b) 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 (1-10 years)	6.10%
Long Term Expected Return (11-60 years)	8.30%
Blended Return (1-60 years)	7.00%

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

**(b) Net Pension Liability, continued**

The table below shows historical compound annual returns of the Public Employees Retirement Fund for various time periods ending on June 30, 2019 (figures are reported as gross of fees). The compound annual return is the average rate per year compounded over the indicated number of years. It should be recognized that in any given year the rate of return is volatile. The portfolio has an expected volatility of 11.4 percent per year based on the most recent Asset Liability Modelling study. The volatility is a measure of the risk of the portfolio expressed in the standard deviation of the fund's total return distribution, expressed as a percentage. Consequently, when looking at investment returns, it is more instructive to look at returns over longer time horizons.

<b>History of CalPERS Compound Annual Rates of Return and Volatilities</b>					
	<b>1 year</b>	<b>5 year</b>	<b>10 year</b>	<b>20 year</b>	<b>30 year</b>
Compound Annual Return	6.7%	5.8%	9.1%	5.8%	8.1%
Volatility	—	4.4%	6.9%	10.7%	9.8%

CalPERS reported a preliminary 4.7% net return on investments for the 12-month period ended June 30, 2020. The preliminary Fiscal Year 2019-20 return brings total fund performance to 6.3% for the five-year time period, 8.5% for the 10-year time period, and 5.5% for the 20-year time period. Over the past 30 years, the PERF has returned an average of 8.0% annually.

**(c) Changes in the Net Pension Liability**

The change in the Net Pension Liability for the Miscellaneous Plan is as follows:

<u>Miscellaneous Plan</u>	<u>Total Pension Liability</u>	<u>Fiduciary Net Pension</u>	<u>Net Pension Liability</u>
Beginning Balance	\$ 104,134,737	\$ 73,232,175	\$ 30,902,562
Service Costs	1,771,368		1,771,368
Interest on Total Pension Liability	7,381,846		7,381,846
Changes of Assumptions	-		-
Difference Between Actual and Expected Experience	1,082,289		1,082,289
Net Plan to Plan Resource Movement		-	-
Employer Contributions		3,049,748	(3,049,748)
Employee Contributions		846,125	(846,125)
Net Investment Income		4,759,034	(4,759,034)
Employee Contribution Refunds and Benefit Payments	(5,720,232)	(5,720,232)	-
Administrative Expenses		(52,260)	52,260
Other Miscellaneous Income		170	(170)
Net Changes	<u>4,515,271</u>	<u>2,882,585</u>	<u>1,632,686</u>
Ending Balance	<u>\$ 108,650,008</u>	<u>\$ 76,114,760</u>	<u>\$ 32,535,248</u>

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

**(c) Changes in the Net Pension Liability, Continued**

For the measurement period ended June 30, 2019, the Town contributed \$2,325,357 for the safety Cost-Sharing Plan.

As of June 30, 2020, the Town reported net pension liabilities for its proportionate share of the net pension liability of the safety Cost-Sharing Plan of \$24,695,687.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the Town for each plan, calculated using the discount rate for the Plan, as well as what the Local Government'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:

Sensitivity to Changes in the Discount Rate	Miscellaneous Agent Multiple Employer Plan	Safety Cost Sharing Plan	Total
1% Decrease (6.15%) Net Pension Liability	\$ 46,452,350	\$ 37,518,167	\$ 83,970,517
Current Discount Rate (7.15%) Net Pension Liability	\$ 32,535,248	\$ 24,695,687	\$ 57,230,935
1% Increase (8.15%) Net Pension Liability	\$ 21,037,757	\$ 14,183,262	\$ 35,221,019

**Pension Plan Fiduciary Net Position** – Detailed information about the pension plan's fiduciary net position is available in a separately issued CalPERS financial report.

**(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

For the year ended June 30, 2020, the Town recognized pension expense of \$5,163,057 for the Miscellaneous Agent Multiple Employer Plan and \$5,646,706 for the Safety Cost Sharing Plan. The Town recognized total pension expense for all plans of \$10,809,763.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

**(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions, Continued**

At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources for the Miscellaneous Agent Multiple Employer Plan:

	Miscellaneous	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 8,188,460	\$ -
Changes in assumptions	-	(85,505)
Difference between expected and actual experiences	761,117	-
Net differences between projected and actual earnings on plan investments	-	(396,694)
Totals	<u>\$ 8,949,577</u>	<u>\$ (482,199)</u>

\$8,118,460 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. 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 Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 776,699
2021	(462,531)
2022	(116,574)
2023	81,324
2024	-
Thereafter	-

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

**(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions, Continued**

At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for the Safety Cost-Sharing Plan:

	Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,565,205	\$ -
Changes in assumptions	1,012,233	(197,536)
Difference between expected and actual experiences	1,612,405	-
Changes in employer's proportion	793,584	(68,685)
Differences between the employer's contributions and the employer's proportionate share of contributions	-	(1,010,396)
Net differences between projected and actual earnings on plan investments	-	(339,731)
Totals	<u>\$ 5,983,427</u>	<u>\$ (1,616,348)</u>

\$2,565,205 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2021. 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 Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	\$ 1,609,739
2022	(101,848)
2023	227,882
2024	66,101
2025	-
Thereafter	-

**(e) Payable to the Pension Plan**

At June 30, 2020, the Town reported a payable of \$99,593 and \$82,168 for the outstanding amount of contributions to the Miscellaneous Agent Multiple-Employer Plan and the Safety Cost-Sharing Plan.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 9 - EMPLOYEES' RETIREMENT PLAN, CONTINUED**

**(f) IRS Section 115 Trust**

In March 2018, the Town established an IRS Section 115 Trust (Trust) with Public Agencies Retirement Services (PARS), an entity independent of CalPERS, in order to prefund the pension liabilities for both the Miscellaneous and Safety defined-benefit pension plans. The Town closed the Trust for the fiscal year ending June 2020 and used it to pay \$4,753,965 more than the unfunded liability payment required by CalPERS for the Miscellaneous Plan. This payment is included in the deferral amount of \$8,188,460 for contributions made after the measurement date for the Miscellaneous Plan.

During the fiscal year ending June 30, 2020, the Town established an alternate IRS Section 115 Trust with the CalPERS California Employer' Pension Prefunding Trust (CEPPT) program.

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS**

**Plan Description** - The Town makes contributions to California Employer's 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 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 PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

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.

**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 an additional amount to prefund benefits as determined by the Town. For the measurement period July 1, 2018-June 30, 2019, the Town contributed \$2,406,636 to the plan which included \$1,104,025 of cash benefit payments, administrative fees of \$8,013, and \$194,598 of implied subsidy benefit payments. All related obligations are paid from the Town's General Fund.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED**

**Covered Participants**

Inactive employees or beneficiaries currently receiving benefits	130
Inactive employees entitled to but not yet receiving benefits	45
Active employees	<u>149</u>
Total	<u><u>324</u></u>

**Actuarial Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the June 30, 2019 actuarial valuation, the actuarial assumptions used are as follows:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.75%
Inflation	2.75%
Contribution Policy	Pre-funded through CERBT with the Strategy 1 asset allocation Town contributes at least the ADC
Salary Increases	Aggregate - 3% annually Merit - CalPERS 1997-2015 Experience Study
Projected Salary Increase	3.00%
Investment Rate of Return	6.75%
Mortality, Retirement, Disability, Termination	CalPERS 1997-2015 Experience Study
Mortality Improvement	Post-retirement mortality projected fully generational with Scale MP-2019
Healthcare Trend	Non-Medicare - 7.25% for 2021, decreasing to an ultimate rate of 4.0% in 2076 Medicare - 6.3% for 2021, decreasing to an ultimate rate of 4.0% in 2076
Participation at Retirement	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%

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED**

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 following table:

Asset Class	Target Allocation*	Expected Real Rate of Return
Public Equity	59%	4.82%
Fixed Income	25%	1.47%
TIPS	5%	1.29%
Commodities	3%	0.84%
REITs	8%	3.76%
Assumed Long-Term Rate of Inflation		2.75%
Expected Long-Term Net Rate of Return, Rounded		6.75%

The long-term expected real rates of return are presented as geometric means

\* Policy target effective October 1, 2018.

**Discount Rate** - The discount rate used to measure the total OPEB liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that Town contributions will be made 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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED**

**Net OPEB Liability** – The net OPEB liability is calculated by subtracting the fiduciary net position (FNP) of the Plan from the total OPEB liability as determined by the actuary. The table that follows displays the changes that applied to the total OPEB liability, FNP, and Net OPEB liability during the measurement period of July 1, 2018 through June 30, 2019.

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
<b>Balance at June 30, 2019</b> <b>(6/30/18 measurement date)</b>	\$ 26,321,184	\$ 16,265,716	\$ 10,055,468
<b>Changes in the year:</b>			
Service cost	1,203,274	-	1,203,274
Interest on the total pension liability	1,814,072	-	1,814,072
Differences between actual and expected experience	(149,297)	-	(149,297)
Changes in assumptions	(392,681)	-	(392,681)
Changes in benefit terms	-	-	-
Contributions - employer	-	2,406,636	(2,406,636)
Contributions - employee	-	-	-
Net investment income	-	1,009,315	(1,009,315)
Administrative expenses	-	(11,502)	11,502
Benefit payments , including refunds of employee contributions	(1,298,623)	(1,298,623)	-
<b>Net changes</b>	<b>1,176,745</b>	<b>2,105,826</b>	<b>(929,081)</b>
<b>Balance at June 30, 2020</b> <b>(6/30/19 measurement date)</b>	<b>\$ 27,497,929</b>	<b>\$ 18,371,542</b>	<b>\$ 9,126,387</b>

Due to these changes, the Town achieved an OPEB Plan funding status of 66.8% for the June 30, 2019 measurement date.

	Fiscal Year Ending	
	6/30/2020	6/30/2019
Measurement Date	6/30/2019	6/30/2018
Total OPEB Liability (TOL)	27,497,929	26,321,184
Fiduciary Net Position (FNP)	18,371,542	16,265,716
Net OPEB Liability (NOL)	9,126,387	10,055,468
Funded Status (FNP/TOL)	66.8%	61.8%

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED**

**Sensitivity of Actuarial Assumptions** – The following tables indicate how much the net OPEB liability varies if the discount rate and healthcare trend rate used to calculate the liability are increased or decreased by one percentage point.

<u>Discount Rate</u>	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Net OPEB Liability	\$ 12,620,092	\$ 9,126,387	\$ 6,231,928

<u>Healthcare Trend</u>	1% Decrease	Current Trend	1% Increase
Net OPEB Liability	\$ 6,581,769	\$ 9,126,387	\$ 11,778,962

**OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB** – Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Partial amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The recognition period differs depending on the source of the gain or loss. The measurement period July 1, 2018 through June 30, 2019 investment gains and losses are spread evenly over a 5-year period. All other deferred outflows and inflows created during the measurement period are recognized over a 5.9-year period. The total OPEB expense recognized in the fiscal year ending June 30, 2020 was \$1,748,217 and the Town reported deferrals from the following sources:

	<u>OPEB</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
• Employer contributions made subsequent to the measurement date	\$ 2,508,306	\$ -
• Changes in assumptions	-	(326,125)
• Difference between expected and actual experiences	-	(123,992)
• Net difference between projected and actual earnings on plan investments	-	(178,777)
Totals	<u>\$ 2,508,306</u>	<u>\$ (628,894)</u>

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS, CONTINUED**

The \$2,508,306 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2019 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	\$ (182,070)
2022	(183,070)
2023	(107,070)
2024	(74,011)
2025	(82,673)
Thereafter	-

**NOTE 11 - 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 authorities 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 responsible for payment of all claims up to the limit. Financial statements may be obtained from PLAN at 375 Beale Street, San Francisco, CA 94105.

**Local Agency Workers' Compensation Joint Powers Authority (LAWCX)** - The Town is a member of LAWCX for coverage of workers' compensation claims. 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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 11 - RISK MANAGEMENT, CONTINUED**

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, 2020:

	Workers' Compensation Internal Service Fund	Self- Insurance Internal Service Fund	Total
Claims payable balance - June 30, 2018	\$ 1,472,324	\$ 131,743	\$ 1,604,067
Claims incurred	1,161,312	29,999	1,191,311
Claims paid	(1,581,441)	(105,704)	(1,687,145)
Claims payable balance - June 30, 2019	1,052,195	56,038	1,108,233
Claims incurred	1,007,872	2,786	1,010,658
Claims paid	(868,681)	(1,799)	(870,480)
Claims payable balance - June 30, 2020	<u>\$ 1,191,386</u>	<u>\$ 57,025</u>	<u>\$ 1,248,411</u>

**NOTE 12 - 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, 2020, the Successor Agency Trust fund reported a net deficit of \$4,930,392.

**Encumbrances** - As of June 30, 2020, the Town had the following encumbered balances that were carried into the next fiscal year:

Appropriated Reserves Fund	3,029,398
Non-major Governmental Funds	4,500
Proprietary Funds	<u>139,391</u>
Total Encumbrances	<u>\$ 3,173,289</u>

**NOTE 13 - 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.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 13 - TOWN/SUCCESSOR AGENCY GRANTS, COOPERATIVE AGREEMENTS, CONTINUED**

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
- 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 14 – PRIOR PERIOD ADJUSTMENTS**

The Town recorded a prior period adjustment due to a change in how short-term compensated absences are recorded. The Town conformed the accounting to GASB 16, resulting in a restatement of net position:

		Prior Period Adjustment	
	Net Position, as Previously Reported	Removal of short- term compensated absences	Net Position, as Restated
Fund Financial Statements:			
General Fund	\$ 37,970,527	\$ 372,628	\$ 38,343,155

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 15 – COVID-19 PANDEMIC**

During December 2019, a novel coronavirus disease (COVID-19) was discovered. COVID-19 was subsequently declared a world-wide pandemic by the World Health Organization on March 11, 2020. On March 4, 2020, California State Governor Gavin Newsom proclaimed a State of Emergency as a result of the threat of the COVID-19 in the State of California, leading the Santa Clara County Health Officer to issue a stay-at-home directive effective on March 17, 2020. This **directive** halted all business within Santa Clara County outside of essential activities.

The COVID-19 **Public Health Order** had an immediate impact on the Town of Los Gatos' **economically sensitive** tax revenues. ~~While 2019-20 property tax revenues were insulated from COVID-19 due to the lien date (and change in California Consumer Price Index) of January 1, 2019, preceding the onset of COVID-19 in March 2020,~~ **As** clearly evident in the Town's basic financial statements, sales tax and transient occupancy tax (TOT) were **immediately** susceptible to the economic impact of COVID-19. The reduction in sales tax revenue reflects the closure, and later reduced activity of non-essential businesses in response to ~~the restrictions from~~ the shelter-in-place ~~restrictions order~~, while the drop in TOT revenues was directly attributable to the restrictions on the travel industry. ~~As illustrated in the table below, TOT has had the largest revenue declines to date.~~

	FY 2018/19	FY 2019/20	FY 2020/21
1Q	\$ 735,349	\$ 739,494	\$ 316,515
2Q	632,240	599,113	
3Q	608,902	434,493	
4Q	715,552	96,585	
TOT Total	\$ 2,692,043	\$ 1,869,685	\$ 316,515

Non-tax revenues were also impacted by COVID-19, largely in permits and fees, caused by some delays in private construction projects and fewer renewals of business licenses. ~~Property tax revenues were largely insulated from COVID-19 due to the lien date of January 1, 2019 and change in California Consumer Price Index preceding the proliferation of COVID-19 in March.~~

In response to the economic impact the Town modified its revenue forecasts downward for the Fiscal Year 2020/21 Budget. The Budget identified contingencies ~~in the event should~~ revenues come in below projected amounts. ~~Of note, Council did no program \$1.2 million of property sale proceeds as an additional safeguard against potential COVID-19 related budget shortfalls.~~ Expenditures reflect maintaining high service levels with little to no increase in employee headcount. To date, the contingencies have not needed to be used, and the Town is carefully monitoring actual revenues and expenditures.

**NOTE 16 – SUBSEQUENT EVENTS**

**Court Decision Regarding Redevelopment Agency (RDA) Distributions**

The Town was recently informed that the County of Santa Clara intends on withholding approximately \$1.6 million over the next two fiscal years to recapture excess RDA residual property tax revenues distributed to the Town. County Counsel has advised the Auditor/Controllers office to "look back" three fiscal years to determine the total amount to be recaptured from the Town and paid back over two fiscal years. The immediate impact to the Town Budget will be an unanticipated withholding of approximately \$789K in FY 2020/21.

**TOWN OF LOS GATOS, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 16 – SUBSEQUENT EVENTS, CONTINUED**

The County has informed the Town that this action is necessary to comply with a recent appellate court decision [City of Chula Vista v. Sandoval, 49 Cal. App. 5th 539 (2020)] that held that any funds remaining each RDA property tax trust fund (RPPTF) must be distributed in accordance with the taxing entities pro-rata shares without any caps or reductions to the distributions of RPTTF residuals to taxing entities that received pass-through payments.

The County explained that the court concluded that pass-through payments are to be treated as enforceable obligation payments and not considered as part of the property tax increment remaining in the RPTTF. Since the RPTTF's were established, many auditor-controllers, including the County of Santa Clara, had been reducing the RPPTF residual property tax distributions to taxing entities that received pass-through payments. Of note is that when the Town Redevelopment Agency was created, it negotiated property tax pass-through agreements with nearly all of the taxing jurisdictions in the RDA project area with the biggest share allocated was in pass-through agreements with the school districts.

The County has informed the Town that these reductions will no longer occur and the RPTTF residuals will be distributed to all taxing entities in accordance with their property tax shares. After the two-year recapture of residual property tax, the Town will continue to receive RPTTF residual property taxes but at lower levels than previously allocated under the County's old allocation method.

**Educational Revenue Augmentation Fund (ERAF)**

The Town is continuing to monitor developments regarding the distribution of excess ERAF funds. A portion of property tax revenue goes to the ERAF to support local school districts. When the amount contributed to ERAF is more than the minimum cost of funding local schools, excess funds are returned to the County, Cities, and Special Districts. Five counties, including Santa Clara have been using a redistribution' allocation formula that is being contested by the State. The Town's Adopted FY 20/21 Budget has ERAF revenue estimated at \$433,000.

The State's Legislative Analyst Office (LAO) requested Governor Newsom's administration to examine five counties (including Santa Clara County) whose allocation methods for ERAF were questioned by the LAO in three areas: (1) excluding charter school students from the calculations, (2) accounting for the school district's share of property tax formerly allocated to redevelopment agencies, and (3) applying State law for the provision of minimum State aid to schools. The LAO asserts that the counties' interpretation of applicable State law is shifting monies away from schools in favor of local agencies.

The County believes that the Chula Vista ruling (see item above) will help the County with its excess ERAF calculation. Santa Clara and other excess ERAF counties have sent a letter to the State Controller's Office (SCO) to ask the SCO to take the court's decision into consideration when they develop further guidelines for the excess ERAF allocation by counties.

If the LAO were to prevail, the possibility of a revenue claw back could reduce the current year's budgeted ERAF amount to zero. Should the County prevail, the amounts budgeted could actually increase for the current fiscal year. The State is expected to decide this issue in December 2020.

## Required Supplementary Information

# TOWN OF LOS GATOS, CALIFORNIA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

Measurement Date	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
<b>Total Pension Liability</b>						
Service Cost	\$ 1,771,368	\$ 1,700,438	\$ 1,651,550	\$ 1,560,679	\$ 1,491,925	\$ 1,579,547
Interest on total pension liability	7,381,846	7,073,843	6,820,536	6,697,247	6,483,032	6,268,015
Difference between expected and actual experience	1,082,289	994,994	(892,479)	(357,870)	(623,495)	-
Changes in assumptions	-	(655,541)	5,481,432	-	(1,513,132)	-
Changes in benefits	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(5,720,232)	(5,448,374)	(5,138,083)	(4,953,756)	(4,748,786)	(4,241,487)
<b>Net change in total pension liability</b>	<b>4,515,271</b>	<b>3,665,360</b>	<b>7,922,956</b>	<b>2,946,300</b>	<b>1,089,544</b>	<b>3,606,075</b>
<b>Total pension liability - beginning</b>	<b>104,134,737</b>	<b>100,469,377</b>	<b>92,546,421</b>	<b>89,600,121</b>	<b>88,510,577</b>	<b>84,904,502</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 108,650,008</b>	<b>\$ 104,134,737</b>	<b>\$ 100,469,377</b>	<b>\$ 92,546,421</b>	<b>\$ 89,600,121</b>	<b>\$ 88,510,577</b>
<b>Plan fiduciary net position</b>						
Contributions - employer	3,049,748	2,669,104	2,407,496	2,223,782	1,941,765	1,796,079
Contributions - employee	846,125	761,705	682,891	691,770	679,796	668,167
Plan to plan resource movement	-	(170)	-	(28,866)	22,561	-
Projected Earnings on Plan Investments	-	-	-	-	-	4,328,173
Recognized Difference between Projected and Actual Earnings	-	-	-	-	-	1,166,344
Net Investment Income	4,759,034	5,883,868	7,171,443	369,185	1,470,873	-
Net Difference between Projected and Actual Earnings	-	-	-	-	-	4,665,374
Benefit payments, including refunds of employee contribution	(5,720,232)	(5,448,374)	(5,138,083)	(4,953,756)	(4,748,786)	(4,241,487)
Administrative Expenses	(52,260)	(108,582)	(95,455)	(40,462)	(74,706)	-
Other Miscellaneous Income/(Expense) <sup>1</sup>	170	(206,199)	-	-	-	-
<b>Net change in plan fiduciary net position</b>	<b>2,882,585</b>	<b>3,551,352</b>	<b>5,028,292</b>	<b>(1,738,347)</b>	<b>(708,497)</b>	<b>8,382,650</b>
<b>Plan fiduciary net position - beginning</b>	<b>73,232,175</b>	<b>69,680,823</b>	<b>64,652,531</b>	<b>66,390,878</b>	<b>67,099,375</b>	<b>58,716,725</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 76,114,760</b>	<b>\$ 73,232,175</b>	<b>\$ 69,680,823</b>	<b>\$ 64,652,531</b>	<b>\$ 66,390,878</b>	<b>\$ 67,099,375</b>
<b>Net pension liability - ending (a) - (b)</b>	<b>\$ 32,535,248</b>	<b>\$ 30,902,562</b>	<b>\$ 30,788,554</b>	<b>\$ 27,893,890</b>	<b>\$ 23,209,243</b>	<b>\$ 21,411,202</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>70.05%</b>	<b>70.32%</b>	<b>69.36%</b>	<b>69.86%</b>	<b>74.10%</b>	<b>75.81%</b>
<b>Covered payroll</b>	<b>10,211,967</b>	<b>9,576,157</b>	<b>9,024,370</b>	<b>9,198,318</b>	<b>8,487,940</b>	<b>8,406,315</b>
<b>Net pension liability as a percentage of covered payroll</b>	<b>318.60%</b>	<b>322.70%</b>	<b>341.17%</b>	<b>303.25%</b>	<b>273.44%</b>	<b>254.70%</b>

1. During Fiscal Year 2017-18, as a result of GASB No. 75, CalPERS reported its proportionate share of activity related to postemployment benefit for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75. Additionally, CalPERS employees participate in various State of California agent pension plans and during FY2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68.

**TOWN OF LOS GATOS, CALIFORNIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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

Measurement Date	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the net pension liability	0.24100%	0.23583%	0.22603%	0.22394%	0.14860%	0.28588%
Proportionate share of the net pension liability	\$24,695,687	\$22,725,267	\$22,415,954	\$19,377,843	\$10,199,904	\$17,788,690
Covered payroll *	\$ 4,445,061	\$ 5,079,440	\$ 4,941,138	\$ 5,022,498	\$ 4,897,104	\$ 4,916,535
Proportionate share of the net pension liability as percentage of covered payroll	555.58%	447.40%	453.66%	385.82%	208.28%	361.81%
Plan fiduciary net position as a percentage of the total pension liability	75.26%	75.26%	73.31%	74.06%	78.40%	75.66%

\* For the year ending on the measurement date.

***Schedule of Pension Plan Contributions – Miscellaneous Agent Multiple-Employer Plan***

Fiscal Year	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 3,366,304	\$ 3,049,748	\$ 2,669,133	\$ 2,407,496	\$ 2,223,782	\$ 1,941,765
Contributions in Relation to the Actuarially Determined Contribution	(8,188,460)	(3,049,748)	(2,669,133)	(2,407,496)	(2,223,782)	(1,941,765)
Contribution Deficiency (Excess)	\$(4,822,156)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	11,743,677	10,211,967	9,576,157	9,024,370	9,198,318	8,487,940
Contributions as a Percentage of Covered Payroll	28.66%	29.86%	27.87%	26.68%	24.18%	22.88%

\*Fiscal year 2015 was the 1<sup>st</sup> year of implementation, therefore only six years are shown.

***Schedule of Pension Plan Contributions – Safety Cost-Sharing Plan***

Fiscal Year	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 2,565,205	\$ 2,325,357	\$ 1,951,711	\$ 302,911	\$ 297,000	\$ 295,000
Contributions in Relation to the Actuarially Determined Contribution	(2,565,205)	(2,325,357)	(1,951,711)	(302,911)	(297,000)	(295,000)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	4,928,821	4,445,061	5,079,440	4,941,138	5,022,498	4,897,104
Contributions as a Percentage of Covered Payroll	52.05%	52.31%	38.42%	6.13%	5.91%	6.02%

\*Fiscal year 2015 was the 1<sup>st</sup> year of implementation, therefore only six years are shown.

**TOWN OF LOS GATOS, CALIFORNIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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***Actuarial Methods and Assumptions used for Pension Actuarially Determined Contributions***

Actuarial Cost Method	Entry Age Normal
Amortization Method	For details, see June 30, 2016 CalPERS Funding Valuation Report
Amortization Period	For details, see June 30, 2016 CalPERS Funding Valuation Report
Asset Valuation Method	Fair Value of Assets. For details, see June 30, 2016 CalPERS Funding Valuation Report
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.375% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	CalPERS 1997-2011 experience study
Mortality	CalPERS 1997-2011 experience study Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

# TOWN OF LOS GATOS, CALIFORNIA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2020

### *Schedule of Changes in Net OPEB Liability and Related Ratios*

Measurement Date	6/30/2019	6/30/2018	6/30/2017
<b>Changes in Total OPEB Liability</b>			
Service Cost	\$ 1,203,274	\$ 1,168,227	\$ 1,134,000
Interest on total OPEB liability	1,814,072	1,706,270	1,607,000
Difference between expected and actual experience	(149,297)	-	-
Changes in assumptions	(392,681)	-	-
Benefit payments	(1,298,623)	(1,326,313)	(1,269,000)
<b>Net change in total OPEB liability</b>	1,176,745	1,548,184	1,472,000
<b>Total OPEB liability - beginning</b>	26,321,184	24,773,000	23,301,000
<b>Total OPEB liability - ending (a)</b>	<u>\$ 27,497,929</u>	<u>\$ 26,321,184</u>	<u>\$ 24,773,000</u>
<b>Changes in plan fiduciary net position</b>			
Contributions - employer	2,406,636	2,935,313	3,878,000
Contributions - employee	-	-	-
Net Investment Income	1,009,315	1,082,977	1,049,000
Benefit payments	(1,298,623)	(1,326,313)	(1,269,000)
Administrative Expenses	(11,502)	(34,261)	(14,000)
<b>Net change in plan fiduciary net position</b>	2,105,826	2,657,716	3,644,000
<b>Plan fiduciary net position - beginning</b>	16,265,716	13,608,000	9,964,000
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 18,371,542</u>	<u>\$ 16,265,716</u>	<u>\$ 13,608,000</u>
Net OPEB liability - ending (a) - (b)	\$ 9,126,387	\$ 10,055,468	\$ 11,165,000
Plan fiduciary net position as a percentage of the total OPEB liability	66.8%	61.8%	54.9%
Covered payroll	17,338,201	16,192,060	14,985,716
Net pension liability as a percentage of covered payroll	52.64%	62.10%	74.50%

### *Schedule of Employer Contributions*

Fiscal Year	2020	2019	2018
Actuarially Determined Contribution (ADC)	\$ 2,172,000	\$ 2,108,000	\$ 2,129,000
Actual Contributions	2,508,306	2,406,636	2,935,000
Contribution deficiency/(excess)	(336,306)	(298,636)	(806,000)
Covered employee payroll	17,406,541	17,338,201	14,985,716
Contributions as a percentage of covered payroll	14.4%	13.9%	19.6%

**TOWN OF LOS GATOS, CALIFORNIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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***Actuarial Methods and Assumptions used for 2019/20 OPEB Actuarially Determined Contribution***

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal, Level percentage of pay
Amortization Method	Level percentage of pay
Amortization Period	19-year fixed period for 2019/20
Asset Valuation Method	Investment gains and losses spread over 5-year rolling period
Discount Rate	6.75%
General Inflation	2.75%
Medical Trend	Non-medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076
Mortality	CalPERS 1997-2015 experience study
Mortality Improvement	Post-retirement mortality projected fully generational with Scale MP-2017

Draft  
12/10/2020

## Supplementary Information

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**  
**MAJOR GOVERNMENTAL FUND BUDGET SCHEDULES**  
**(OTHER THAN THE GENERAL FUND) AND**  
**NONMAJOR GOVERNMENTAL FUNDS**

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***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, as well as for the Roads Maintenance Rehabilitation Act. 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.

**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, 2020**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Licenses & permits	\$ 110,000	\$ 110,000	\$ 407,340	\$ 297,340
Intergovernmental	1,627,763	1,903,527	1,938,684	35,157
Charges for services	1,446,577	840,289	862,257	21,968
Interest	-	-	47,219	47,219
Other	20,755	326,446	69,110	(257,336)
Total Revenues	3,205,095	3,180,262	3,324,610	144,348
<b>EXPENDITURES</b>				
Capital outlay	11,014,724	9,305,582	5,919,125	3,386,457
Total Expenditures	11,014,724	9,305,582	5,919,125	3,386,457
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(7,809,629)	(6,125,320)	(2,594,515)	3,530,805
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	-	-	910	910
Transfers in	7,994,884	8,325,591	8,325,591	-
Transfers (out)	(427,616)	(427,616)	(433,952)	(6,336)
Total Other Financing Sources (Uses)	7,567,268	7,897,975	7,892,549	(5,426)
<b>CHANGE IN FUND BALANCE</b>	\$ (242,361)	\$ 1,772,655	5,298,034	\$ 3,525,379
<b>BEGINNING FUND BALANCE</b>			8,567,994	
<b>ENDING FUND BALANCE</b>			\$ 13,866,028	

**TOWN OF LOS GATOS  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2020**

	CAPITAL PROJECTS FUNDS				
	Storm Drains Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds	Community Development Fund
<b>ASSETS</b>					
Cash & Investments	\$ 2,760,276	\$ 3,118,173	\$ 208,412	\$ 6,086,861	\$ 94,412
Receivables:					
Accounts	-	-	-	-	-
Intergovernmental Receivable	-	-	81,958	81,958	58,344
Long Term Notes Receivable	-	-	-	-	78,752
Total Assets	<u>\$ 2,760,276</u>	<u>\$ 3,118,173</u>	<u>\$ 290,370</u>	<u>\$ 6,168,819</u>	<u>\$ 231,508</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued Payroll and Benefits	-	-	-	-	-
Unearned revenue	-	-	-	-	64,855
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,855</u>
<b>FUND BALANCE</b>					
Restricted for:					
Repairs and Maintenance	-	-	-	-	-
Capital Projects	2,760,276	3,118,173	290,370	6,168,819	-
Assigned for:					
Special Revenue Funds	-	-	-	-	166,653
Unassigned	-	-	-	-	-
Total Fund Balances	<u>2,760,276</u>	<u>3,118,173</u>	<u>290,370</u>	<u>6,168,819</u>	<u>166,653</u>
Total Liabilities and Fund Balances	<u>\$ 2,760,276</u>	<u>\$ 3,118,173</u>	<u>\$ 290,370</u>	<u>\$ 6,168,819</u>	<u>\$ 231,508</u>

(Continued)

SPECIAL REVENUE FUNDS			
Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	Total Nonmajor Governmental Funds
\$ 225,099	\$ 192,384	\$ 511,895	\$ 6,598,756
19,277	-	19,277	19,277
-	340	58,684	140,642
-	-	78,752	78,752
<u>\$ 244,376</u>	<u>\$ 192,724</u>	<u>\$ 668,608</u>	<u>\$ 6,837,427</u>
\$ 1,707	\$ 2,474	\$ 4,181	\$ 4,181
4,734	-	4,734	4,734
-	-	64,855	64,855
<u>6,441</u>	<u>2,474</u>	<u>73,770</u>	<u>73,770</u>
-	190,250	190,250	190,250
-	-	-	6,168,819
237,935	-	404,588	404,588
-	-	-	-
237,935	190,250	594,838	6,763,657
<u>\$ 244,376</u>	<u>\$ 192,724</u>	<u>\$ 668,608</u>	<u>\$ 6,837,427</u>

(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, 2020**

	CAPITAL PROJECTS FUNDS			
	Storm Drain Funds	Construction Tax Fund	Gas Tax Fund	Total Capital Projects Funds
<b>REVENUES</b>				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	34,436	-	34,436
License and permits	126,471	-	-	126,471
Intergovernmental	-	-	1,249,694	1,249,694
Interest	46,248	53,052	12,238	111,538
Total Revenues	172,719	87,488	1,261,932	1,522,139
<b>EXPENDITURES</b>				
Current:				
Parks and Public Works	-	-	-	-
Sanitation and Other	-	-	-	-
Capital Outlay	11,000	49,000	1,719,384	1,779,384
Total Expenditures	11,000	49,000	1,719,384	1,779,384
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	161,719	38,488	(457,452)	(257,245)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers (out)	(30,000)	-	(106,000)	(136,000)
Total Other Financing Sources (Uses)	(30,000)	-	(106,000)	(136,000)
Changes in Fund Balances	131,719	38,488	(563,452)	(393,245)
Fund Balances - Beginning of year	2,628,557	3,079,685	853,822	6,562,064
Fund Balances - End of year	\$ 2,760,276	\$ 3,118,173	\$ 290,370	\$ 6,168,819

(Continued)

SPECIAL REVENUE FUNDS				
Community Development Fund	Non-Point Source Maintenance	Lighting and Landscaping	Total Special Revenue Funds	Total
\$ -	\$ -	\$ 38,041	\$ 38,041	\$ 38,041
-	-	-	-	34,436
-	231,323	-	231,323	357,794
-	-	-	-	1,249,694
-	-	3,562	3,562	115,100
-	231,323	41,603	272,926	1,795,065
-	-	29,493	29,493	29,493
-	162,837	-	162,837	162,837
-	-	25,079	25,079	1,804,463
-	162,837	54,572	217,409	1,996,793
-	68,486	(12,969)	55,517	(201,728)
-	10,000	-	10,000	10,000
-	-	(4,920)	(4,920)	(140,920)
-	10,000	(4,920)	5,080	(130,920)
-	78,486	(17,889)	60,597	(332,648)
166,653	159,449	208,139	534,241	7,096,305
\$ 166,653	\$ 237,935	\$ 190,250	\$ 594,838	\$ 6,763,657

(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, 2020**

	STORM DRAIN FUNDS			CONSTRUCTION TAX		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	30,000	34,436	4,436
License and permits	92,500	126,471	33,971	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Interest	12,040	46,248	34,208	22,490	53,052	30,562
Total Revenues	104,540	172,719	68,179	52,490	87,488	34,998
<b>EXPENDITURES</b>						
Parks and public works	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital outlay	11,000	11,000	-	49,000	49,000	-
Total Expenditures	11,000	11,000	-	49,000	49,000	-
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	93,540	161,719	68,179	3,490	38,488	34,998
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	(30,000)	(30,000)	-	-	-	-
Total Other Financing Sources (Uses)	(30,000)	(30,000)	-	-	-	-
<b>CHANGE IN FUND BALANCE</b>	\$ 63,540	131,719	\$ 68,179	\$ 3,490	38,488	\$ 34,998
<b>BEGINNING FUND BALANCE</b>		2,628,557			3,079,685	
<b>ENDING FUND BALANCE</b>		\$ 2,760,276			\$ 3,118,173	

(Continued)

GAS TAX			COMMUNITY DEVELOPMENT BLOCK GRANT			NON-POINT SOURCE MAINTANENCE		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	231,323	231,323	-
1,363,738	1,249,694	(114,044)	-	-	-	-	-	-
-	-	-	-	-	-	353,071	-	(353,071)
1,210	12,238	11,028	-	-	-	-	-	-
1,364,948	1,261,932	(103,016)	-	-	-	584,394	231,323	(353,071)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	579,173	162,837	416,336
1,719,384	1,719,384	-	-	-	-	-	-	-
1,719,384	1,719,384	-	-	-	-	579,173	162,837	416,336
(354,436)	(457,452)	(103,016)	-	-	-	5,221	68,486	63,265
-	-	-	-	-	-	10,000	10,000	-
(106,000)	(106,000)	-	-	-	-	-	-	-
(106,000)	(106,000)	-	-	-	-	10,000	10,000	-
\$ (460,436)	(563,452)	\$ (103,016)	\$ -	-	\$ -	\$ 15,221	78,486	\$ 63,265
	853,822			166,653			159,449	
	\$ 290,370			\$ 166,653			\$ 237,935	

(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, 2020**

	LIGHTING AND LANDSCAPING			TOTALS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>						
Property taxes	\$ 38,220	\$ 38,041	\$ (179)	\$ 38,220	\$ 38,041	\$ (179)
Other taxes	-	-	-	30,000	34,436	4,436
License and permits	-	-	-	323,823	357,794	33,971
Intergovernmental	-	-	-	1,363,738	1,249,694	(114,044)
Charges for services	-	-	-	353,071	-	(353,071)
Interest	1,460	3,562	2,102	37,200	115,100	77,900
Total Revenues	39,680	41,603	1,923	2,146,052	1,795,065	(350,987)
<b>EXPENDITURES</b>						
Parks and public works	44,057	29,493	14,564	44,057	29,493	14,564
Sanitation and other	-	-	-	579,173	162,837	416,336
Capital outlay	67,579	25,079	42,500	1,846,963	1,804,463	42,500
Total Expenditures	111,636	54,572	57,064	2,470,193	1,996,793	473,400
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(71,956)	(12,969)	58,987	(324,141)	(201,728)	122,413
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	-	-	-	10,000	10,000	-
Operating transfers (out)	(4,920)	(4,920)	-	(140,920)	(140,920)	-
Total Other Financing Sources (Uses)	(4,920)	(4,920)	-	(130,920)	(130,920)	-
<b>CHANGE IN FUND BALANCE</b>	<u>\$ (76,876)</u>	<u>(17,889)</u>	<u>\$ 58,987</u>	<u>\$ (455,061)</u>	<u>(332,648)</u>	<u>\$ 122,413</u>
<b>BEGINNING FUND BALANCE</b>		208,139			7,096,305	
<b>ENDING FUND BALANCE</b>		<u>\$ 190,250</u>			<u>\$ 6,763,657</u>	

(Concluded)

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**PROPRIETARY FUNDS**  
**INTERNAL SERVICE FUNDS**

---

**Internal Service Funds** are used to finance and account for special activities and service performed by a designated 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 Replacement 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.

**FY 2019 Values**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

	Equipment Replacement	Workers' Comp	Self Insurance	Information Technology	Facilities Maintenance	Total
<b>ASSETS</b>						
Cash & Investments	\$ 1,925,053	\$ 2,888,558	\$ 1,347,639	\$ 2,732,385	\$ 192,117	\$ 9,085,752
Restricted Cash & Investments	-	114,213	-	-	-	114,213
Receivables:						
Accounts	-	-	-	2,443	26,110	28,553
Total Assets	1,925,053	3,002,771	1,347,639	2,734,828	218,227	9,228,518
<b>LIABILITIES</b>						
Accounts Payable	-	2,644	-	130,625	115,758	249,027
Claims Payable	-	1,191,386	57,025	-	-	1,248,411
Total Liabilities	-	1,194,030	57,025	130,625	115,758	1,497,438
<b>NET POSITION</b>						
Restricted for:						
Workers comp- ensation claims	-	114,213	-	-	-	114,213
Unrestricted	1,925,053	1,694,528	1,290,614	2,604,203	102,469	7,616,867
Total Net Position	\$ 1,925,053	\$ 1,808,741	\$ 1,290,614	\$ 2,604,203	\$ 102,469	\$ 7,731,080

**TOWN OF LOS GATOS**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	Equipment Replacement	Workers' Comp	Self Insurance	Information Technology	Facilities Maintenance	Total
<b>OPERATING REVENUES</b>						
Charges for services	\$ 199,095	\$ 903,434	\$ 378,133	\$ 881,936	\$ 847,384	\$ 3,209,982
Interest	-	7	-	-	-	7
Use of money and property	-	-	-	-	165,652	165,652
Other local taxes	-	-	-	-	34,437	34,437
Other	36,987	526,552	-	-	33,213	596,752
Total Operating Revenues	236,082	1,429,993	378,133	881,936	1,080,686	4,006,830
<b>OPERATING EXPENSES</b>						
Insurance expenses	-	529,241	344,762	-	-	874,003
Services and supplies	540,036	996,348	56,061	796,201	1,161,003	3,549,649
Total Operating Expenses	540,036	1,525,589	400,823	796,201	1,161,003	4,423,652
Operating Income (loss)	(303,954)	(95,596)	(22,690)	85,735	(80,317)	(416,822)
Transfers in	-	1,061,256	-	-	-	1,061,256
Transfers out	(579,797)	-	-	-	(788,000)	(1,367,797)
Net Transfers	(579,797)	1,061,256	-	-	(788,000)	(306,541)
Change in Net Position	(883,751)	965,660	(22,690)	85,735	(868,317)	(723,363)
<b>BEGINNING NET POSITION</b>	2,808,804	843,081	1,313,304	2,518,468	970,786	8,454,443
<b>ENDING NET POSITION</b>	\$ 1,925,053	\$ 1,808,741	\$ 1,290,614	\$ 2,604,203	\$ 102,469	\$ 7,731,080

**TOWN OF LOS GATOS**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	Equipment Replacement	Worker's Comp	Self Insurance	Information Technology	Facilities Maintenance	Total
<b>CASH FLOWS FROM</b>						
<b>OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 236,082	\$ 1,497,589	\$ 378,133	\$ 881,405	\$ 1,096,563	\$ 4,089,772
Payments to suppliers	(625,467)	(1,009,831)	(71,599)	(741,233)	(1,172,525)	(3,620,655)
Claims paid	-	(390,050)	(343,775)	-	-	(733,825)
Net Cash Provided (Used) by Operating Activities	(389,385)	97,708	(37,241)	140,172	(75,962)	(264,708)
<b>CASH FLOWS FROM</b>						
<b>NONCAPITAL FINANCING</b>						
<b>ACTIVITIES</b>						
Transfers In/(Out)	(579,797)	1,061,256	-	-	(788,000)	(306,541)
Net Cash Provided (Used) by Noncapital Financing Activities	(579,797)	1,061,256	-	-	(788,000)	(306,541)
Net Increase(Decrease) in Cash and Investments	(969,182)	1,158,964	(37,241)	140,172	(863,962)	(571,249)
Cash and investments - beginning of year	2,894,235	1,843,807	1,384,880	2,592,213	1,056,079	9,771,214
Cash and investments - end of year	\$ 1,925,053	\$ 3,002,771	\$ 1,347,639	\$ 2,732,385	\$ 192,117	\$ 9,199,965
Reconciliation of Operating Income to Cash Flows from Operating Activities:						
Operating Income	\$ (303,954)	\$ (95,596)	\$ (22,690)	\$ 85,735	\$ (80,317)	\$ (416,822)
Change in assets and liabilities:						
Receivables, net	-	67,596	-	(531)	15,877	82,942
Accounts payable	(85,378)	(13,483)	(15,538)	54,968	(11,433)	(70,864)
Claims payable		139,191	987	-	-	140,178
Due to other government	(53)	-	-	-	(89)	(142)
Cash Flows From Operating Activities	\$ (389,385)	\$ 97,708	\$ (37,241)	\$ 140,172	\$ (75,962)	\$ (264,708)

**TOWN OF LOS GATOS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**FIDUCIARY FUNDS**  
**PRIVATE PURPOSE TRUST FUNDS**

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

**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  
PRIVATE PURPOSE TRUST FUNDS  
COMBINING STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2020**

	Library	RDA Successor Agency	Total
<b>ASSETS</b>			
Cash and investments (Note 2)	\$ 521,067	\$ 1,822,438	\$ 2,343,505
Restricted cash and investments (Note 2)	-	1,987,621	1,987,621
Accounts receivable	8,750	-	8,750
Loans receivable (Note 3)	-	575,425	575,425
Capital assets (Note 5):			
Nondepreciable	-	5,257,422	5,257,422
Depreciable, net of accumulated depreciation	-	1,423,701	1,423,701
Total Assets	<u>529,817</u>	<u>11,066,607</u>	<u>11,596,424</u>
<b>LIABILITIES</b>			
Accounts payable	3,000	64	3,064
Due to other governments	2	-	2
Interest payable	-	285,390	285,390
Long-term debt (Note 6):			
Due within one year	-	1,250,000	1,250,000
Due in more than one year	-	14,461,545	14,461,545
Total Liabilities	<u>3,002</u>	<u>15,996,999</u>	<u>16,000,001</u>
<b>NET POSITION</b>			
Held in trust	<u>526,815</u>	<u>(4,930,392)</u>	<u>(4,403,577)</u>
Total Net Position	<u>\$ 526,815</u>	<u>\$ (4,930,392)</u>	<u>\$ (4,403,577)</u>

**TOWN OF LOS GATOS  
PRIVATE PURPOSE TRUST FUNDS  
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	Library	RDA Successor Agency	Total
<b>ADDITIONS</b>			
Property taxes	\$ -	\$ 1,949,284	\$ 1,949,284
Investment earnings	9,617	44,035	53,652
Gifts, bequests and endowments	61,809	-	61,809
Other	-	1,905,024	1,905,024
Total Additions	71,426	3,898,343	3,969,769
<b>DEDUCTIONS</b>			
Program expenses	-	1,916,701	1,916,701
Interest and fiscal agency expenses of RDA	-	651,462	651,462
Library services	82,626	-	82,626
Capital Outlay	-	-	-
Depreciation expense	-	101,692	101,692
Total Deductions	82,626	2,669,855	2,752,481
<b>CHANGE IN NET POSITION</b>	(11,200)	1,228,488	1,217,288
<b>NET POSITION - BEGINNING OF YEAR</b>	538,015	(6,158,880)	(5,620,865)
<b>NET POSITION - END OF YEAR</b>	<u>\$ 526,815</u>	<u>\$ (4,930,392)</u>	<u>\$ (4,403,577)</u>

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## STATISTICAL SECTION

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## STATISTICAL (UNAUDITED)

This part of the Town of Los Gatos Comprehensive Annual Financial Report (“CAFR”) 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

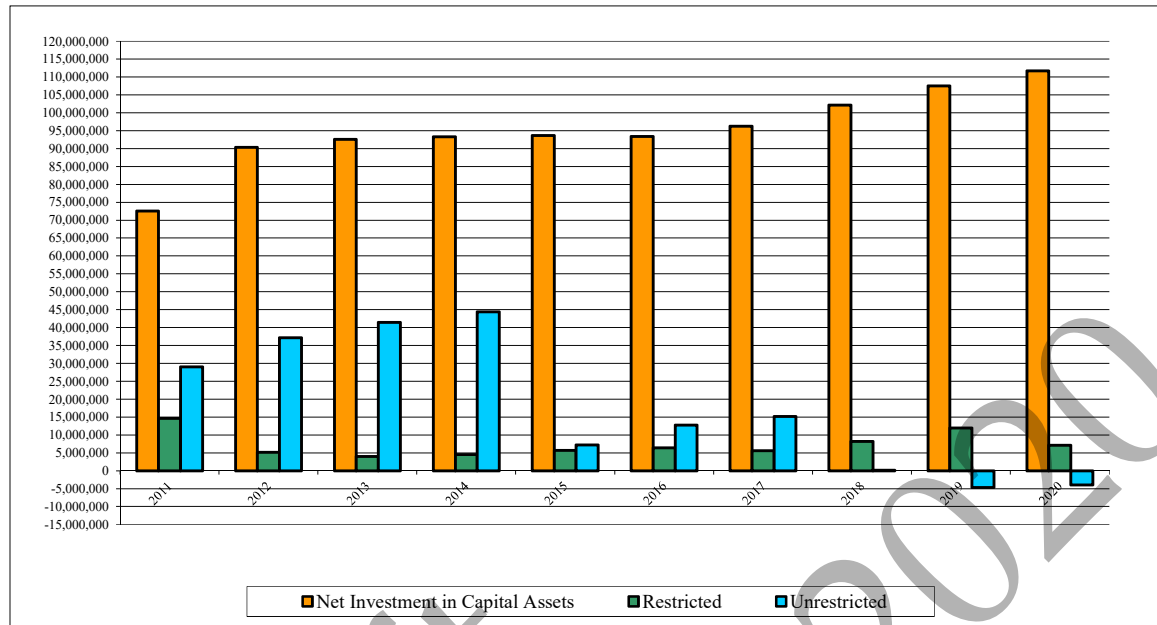
These schedules contain service and infrastructure data to help the reader understand how the information in the Town’s CAFR relates to the services the Town provides and activities it performs (Schedule 15 and Schedule 16).

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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	
2011	72,567,355	14,652,823	29,017,520	116,237,698	(1)
2012	90,333,451	5,167,236	37,192,210	132,692,897	
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	(2)
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	(4)
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	

(1) The decrease in Restricted Net Position from FY 2010 to FY 2011 was primarily due to the issuance of the \$15.7 million Certificates of Participation in FY 2010.

(2) The decrease in Restricted Net Position GASB 68 Implementation of Unfunded Pension Liability of Statement of Net Position.

(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 equipment.

(4) Net position was restated for FY 2018 for amounts placed into fiduciary funds, reclassified to General Fund Restricted Asset.

Town of Los Gatos  
Changes in Net Position  
Last Ten Fiscal Years  
(Accrual Basis of Accounting)

Expenses	2010/11	2011/12	2012/13	2013/14
Governmental Activities:				
General Government	\$ 5,180,153	\$ 6,145,143	\$ 6,564,768	\$ 6,955,804
Police Department	13,495,885	14,124,798	13,731,754	14,119,786
Parks and Public Works	7,155,905	7,827,332	7,829,315	8,154,616
Community Development	3,099,269	3,434,551	4,094,188	4,424,040
Community Services	666,015	-	-	-
Library Services	1,892,805	1,938,577	2,128,823	2,234,431
Sanitation	342,893	158,205	393,205	363,180
Redevelopment	16,794,022	919,821	1,277,063	21,687
Interest and Fees	1,278,381	1,123,842	-	-
Total Governmental Activities	\$ 49,905,328	\$ 35,672,269	\$ 36,019,116	\$ 36,273,544

Program Revenues				
Charges for Services:				
General Government	\$ 1,156,931	\$ 1,131,424	\$ 1,416,593	\$ 2,179,077
Police Department	2,153,843	2,324,397	2,450,630	3,206,579
Parks and Public Works	810,022	1,215,382	3,044,401	1,550,867
Community Development	3,097,192	3,448,433	4,649,444	5,156,061
Community Services	98,803	-	-	-
Library Services	39,491	37,662	50,696	51,775
Sanitation	135,000	135,000	403,294	328,648
Operating Grants and Contributions:				
General Government	15,638	6,453	8,406	-
Police Department	27,748	29,980	91,360	42,661
Parks and Public Works	809,272	993,827	835,724	994,096
Community Services	182,683	-	-	-
Library Services	10,662	109	40	14,662
Sanitation	9,002	-	-	-
Capital Grants and Contributions:				
General Government	-	-	169,270	-
Police Department	-	-	-	-
Parks and Public Works	2,375,759	641,811	2,757,660	2,274,879
Community Development	-	-	-	19,360
Total Program Revenues	\$ 10,922,046	\$ 9,964,478	\$ 15,877,518	\$ 15,818,665

General Revenues	2010/11	2011/12	2012/13	2013/14
Property Taxes	\$ 18,226,001	\$ 14,088,866	\$ 11,968,377	\$ 11,712,312
Sales Taxes	9,971,409	9,889,100	8,757,428	8,029,571
Franchise Taxes	-	-	-	-
Other Taxes	2,906,264	3,698,753	3,324,791	3,718,405
Motor Vehicle in Lieu	139,814	15,238	15,790	13,068
Investment Earnings	760,905	331,420	(133,375)	772,200
Loss on Disposal of Capital Assets	-	-	-	-
Sale of Property	(870,127)	-	54,425	-
Miscellaneous	41,943	2,275,160	1,154,647	350,468
Extraordinary Gain (Loss) Dissolution of RDA	-	11,864,453	295,101	-
Total General Revenues	\$ 31,176,209	\$ 42,162,990	\$ 25,437,184	\$ 24,596,024

Change in Net Position

\$ (7,807,073)	\$ 16,455,199	\$ 5,295,586	\$ 4,141,145
----------------	---------------	--------------	--------------

2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
\$ 6,465,852	\$ 6,993,661	\$ 6,771,628	\$ 7,948,918	\$ 8,163,991	\$ 7,405,368
12,644,221	12,825,688	14,587,597	15,545,521	16,635,726	20,446,188
8,069,352	8,320,623	9,502,707	10,047,003	10,627,716	11,803,005
4,047,738	3,227,224	5,093,459	4,667,609	5,064,637	5,001,958
-	-	-	-	-	-
2,553,414	2,522,142	2,868,748	3,087,684	3,059,294	3,347,523
491,359	528,580	466,762	536,296	684,673	3,041
-	-	-	-	-	-
-	-	-	-	-	-
<b>\$ 34,271,936</b>	<b>\$ 34,417,918</b>	<b>\$ 39,290,901</b>	<b>\$ 41,833,031</b>	<b>\$ 44,236,037</b>	<b>\$ 48,007,083</b>

\$ 1,888,213	\$ 1,517,012	\$ 1,669,020	\$ 1,701,146	\$ 1,562,683	\$ 1,470,324
3,529,166	3,278,585	2,076,688	1,888,359	1,745,889	1,549,207
2,206,765	1,516,108	2,155,841	4,150,068	2,910,936	3,674,222
5,027,497	4,359,146	3,803,626	3,456,390	4,155,231	3,351,753
-	-	-	-	-	-
53,123	46,192	46,746	14,702	9,476	11,522
328,868	368,813	410,626	771,442	966,130	231,323
-	15,291	-	-	-	12,290
24,838	98,138	837,329	895,730	826,643	952,045
907,745	749,300	665,779	953,294	1,301,152	2,824,638
-	-	-	-	-	15,864
4,062	12,228	-	57,200	47,482	49,351
-	-	-	-	-	-
176,705	-	-	-	-	8,258
-	-	-	-	-	9,100
2,338,154	1,610,657	770,600	348,437	146,792	832,755
-	-	9,280	-	-	-
<b>\$ 16,485,136</b>	<b>\$ 13,571,470</b>	<b>\$ 12,445,535</b>	<b>\$ 14,236,768</b>	<b>\$ 28,665,066</b>	<b>\$ 14,992,652</b>

2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
\$ 12,931,603	\$ 13,763,458	\$ 14,756,214	\$ 15,958,406	\$ 17,321,347	\$ 18,330,426
8,202,678	7,501,175	8,925,276	7,466,253	8,158,152	7,531,425
2,215,430	2,258,892	2,366,908	2,474,814	2,475,916	2,495,792
2,062,893	1,997,497	2,351,223	2,667,840	2,726,743	1,911,774
-	12,308	14,056	16,483	14,689	24,526
428,772	698,324	192,260	333,120	1,809,128	2,428,470
-	-	-	-	-	-
-	-	-	-	-	-
813,324	598,170	528,946	622,105	2,407,840	323,940
-	-	-	-	-	-
<b>\$ 26,654,700</b>	<b>\$ 26,829,824</b>	<b>\$ 29,134,883</b>	<b>\$ 29,539,021</b>	<b>\$ 34,913,815</b>	<b>\$ 33,046,353</b>
<b>\$ 8,867,900</b>	<b>\$ 5,983,376</b>	<b>\$ 2,289,517</b>	<b>\$ 1,942,758</b>	<b>\$ 19,342,844</b>	<b>\$ 31,922</b>

Town of Los Gatos  
Fund Balance, Governmental Funds  
Last Ten Fiscal Years  
(Modified Accrual Basis of Accounting)

	Fiscal			
	2010/11	2011/12	2012/13	2013/14
General Fund				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved	-	-	-	-
Nonspendable	1,500,000	-	-	-
Restricted	-	-	-	-
Committed				
Assigned	21,806,781	21,992,886	20,758,156	23,791,749
Unassigned	2,433,556	4,019,409	7,502,446	1,363,376
Total General Fund	<u>\$ 25,740,337</u>	<u>\$ 26,012,295</u>	<u>\$ 28,260,602</u>	<u>\$ 25,155,125</u>
All Other Governmental Funds				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:				
Special Revenue Funds	-	-	-	-
Capital Project Funds	-	-	-	-
Debt Service Funds	-	-	-	-
Nonspendable	-	-	-	-
Restricted	14,764,334	5,167,236	3,949,583	4,485,246
Committed	-	-	-	-
Assigned	4,786,547	5,389,674	6,097,182	8,191,823
Unassigned	(23,889)	107,107	157,208	183,045
Total All Other Governmental Funds	<u>\$ 19,526,992</u>	<u>\$ 10,664,017</u>	<u>\$ 10,203,973</u>	<u>\$ 12,860,114</u>
Total Fund Balances	<u>\$ 45,267,329</u>	<u>\$ 36,676,312</u>	<u>\$ 38,464,575</u>	<u>\$ 38,015,239</u>

Year					
2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,206,851	5,015,316	669,978
	20,019,187	15,129,925	12,953,399	15,070,944	15,387,706
24,121,256	9,555,085	14,050,699	17,475,285	18,256,895	13,277,813
-	-	-	-	-	-
<u>\$ 24,121,256</u>	<u>\$ 29,574,272</u>	<u>\$ 29,180,624</u>	<u>\$ 31,635,535</u>	<u>\$ 38,343,155</u>	<u>\$ 29,335,497</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
5,663,182	6,386,014	5,627,707	6,992,747	6,903,372	6,448,006
-	3,696,000	10,354,584	5,571,087	2,579,997	-
15,346,558	11,099,076	7,928,994	6,361,403	6,180,930	14,181,679
206,875	-	-	-	-	-
<u>\$ 21,216,615</u>	<u>\$ 21,181,090</u>	<u>\$ 23,911,285</u>	<u>\$ 18,925,237</u>	<u>\$ 15,664,299</u>	<u>\$ 20,629,685</u>
<u>\$ 45,337,871</u>	<u>\$ 50,755,362</u>	<u>\$ 53,091,909</u>	<u>\$ 50,560,772</u>	<u>\$ 54,007,454</u>	<u>\$ 49,965,182</u>

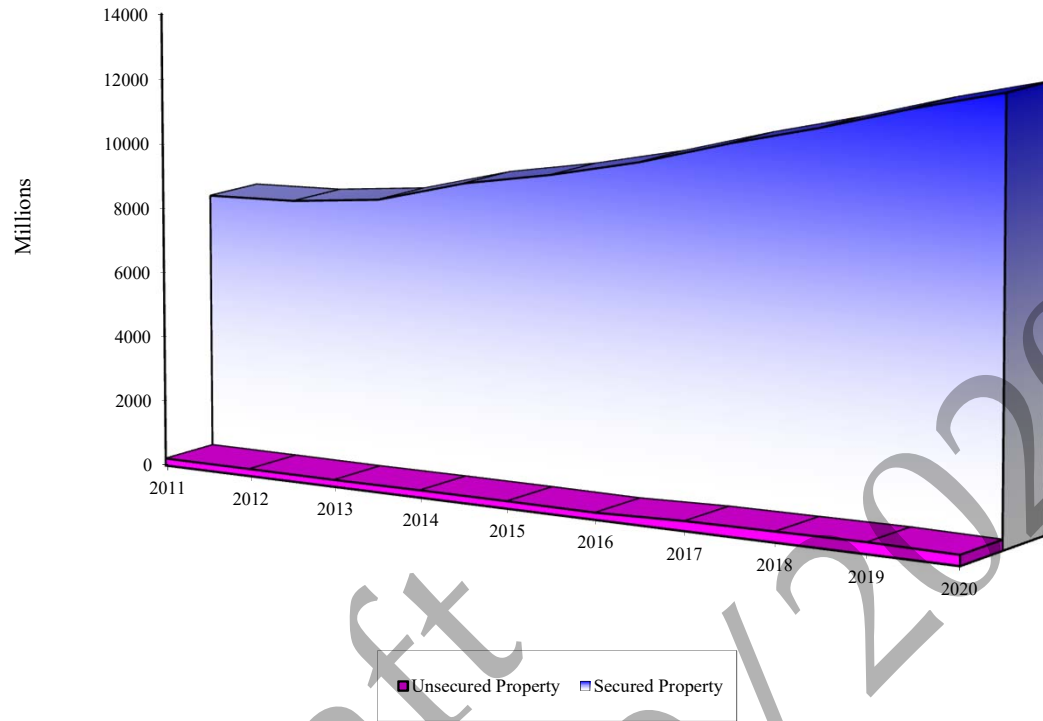
Town of Los Gatos  
Changes in Fund Balances, Governmental Funds  
Last Ten Fiscal Years  
(Modified Accrual Basis of Accounting)

	Fiscal Year				
	2010/11	2011/12	2012/13	2013/14	2014/15
Revenues:					
Taxes	\$ 31,549,352	\$ 27,676,719	\$ 24,596,799	\$ 23,475,393	\$ 23,208,820
Intergovernmental	3,248,303	1,669,729	2,615,191	2,440,127	2,921,002
Charges for Service	4,107,386	5,550,671	6,529,234	5,837,581	5,794,386
Licenses & Permits	2,967,819	3,242,348	4,015,871	5,343,265	6,467,771
Investment Income	691,022	291,484	(133,380)	772,164	428,735
Fines and Forfeitures	737,903	809,790	688,125	795,720	868,564
Franchise Fees	-	-	-	-	2,215,430
Use of Property	38,502	38,974	38,910	37,741	32,209
Other	2,904,862	5,412,328	4,577,584	3,648,277	3,130,975
Total Revenues	46,245,149	44,692,043	42,928,334	42,350,268	45,067,892
Expenditures:					
Current					
Public Safety	13,004,041	13,392,953	13,370,032	13,742,189	13,747,198
Public Works	5,222,504	5,440,960	5,616,197	5,611,283	5,840,097
Community Development	2,973,587	3,226,195	4,235,832	4,335,599	4,218,500
Community Services	663,645	-	-	-	-
Library Services	1,806,611	1,805,479	2,055,069	2,131,438	2,268,844
Sanitation & Other	314,899	116,607	359,725	322,817	411,863
General Government	6,318,706	8,046,794	8,331,444	8,499,854	8,647,451
Redevelopment	18,958,126	3,282,155	1,277,063	21,687	-
Capital Outlay	15,839,303	10,929,491	6,568,653	4,097,662	3,800,478
Debt Service					
Principal Repayment	485,000	934,167	-	-	-
Interest and Fiscal Charges	1,019,881	1,143,185	-	-	-
Total Expenditures	66,606,303	48,317,986	41,814,015	38,762,529	38,934,431
Excess (Deficiency) of Revenues Over (Under) Expenditures	(20,361,154)	(3,625,943)	1,114,319	3,587,739	6,133,461
Other Financing Sources(Uses):					
Debt Issuance	-	-	-	-	-
Transfers In	3,928,107	3,735,440	2,841,881	3,418,872	8,977,220
Transfers Out	(3,545,168)	(3,661,894)	(2,463,850)	(2,921,409)	(7,788,049)
Proceeds from Sale of Property	-	-	-	-	-
Proceeds from Issuance of Debt	-	-	-	-	-
Total Other Financing Sources(Uses)	382,939	73,546	378,031	497,463	1,189,171
Special Item:					
Sale of Property	-	-	-	-	-
Extraordinary Gain (Loss) RDA Dissolution	-	(5,038,620)	295,913	-	-
Prepayment of Pension Obligations	-	-	-	(4,534,538)	-
Net Change in Fund Balances	\$ (19,978,215)	\$ (3,552,397)	\$ 1,492,350	\$ 4,085,202	\$ 7,322,632
Debt Service as a Percentage of Non Capital Expenditures	2.96%	5.56%	0.00%	0.00%	0.00%

	2015/16		2016/17		2017/18		2018/19		2019/20
\$	23,269,892	\$	25,945,129	\$	26,253,026	\$	28,244,329	\$	27,811,665
	2,573,475		1,715,580		2,124,903		2,310,655		4,498,153
	4,773,001		4,210,174		5,395,057		5,584,504		5,309,470
	5,442,133		5,075,503		5,937,044		5,173,876		4,818,671
	698,308		192,978		332,938		1,809,164		2,428,453
	879,277		917,105		676,212		510,266		271,117
	2,258,892		2,366,908		2,474,814		2,475,916		2,495,792
	31,723		32,096		32,206		32,960		31,039
	2,396,992		1,011,939		640,844		579,755		376,922
	42,323,693		41,467,412		43,867,044		46,721,425		48,041,282
	13,763,316		13,251,288		14,423,554		14,945,407		15,793,815
	6,307,266		6,633,748		7,125,686		7,962,135		8,168,599
	3,695,504		3,793,930		4,192,165		4,577,495		4,473,790
	-		-		-		-		-
	2,332,268		2,508,677		2,529,017		2,493,617		2,700,802
	452,726		466,762		521,147		628,240		162,837
	9,144,797		8,390,959		8,770,082		8,004,254		13,024,146
	-		-		-		-		-
	3,241,657		6,867,034		9,778,058		7,888,914		7,861,972
	-		-		-		-		-
	-		-		-		-		-
	38,937,534		41,912,398		47,339,709		46,500,062		52,185,961
	3,386,159		(444,986)		(3,472,665)		221,363		(4,144,679)
	-		-		-		-		-
	3,315,846		7,907,692		3,176,760		4,264,131		8,935,260
	(1,284,514)		(7,612,012)		(3,880,131)		(3,323,756)		(8,628,719)
					378,219		1,912,316		1,566
	-		4,435		-		-		-
	2,031,332		300,115		(325,152)		2,852,691		308,107
	-		-		-		-		-
	-		-		-		-		-
	-		-		-		-		-
\$	5,417,491	\$	(144,871)	\$	(3,797,817)	\$	3,074,054	\$	(3,836,572)
	0.00%		0.00%		0.00%		0.00%		0.00%

Town of Los Gatos  
Assessed Value and Estimated Actual Value of Taxable Property  
Last Ten Fiscal Years

Schedule 5

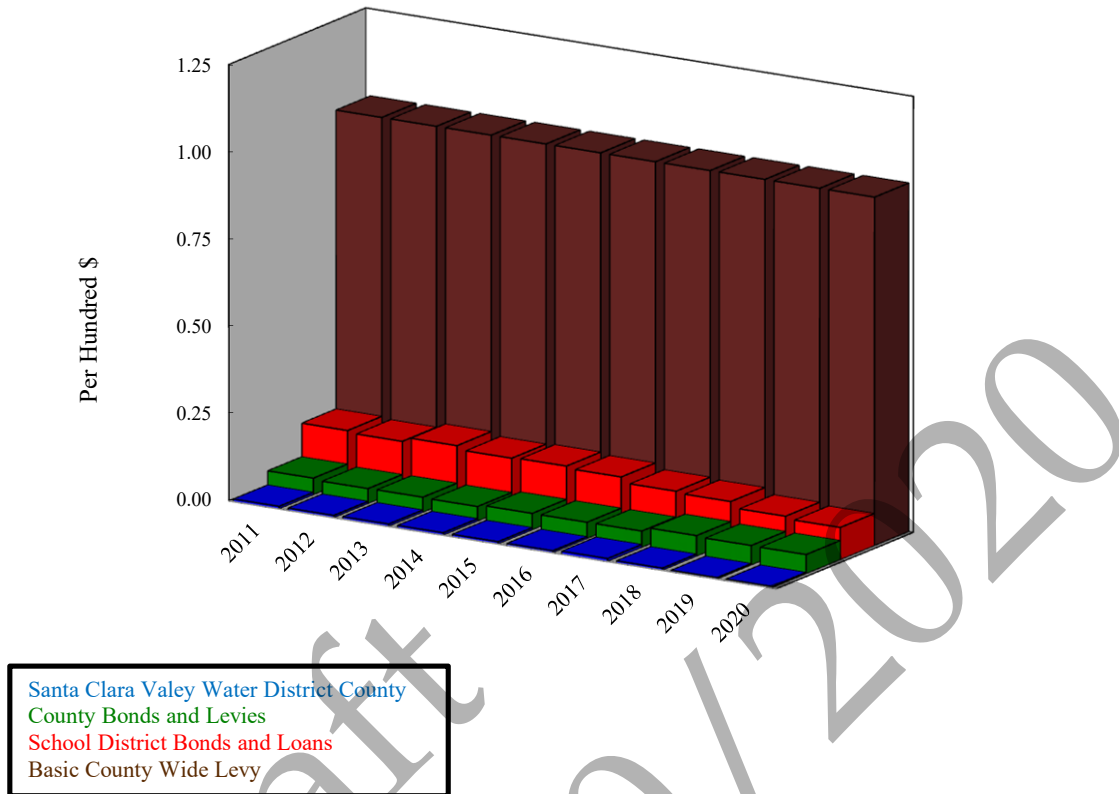


Fiscal Year	Utility and Unsecured Property	Percent Change	Secured Property	Percent Change	Total Assessed	Estimated Full Market	Total Direct Tax Rate
2011	217,353,236	-9.92%	8,044,692,600	-0.39%	8,262,045,836	32,178,770,400	1.0555
2012	217,297,593	-0.03%	8,152,459,157	1.34%	8,369,756,750	32,609,836,628	1.0499
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

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
2011	1.0000	0.0483	0.0072	0.1449	1.2004
2012	1.0000	0.0435	0.0064	0.1393	1.1892
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

Source: Santa Clara County Book of Tax Rates

Town of Los Gatos  
Principle Property Tax Payers  
Last Five Fiscal Years \*

ASSESSEE NAME	2015/16		2016/17		2017/18
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value
750 University LLC	\$ 19,379,620	0.19%	\$ 19,675,159	0.18%	\$ 25,241,863
980 JR LLC					
Alberto Way Holdings LLC	24,188,966	0.23%	24,557,845	0.22%	25,048,998
Ann R. Desantis					
Boccardo Corporation	21,617,318	0.21%	21,918,921	0.20%	22,211,650
CH Realty IV Downing LP					
D&K Los Gatos LLC	16,293,163	0.16%			
David A. and Shari Flick Trustee					
Donahue Schriber Realty Group LP					53,872,083
DS Downing Los Gatos LLC	21,980,568	0.21%	22,315,770	0.20%	
DS Village Square			22,799,599	0.20%	
El Camino Hospital	26,477,160	0.25%	26,880,933	0.24%	23,353,576
Equestrian 3 Investments LLC					29,584,251
Fox Creek Fund LLC					
Good Samaritan Hospital LP	19,880,366	0.19%	22,402,756	0.20%	22,516,823
Grade Way Associations VI					
Green Eyes LLC					
Grosvenor USA Ltd.	23,449,975	0.23%			
Health Care REIT Inc,	20,089,903	0.19%	20,396,274	0.18%	
International Hotel					30,144,617
Kay Kaoru and Go Sasaki Sr., Trustees	24,744,983	0.24%	25,122,131	0.22%	25,624,027
Knowles Los Gatos LLC	49,167,836	0.47%	49,917,644	0.44%	50,915,995
KSL Capital Partners	30,134,614	0.29%	30,105,945	0.27%	25,893,946
Leland E Lester, Trustee			29,004,169	0.26%	
LG Business Park Bldg 3 LLC	61,947,284	0.59%			53,465,724
LG Business Park Bldg 4 LLC					43,937,857
LG Business Park LLC	17,507,261	0.17%	31,070,572	0.28%	
LG Hotel LLC	15,497,395	0.15%			
Los Gatos Hotel Corp.	15,676,113	0.15%			
Lyon Baytree Apartments LLC					
Preylock Los Gatos LLC					
Safeway Inc.					24,394,468
San Jose Water Works	37,081,049	0.36%	38,710,728	0.34%	41,202,805
Serramonte Corporate Center LLC					
SI 32 LLC	141,348,894	1.36%	143,442,269	1.28%	146,317,944
Sobrato Interests IV LLC	44,930,482	0.43%	42,240,994	0.38%	43,071,837
SRI Old Town LLC	31,744,252	0.30%	32,228,351	0.29%	32,872,917
Summerhill N40 LLC					
Summerhill Prospect Avenue LLC			18,274,508	0.16%	
Wealthcap Los Gatos 121			109,100,000	0.97%	111,282,000
Wealthcap Los Gatos 31			84,000,000	0.75%	85,680,000
Windrose Los Gatos Properties LLC	-	0.00%		0.00%	
Total - Principal taxpayers	\$ 663,137,202	6.37%	\$ 814,164,568.00	7.24%	\$ 916,633,381.00
Total - All real properties assessed by the Town (1)	\$10,416,786,877		\$11,239,536,718		\$11,968,031,792

(1) Assessed value includes only net secured real properties.

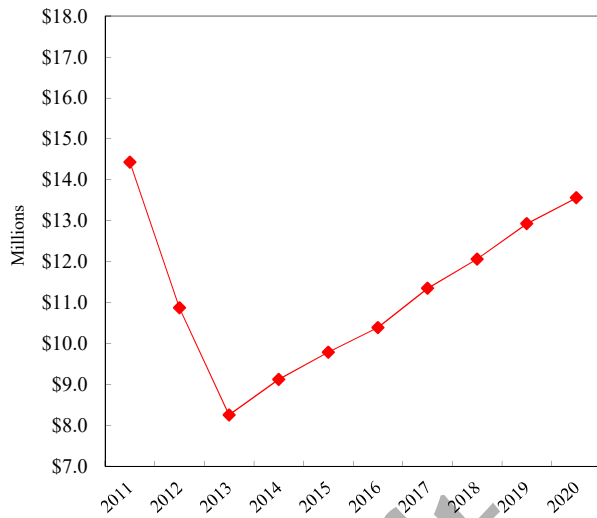
(2) Excludes the value of tax-exempt properties

Source Data: California Municipal Statistics, Inc.

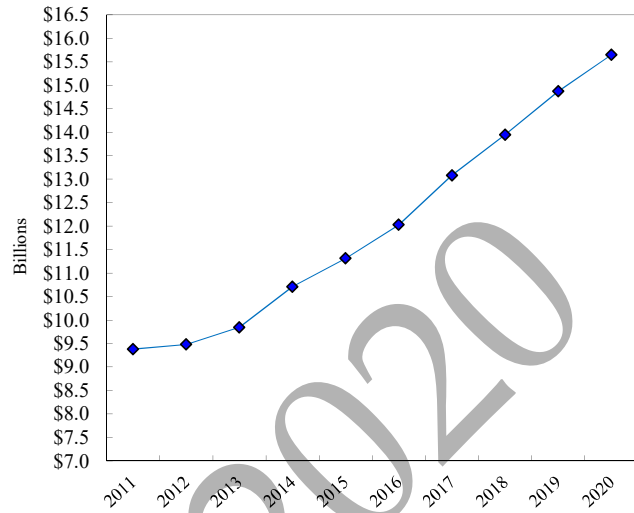
## Schedule 7

Percentage of Total City Taxable Assessed Value	2018/19		2019/20	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
0.21%	\$ 25,746,699	0.20%	\$ 26,261,632	0.19%
	19,277,879	0.15%		
0.21%	25,549,975	0.20%	24,158,350	0.18%
0.19%	22,651,732	0.18%	23,099,314	0.17%
0.45%	56,370,186	0.44%	57,497,587	0.43%
0.20%	28,596,104	0.22%	30,789,155	0.23%
0.25%	28,563,864	0.22%	25,525,880	0.19%
	21,558,664	0.17%		
0.19%	22,934,274	0.18%	23,391,289	0.17%
0.25%	30,747,509	0.24%	31,362,458	0.23%
0.21%	26,135,962	0.20%	28,864,942	0.21%
0.43%	51,934,313	0.41%	52,972,998	0.39%
0.22%	26,411,820	0.21%	33,069,058	0.24%
0.45%				
0.37%				
			89,141,472	0.66%
0.20%			25,752,231	0.19%
0.34%	46,150,577	0.36%	47,777,432	0.35%
	200,844,610	1.57%	204,861,501	1.52%
1.22%	149,208,182	1.17%	152,166,578	1.13%
0.36%	43,919,879	0.34%	44,781,377	0.33%
0.27%	33,530,374	0.26%	34,200,980	0.25%
			56,244,782	0.42%
0.93%	113,507,640	0.89%	115,777,792	0.86%
0.72%	87,393,600	0.68%		
7.66%	\$ 1,061,033,843.00	8.29%	\$ 1,127,696,808.00	8.35%
	\$12,793,751,423		\$13,509,034,656	

**Tax Levied**



**Value of Property**



Fiscal Year	Town Property Tax Levied and Collected	Redevelopment Property Tax Levied and Collected	Total Property Tax Levied and Collected	Value of Town Property subject to Local Tax Rate	Value of Redevelopment Agency Property Subject to Local Tax Rate	Value of Property Subject to Local Tax Rate
2011	7,567,880	6,861,650	14,429,530	8,262,045,836	1,117,973,351	9,380,019,187
2012	7,520,265	3,349,254	10,869,519	8,369,756,750	1,109,305,673	9,479,062,423
2013	8,253,442	-	8,253,442	8,676,688,641	1,167,752,021	9,844,440,662
2014	9,120,626	-	9,120,626	9,462,896,402	1,249,873,303	10,712,769,705
2015	9,787,519	-	9,787,519	9,995,113,547	1,318,214,863	11,313,328,410
2016	10,388,424	-	10,388,424	10,634,839,902	1,395,509,489	12,030,349,391
2017	11,345,588	-	11,345,588	11,544,997,211	1,537,577,241	13,082,574,452
2018	12,060,228	-	12,060,228	12,299,554,149	1,650,746,473	13,950,300,622
2019	12,924,592	-	12,924,592	13,154,669,768	1,717,358,555	14,872,028,323
2020	13,559,587	-	13,559,587	13,842,193,548	1,809,729,058	15,651,922,606

Sources: Santa Clara County Auditor-Controller Office and the Town of Los Gatos

Fiscal Year	Governmental Activities						Per Capita
	1992 Certificate of Participation	2002 Certificate of Participation	2010 Certificate of Participation	Total Governmental Activities	Total Primary Government	Percentage of Personal Income	
2011	240,000	8,865,000	15,675,000	24,780,000	24,780,000	19.7%	835.72
2012	-	-	-	-	-	0.0% <sup>1)</sup>	0.00
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

<sup>1)</sup> Debt was transferred to the Successor Agency Trust Fund as a part of the RDA dissolution

2019/20 Assessed Valuation:

\$13,842,193,548

	% Applicable	(1)	Total Debt at June 30, 2020	Estimated Share of Direct and Overlapping Debt at June 30, 2020
<b>DIRECT AND OVERLAPPING BONDED DEBT:</b>				
<b>Overlapping Tax &amp; Assessment Debt</b>				
Santa Clara County	2.685%		\$ 881,455,000	\$ 23,667,067
West Valley-Mission Community College District	9.282%		\$ 617,330,000	\$ 57,300,571
Campbell Union High School District	7.875%		\$ 369,655,000	\$ 29,110,331
Los Gatos-Saratoga Joint Union High School District	34.723%		\$ 88,930,000	\$ 30,879,164
Cambrian School District	0.454%		\$ 48,499,944	\$ 220,190
Campbell Union High School District	7.818%		\$ 218,860,233	\$ 17,110,493
Los Gatos Union School District	71.118%		\$ 76,655,000	\$ 54,515,503
Saratoga Union School District	0.032%		\$ 21,227,353	\$ 6,793
Union School District	20.485%		\$ 112,109,206	\$ 22,965,571
Midpeninsula Regional Open Space District	4.423%		\$ 88,810,000	\$ 3,928,066
Santa Clara Valley Water District Benefit Assessment District	2.685%		\$ 65,495,000	\$ 1,758,541
<b>Total Overlapping Tax and Assessment Debt</b>				<b>\$ 241,462,290</b>
<b>Overlapping General Fund Debt</b>				
Santa Clara County General Fund Obligations	2.685%		\$ 966,725,100	\$ 25,956,569
Santa Clara County Pension Obligations	2.685%		\$ 346,996,639	\$ 9,316,860
Santa Clara County Board of Education Certificates of Participation	2.685%		\$ 3,480,000	\$ 93,438
West Valley-Mission Community College District General Fund Obligations	9.282%		\$ 50,780,000	\$ 4,713,400
Campbell Union High School District General Fund Obligations	7.875%		\$ 20,000,000	\$ 1,575,000
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	34.723%		\$ 2,634,000	\$ 914,604
Campbell Union School District General Fund Obligations	7.818%		\$ 2,440,000	\$ 190,759
Saratoga Union School District Certificates of Participation	0.032%		\$ 3,150,000	\$ 1,008
Santa Clara County Vector Control District Certificates of Participation	2.685%		\$ 2,010,000	\$ 53,969
Midpeninsula Regional Open Space Park District General Fund Obligations	4.423%		\$ 111,985,600	\$ 4,953,123
<b>Total Gross Overlapping General Fund Debt</b>				<b>\$ 47,768,730</b>
Less: Santa Clara County Supported Obligations				<b>\$ 1,969,609</b>
<b>Total Overlapping General Fund Debt</b>				<b>\$ 45,799,121</b>
<b>Overlapping Tax Increment Debt (Successor Agency)</b>				
Town of Los Gatos Certificated of Participations				<b>\$ 15,335,000</b>
<b>Total of Overlapping Tax Increment Debt</b>				<b>\$ 15,335,000</b>
<b>Total Direct Debt</b>				<b>\$0</b>
Total Gross Overlapping Debt				\$ 304,566,020
Total Net Overlapping Debt				\$ 302,596,411
Gross Combined Total Debt				\$ 304,566,020 (2)
Net Combined Total Debt				\$ 302,596,411

(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 2019/20 Assessed Valuation:

Total Overlapping Tax and Assessment Debt: 1.74%

Total Direct Debt: 0.00%

Gross Combined Total Debt: 2.20%

Net Combined Total Debt: 2.19%

Ratios to Redevelopment Incremental Valuation (\$1,471,897,930):

Total Overlapping Tax Increment Debt: 1.040%

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12/10/2020

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Town of Los Gatos  
Legal Debt Margin Information,  
Last Ten Fiscal Years  
(In Thousands of Dollars)

	Fiscal Year				
	2010/11	2011/12	2012/13	2013/14	2014/15
Debt Limit	\$ 1,204,551	\$ 1,195,035	\$ 1,216,131	\$ 1,263,138	\$ 1,379,254
Debt Applicable to Limit	-	-	-	-	-
Legal Debt Margin	\$ 1,204,551	\$ 1,195,035	\$ 1,216,131	\$ 1,263,138	\$ 1,379,254
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	0.00%	0.00%	0.00%	0.00%	0.00%

**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.

Legal Debt Margin Calculation  
for Fiscal Year 2019/20

Assessed Value	\$ 13,842,193,548
Debt Limit	2,076,329,032
Debt Applicable to Limit:	
Legal Debt Margin	<u><u>\$ 2,076,329,032</u></u>

Fiscal Year				
2015/16	2016/17	2017/18	2018/19	2019/20
\$ 1,444,943	\$ 1,556,252	\$ 1,679,736	\$ 1,789,097	\$ 2,076,329
-	-	-	-	-
\$ 1,444,943	\$ 1,556,252	\$ 1,679,736	\$ 1,789,097	\$ 2,076,329

0.00%      0.00%      0.00%      0.00%      0.00%

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)
2011	29,651	1,833,410	61,833	44.22	6,184	10.3%
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%

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.

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12/10/2020

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Town of Los Gatos  
Principal Employers  
Last Ten Fiscal Years

	2010/11		2011/12	
	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment
<u>Principal Employers</u>				
Columbia Health Care Assoc/Mission Oaks Hospital	2,000	12.60%	2,000	13.89%
El Camino Hospital, Los Gatos	700	4.41%	700	4.86%
Los Gatos Union School District	300	1.89%	275	1.91%
Los Gatos-Saratoga High School District	300	1.89%	270	1.88%
Netflix	800	5.04%	800	5.56%
Safeway	250	1.57%	250	1.74%
Alain Pinel Realtors	220	1.39%	150	1.04%
Verizon	-	0.00%	-	0.00%
Courtside Tennis Club	200	1.26%	200	1.39%
Town of Los Gatos	138	0.87%	136	0.94%
Whole Foods	-	0.00%	-	0.00%
Vasona Creek Health Care Center	-	0.00%	-	0.00%
Good Samaritan Regional Cancer Center	-	0.00%	-	0.00%
Roku	-	0.00%	-	0.00%
Terraces of Los Gatos	-	0.00%	-	0.00%

Source: Town of Los Gatos, Finance Department and Muniservices

2012/13		2013/14		2014/15	
Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment
2,000	13.29%	2,000	13.52%	-	0.00%
700	4.65%	700	4.73%	560	3.73%
275	1.83%	237	1.60%	273	1.82%
270	1.79%	256	1.73%	157	1.05%
900	5.98%	825	5.58%	1,530	10.19%
250	1.66%	250	1.69%	314	2.09%
150	1.00%	156	1.05%	156	1.04%
-	0.00%	-	0.00%	-	0.00%
200	1.33%	295	1.99%	440	2.93%
138	0.92%	144	0.97%	157	1.05%
-	0.00%	-	0.00%	179	1.19%
-	0.00%	-	0.00%	233	1.55%
-	0.00%	-	0.00%	200	1.33%
-	0.00%	-	0.00%	-	0.00%
-	0.00%	-	0.00%	-	0.00%

Principal Employers

	2015/16		2016/17	
	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment
Columbia Health Care Assoc/Mission Oaks Hospital	-	0.00%	-	0.00%
El Camino Hospital, Los Gatos	560	3.53%	560	3.49%
Los Gatos Union School District	280	1.76%	274	1.71%
Los Gatos-Saratoga High School District	157	0.99%	370	2.30%
Netflix	1,976	12.45%	1,864	11.61%
Safeway	314	1.98%	314	1.95%
Alain Pinel Realtors	146	0.92%	148	0.92%
Verizon	-	0.00%	-	0.00%
Courtside Tennis Club	440	2.77%	468	2.91%
Town of Los Gatos	158	1.00%	160	1.00%
Whole Foods	179	1.13%	179	1.11%
Vasona Creek Health Care Center	233	1.47%	233	1.45%
Good Samaritan Regional Cancer Center	200	1.26%	200	1.25%
Roku	487	3.07%	554	3.45%
Terraces of Los Gatos	228	1.44%	228	1.42%

2017/18		2018/19		2019/20	
Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment	Emp.	Percentage of Total Town Employment
	0.00%		0.00%		0.00%
560	3.43%	560	3.49%	560	3.49%
267	1.64%	281	1.75%	281	1.75%
367	2.25%	367	2.28%	367	2.28%
2,117	12.98%	2,314	14.41%	2,314	14.41%
314	1.92%	314	1.95%	314	1.95%
131	0.80%	131	0.82%	131	0.82%
	0.00%		0.00%		0.00%
542	3.32%	542	3.37%	542	3.37%
159	0.97%	160	1.00%	160	1.00%
179	1.10%	125	0.78%	125	0.78%
233	1.43%	233	1.45%	233	1.45%
200	1.23%	200	1.25%	200	1.25%
664	4.07%	516	3.21%	516	3.21%
228	1.40%	228	1.42%	228	1.42%

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									
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
General Government	18.90	20.15	20.40	20.73	20.97	20.97	21.35	21.97	22.16	21.80
Police	59.50	60.50	58.00	57.50	60.00	59.00	59.00	59.00	59.00	60.00
Culture and Recreation	3.25	-	-	-	-	-	-	-	-	-
Economic Development	1.00	1.00	-	0.50	0.63	0.63	0.63	0.75	0.75	0.75
Library	8.60	8.60	8.60	10.30	10.80	11.00	12.25	12.25	12.50	12.50
Planning	15.00	16.00	17.50	17.50	19.50	19.00	19.26	19.63	20.08	20.08
Public Works	32.50	32.00	31.00	31.50	32.00	33.50	33.50	34.50	34.50	34.50
Total	147.75	138.75	138.25	135.50	137.53	144.10	145.98	148.10	148.99	149.63

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-42 of Town Budget 19-20

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12/10/2020

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**FUNCTION/PROGRAM**

	2010/11	2011/12	2012/13	2013/14
<b>General government</b>				
Building Permits Issued				
Residential Permits Issued	711	747	738	813
Residential Permits Value	42,974,043	66,072,341	75,227,889	87,307,822
Commercial Permits Issued	128	107	137	139
Commercial Permits Value	31,289,431	17,663,124	46,855,615	138,676,507
Publically Owned Permits Issued	11	-	-	-
Publically Owned Permits Value	40,000	-	-	-
Residential Parking Permits				
Number of Special Event Permits Issued	96	89	125	133
Number of Annual Permits Issued	713	1,223	1,320	1,376
City Clerk				
Number of Council Resolutions Passed	76	59	74	86
Number of Ordinances Passed	6	13	20	16
Number of Contracts Passed	218	227	220	196
General Services				
Number of Purchase Orders Issued	336	358	318	301
<b>Police</b>				
Physical Arrests	872	690	648	641
Parking Violations	14,377	12,938	11,991	14,421
Traffic Violations	2,718	2,908	3,333	4,747
DUI Arrests	98	89	86	62
<b>Library</b>				
Circulated e-audiobooks	1,994	3,388	4,774	2,414 *
<b>Other Public Works</b>				
Street Resurfacing/Overlay/Reconstruction (miles)	4.7	8.0	8.0	10.0
ADA Compliance: Curb Ramps	17	19	19	19
Traffic Circles	1	1	1	-
Street Poles	1,708	1,611	1,611	1,611
<b>Planning and Development Department</b>				
Building & Safety Inspections Performed	10,977	11,738	11,902	12,764
Redevelopment: Number of active projects	1	1	-	-

\* July 2013 the Library separated from Northern CA Digital Library, Patrons had no longer access to collections of multiple libraries. By 2014 patrons access to more materials.

\*\* The Town streamlined the special event application where multiple events require only one permit.

Fiscal Year					
2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
805	899	744	849	814	898
76,896,111	85,000,754	53,625,891	63,083,249	80,030,846	47,961,529
133	147	135	105	122	92
178,195,997	20,185,884	50,024,177	16,626,196	13,295,999	12,389,688
-	-	-			
-	-	-			
127	107	118	113	78	**
1,570	1,363	1,251	1,342	1,395	1,400
72	61	69	69	59	57
9	11	5	17	11	24
222	283	240	262	245	242
277	334	331	322	343	359
695	987	1,030	1,164	1,138	616
13,321	13,975	12,863	11,784	6,817	4,023
4,633	5,400	4,634	4,757	2,877	1,225
48	58	60	51	70	64
5,867 *	7,761	10,006	8,844	12,130	57,839
1.8	8.0	10.0	2.6	5.8	16.2
23	11	30	68	49	68
1	1	1	1	1	1
1,609	1,609	1,609	1,762	1,830	1,830
11,652	8,655	14,722	13,918	13,966	13,633
-	-	-	-	-	-

2014 the Library has expanded its contents giving

Town of Los Gatos  
Capital Asset Statistics by Function/Program  
Last Ten Fiscal Years

Function/Program	Fiscal Year					
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Police</b>						
Number of Stations	2	2	2	2	2	2
Number of Patrol Units	14	14	14	14	14	14
Parking Enforcement Vehicles	2	2	2	2	2	2
<b>Other Public Works</b>						
Streets (miles)	132	132	132	132	132	132
Streetlights	2,115	2,116	2,116	2,109	1,609	1,609
Traffic Signals	28	29	29	29	29	30
<b>Parks and Recreation</b>						
Number of Parks	12	12	12	12	12	12
Number of Community Centers	1	1	1	1	1	1
Number of Parks & Open Spaces	N/A	N/A	N/A	N/A	N/A	N/A
<b>Parking</b>						
Number of Parking Garages	1	1	1	1	1	1
Number of Parking Lots	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
Number of Downtown Off-Street Parking Spaces	N/A	N/A	N/A	N/A	N/A	N/A

Source: Town of Los Gatos, Finance Department

## Schedule 16

<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
2	2	2	2
14	14	14	14
2	2	2	2
132	132	132	132
1,609	1,762	1,830	1,830
30	30	31	31
12	12	N/A	N/A
1	1	1	1
N/A	N/A	17	17
1	1	1	1
22	22	22	22
1,126	1,126	N/A	N/A
N/A	N/A	1,269	1,269

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**OTHER INDEPENDENT AUDITOR'S REPORT**

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12/10/2020

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Los Gatos, California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of Los Gatos, California's basic financial statements, and have issued our report thereon dated December xx, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Los Gatos, California's internal control over financial reporting (internal control) as a basis for designing 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 of Los Gatos, California's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Los Gatos, California'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Honorable Mayor and Members of the Town Council  
of the Town of Los Gatos  
Los Gatos, California  
Page 2

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Los Gatos, California's financial statements are free from 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not 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.

Badawi and Associates  
Certified Public Accountants  
Berkeley, California  
December xx, 2020

Draft  
12/10/2020

Draft  
12/10/2020



**DRAFT RESOLUTION 2020-**

**RESOLUTION OF THE TOWN COUNCIL  
OF THE TOWN OF LOS GATOS APPROVING COMMITMENTS OF FUND BALANCE UNDER GASB 54**

**WHEREAS**, the Governmental Accounting Standards Board (GASB) has issued its Statement No. 54, Fund Balance and Governmental Fund Type Definitions with the intent of improving financial reporting by providing fund balance categories that will be more easily understood and to improve the comparability of governmental fund financial statements; and

**WHEREAS**, GASB 54 provides that the Town Council of the Town of Los Gatos classify governmental fund balances as restricted, assigned, or committed fund balances; and

**WHEREAS** GASB 54 provides that restricted reserves are funds that are restricted for externally imposed constraints such as legal contracts or state law, assigned amounts are constrained by the Town's intent to use them for specific purposes, and committed amounts are dedicated for specific purposes under constraints and formal action taken by the Town Council and these committed amounts cannot be used for any other purposes unless the Town Council of the Town of Los Gatos removes or changes the specific use through the same formal action to establish the commitment; and

**WHEREAS**, the Town Council of the Town of Los Gatos has established a General Fund Reserve Policy providing for minimum fund balance dollar target amounts for Budget Stabilization and Catastrophic fund balances and outlines policies and procedures for use and restoration of these balances; and

**WHEREAS**, the Budget Stabilization and Catastrophic Reserve should be maintained at the required minimum 12.5% of FY 2020/21 general fund budgeted operating expenditures of \$5,427,603 as specified in the Town Council General Fund Reserve Policy. This would increase both Budget Stabilization and Catastrophic Reserves from \$5,419,222 by \$8,391 from available year-end savings; and

**WHEREAS**, in June 2016, the Town Council established the committed Pension/OPEB Reserve to provide funding toward pension and Other Post-Employment Benefits (OPEB) unfunded obligations by placing discretionary amounts to the reserve with formal Council action and transferring available year-end surpluses based on the General Fund Reserve Policy; and

**WHEREAS**, on November 6, 2018 the Town Council provided direction to establish a an unassigned Surplus Property Revenue General Fund Reserve that any monies received from the sale of the property located on Winchester Boulevard and Lark Ave, APN 424-31-055 and any monies received from the sale of future surplus property be placed in this reserve, and the provisions for the reserve specifically indicate that Council may, at its discretion, distribute those funds as it deems appropriate; and

**WHEREAS**, on May 21, 2019 the Town Council directed a transfer of \$1,905,000 million (proceeds of the property located on Winchester Boulevard and Lark Ave, APN 424-31-055) from the unassigned Surplus Property Revenue Reserve to the committed General Fund Pension/OPEB Reserve; and

**WHEREAS**, there exists a balance of \$0 as of June 30, 2020 in the assigned Surplus Property Reserve; and

**WHEREAS**, there exists an excess balance as of June 30, 2020 from year-end surplus beyond the minimum dollar amount required under the approved Town Council General Fund Reserve Policy; and

**WHEREAS**, per Town Council General Fund Reserve Policy, \$300,000 will be placed to the CalPERS/OPEB Reserve from available year-end savings; and

**WHEREAS**, there exists a balance of \$4,532,500 as of June 30, 2020 in the committed CalPERS/OPEB Reserve; and

**WHEREAS**, the Town Council established the assigned Open Space reserve in the FY 1998/99 to be used for the preservation of open space, connection of open space trails, the definition of the southern boundary of the Town with passive open space, and protection of unique natural features; and

**WHEREAS**, there exists an excess balance of \$410,000 as of June 30, 2020 in the assigned Open Space Reserve; and

**WHEREAS**, the Town Council established the assigned Sustainability Reserve in FY 2008/09 by closing the Solid Waste Management fund and placing the initial residual balance dedicated for conservation, recycling, and sustainability; and

**WHEREAS**, there exists an excess balance of \$140,553 as of June 30, 2020 in the assigned Sustainability Reserve; and

**WHEREAS**, there exists an assigned General Fund Compensated Absences Reserve allocated to fund 50% of all vested hours of sick leave, compensation, and vacation time with the actual reserve amount of \$1,539,408; and

**WHEREAS**, there exists an assigned Market Fluctuation Reserve that 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 in the amount of \$1,218,732; and

**WHEREAS**, there exist an assigned Measure G 2018 District Sales Tax Reserve to tack receipt and use of the 1/8 cent district tax funds collected by the Town; and

**WHEREAS**, there exists an assigned Capital/Special projects Reserve to fund Council priorities, and key infrastructure and capital/special projects as identified in the Town's five-year Capital Improvement Plan; and

**WHEREAS**, the remainder of the available year-end savings will be placed to the Capital/Special Project Reserve according to the Town Council Reserve Policy; and

**WHEREAS**, there exists an assigned Capital/Special Project Reserve in the amount of \$9,969,120; and

**NOW, THEREFORE, THE TOWN COUNCIL OF THE TOWN OF LOS GATOS DOES HEREBY RESOLVE** that the following fund balances as of June 30, 2020 as restricted, assigned, or formally committed as follows:

	<b>General Fund</b>	<b>Appropriated Reserves</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Fund Balance</b>				
Restricted for:				
Capital Outlay	\$ -	\$ 88,937	\$ 6,168,819	\$ 6,257,756
Pension	669,978	-	-	669,978
Repairs and Maintenance			190,250	190,250
Committed to:				
Budget Stabilization	5,427,603	-	-	5,427,603
Catastrophic	5,427,603	-	-	5,427,603
CalPERS/OPEB	4,532,500	-	-	4,532,500
Assigned to:				
Open Space	410,000	-	-	410,000
Parking	-	1,460,210	-	1,460,210
Sustainability	140,553	-	-	140,553
Capital/Special Projects	8,787,958	-	-	8,787,958
Measure G 2018 District Sales Tax	1,181,162			
Comcast PEG	-	50,000	-	50,000
Market Fluctuations	1,218,732	-	-	1,218,732
Compensated Absences	1,539,408	-	-	1,539,408
Special Revenue Funds	-	-	404,588	404,588
Capital Projects	-	12,266,881	-	12,266,881
<b>Total Fund Balances</b>	<b>\$ 29,335,497</b>	<b>\$ 13,866,028</b>	<b>\$ 6,763,657</b>	<b>\$ 48,784,020</b>

**PASSED AND ADOPTED** at a regular meeting of the Town Council held on the 15<sup>th</sup> day of December 2020 by the following vote:

**COUNCIL MEMBERS:**

AYES:

NAYS:

ABSENT:

ABSTAIN:

SIGNED:

MAYOR OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

ATTEST:  
CLERK ADMINISTRATOR OF THE TOWN OF LOS GATOS  
LOS GATOS, CALIFORNIA

# Town of Los Gatos

## Presentation to The Finance Committee

December 7, 2020

Presented by: **Ahmed Badawi, CPA**  
Partner



# **Badawi & Associates**

## **Audit of the**

### **Town of Los Gatos**

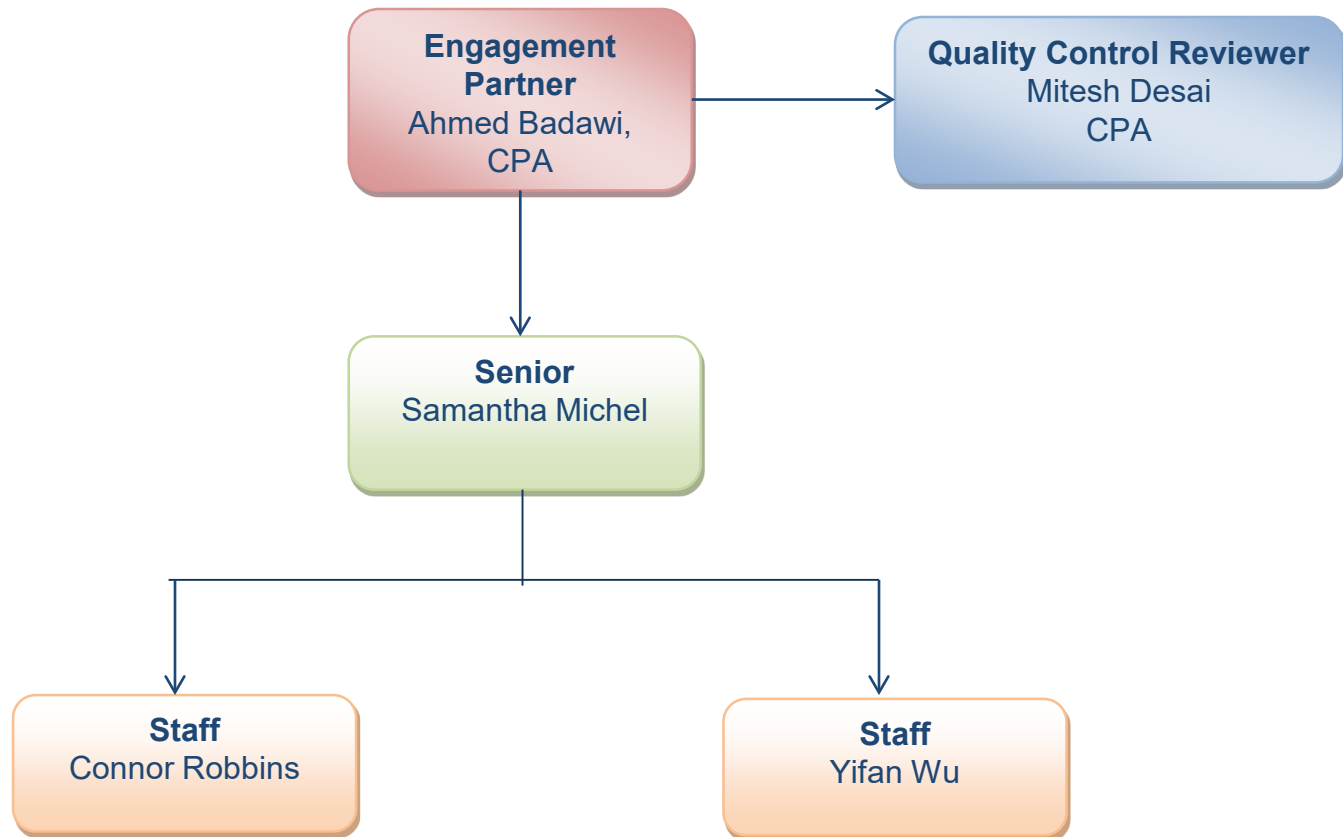
# Agenda

- Engagement Team
- Deliverables and Scope of the Audit
- Areas of Primary Emphasis
- Auditors Report and Financial Statements
- Required Communications
- New Accounting Standards
- Conclusion & Discussion/Questions

# Engagement Team



# Engagement Team



# Deliverables and Scope of the Audit

- Report of Independent Auditors on Town of Los Gatos Basic Financial Statements (BFS).
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.
- Agreed-Upon Procedures Report on Appropriation Limit Schedule.
- Communications With Those Charged With Governance.
  - Letter used to summarize communication of various significant matters to those charged with governance.

# Areas of Primary Audit Emphasis

- The risk of management override of controls is addressed by the following procedures:
  - Assignment of audit staff based on consideration of audit risk.
  - Procedures to incorporate an element of unpredictability in the audit from period to period.
  - Consideration of the selection and application of significant accounting principles.
  - Examination of journal entries.
  - Review of accounting estimates for bias.
  - Evaluation of business rationale for unusual transactions.
  - Evaluation of the appropriateness of fraud-related inquiries performed
- Revenues & Receivables (Tax, Grants, Notes and Others): Improper revenue recognitions
  - Confirm/validate property taxes, sales taxes, district taxes, franchise taxes & other significant revenues/receivables.
  - Performed testing of licenses, permits and fees revenues
- Pension and OPEB: Complex accounting
  - Reviewed management's journal entries for pension and OPEB
  - Agreed amounts recorded to reports provided by CalPERS and Town's Actuary
  - Tested the census data used by CalPERS and Town's Actuary
  - Obtained reports from CalPERS auditors regarding plan assets and census data



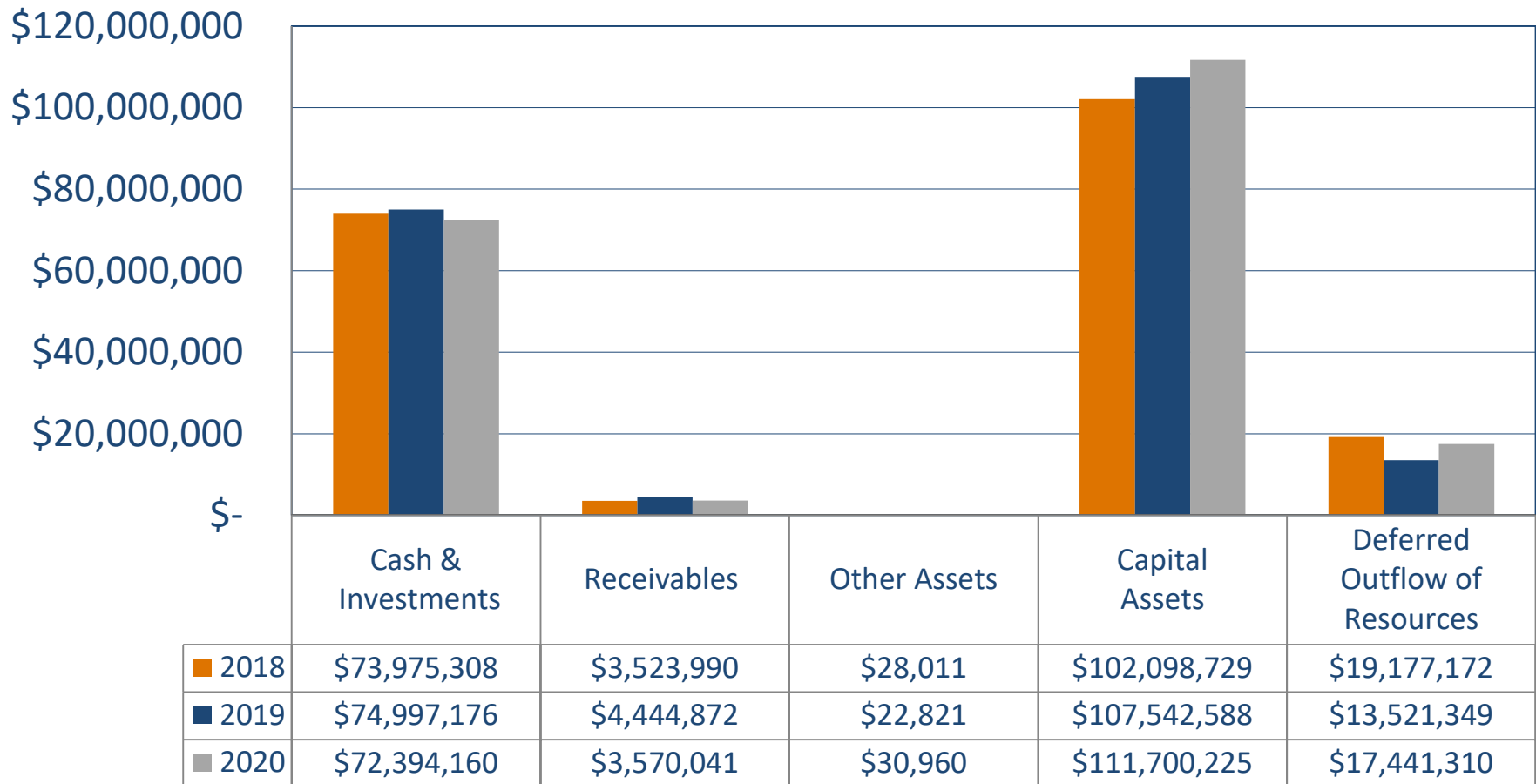
# Auditors Report

- Unmodified opinion
- Audit performed in accordance with *Generally Accepted Auditing Standards*, and *Government Auditing Standards*
- Financial statements are fairly presented in all material respects
- Significant accounting policies have been consistently applied
- Estimates are reasonable
- Disclosures are properly reflected in the financial statements



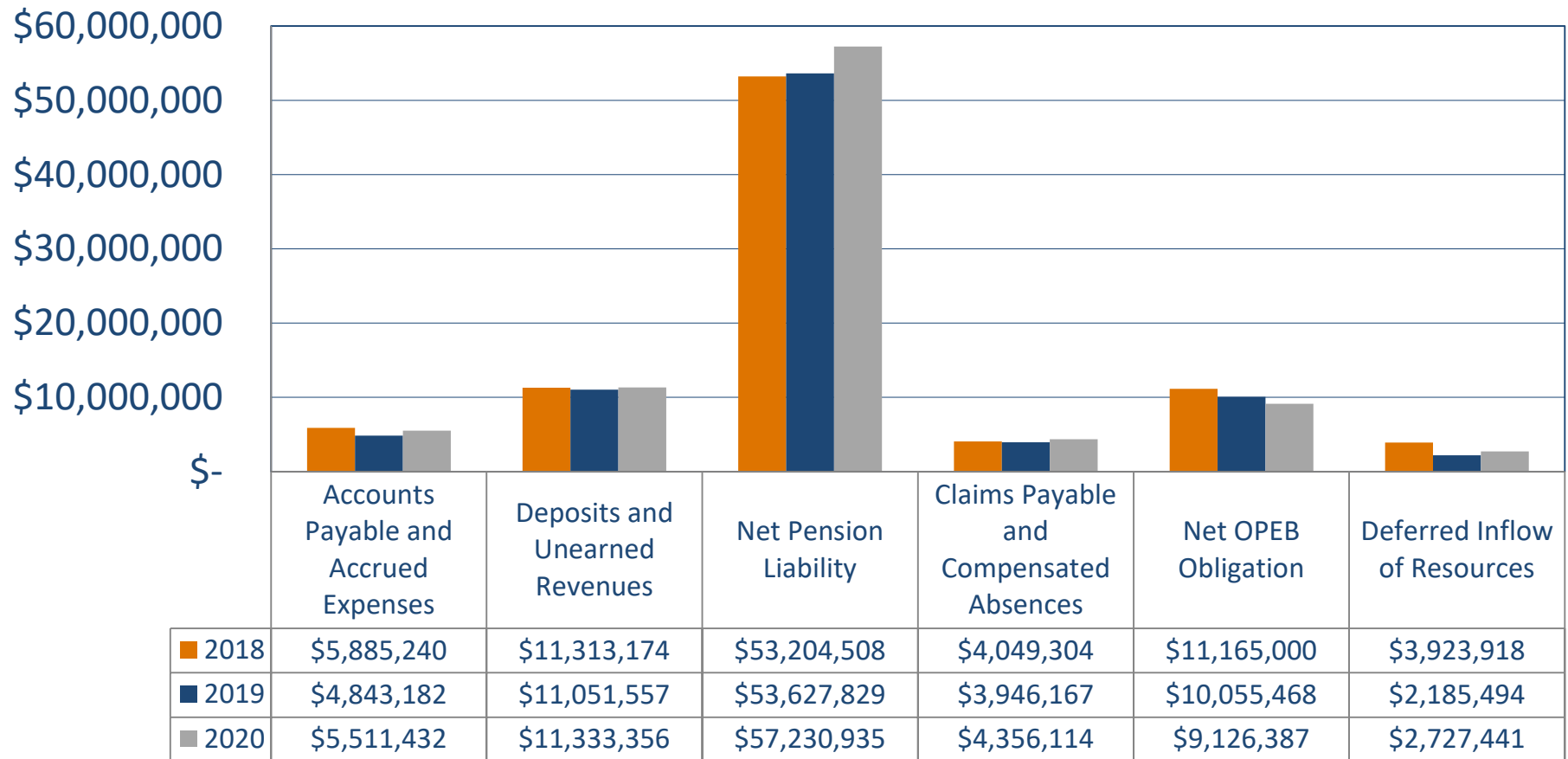
# Government-Wide Financial Statements

## Assets and Deferred Outflows of Resources



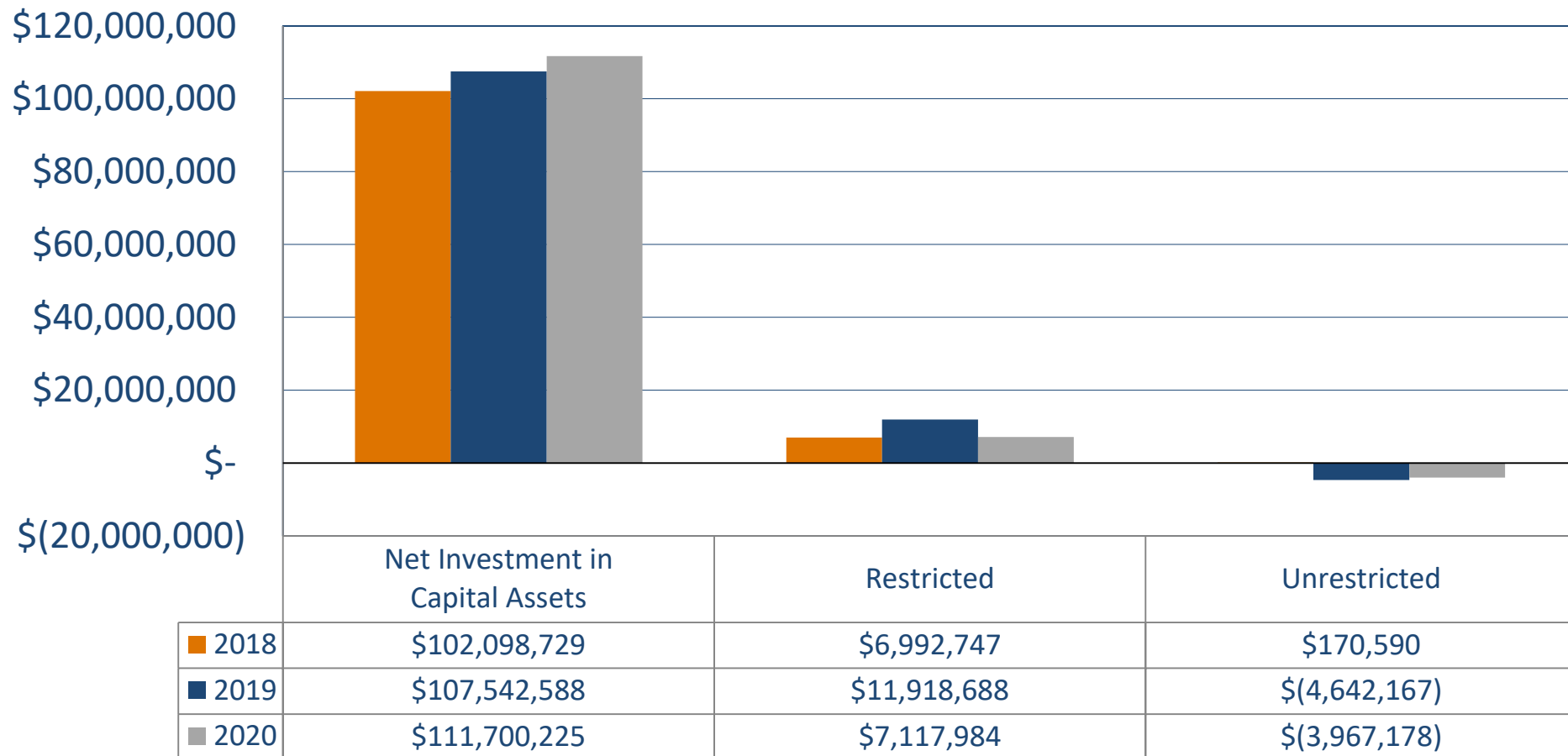
# Government-Wide Financial Statements

## Liabilities and Deferred Inflows of Resources



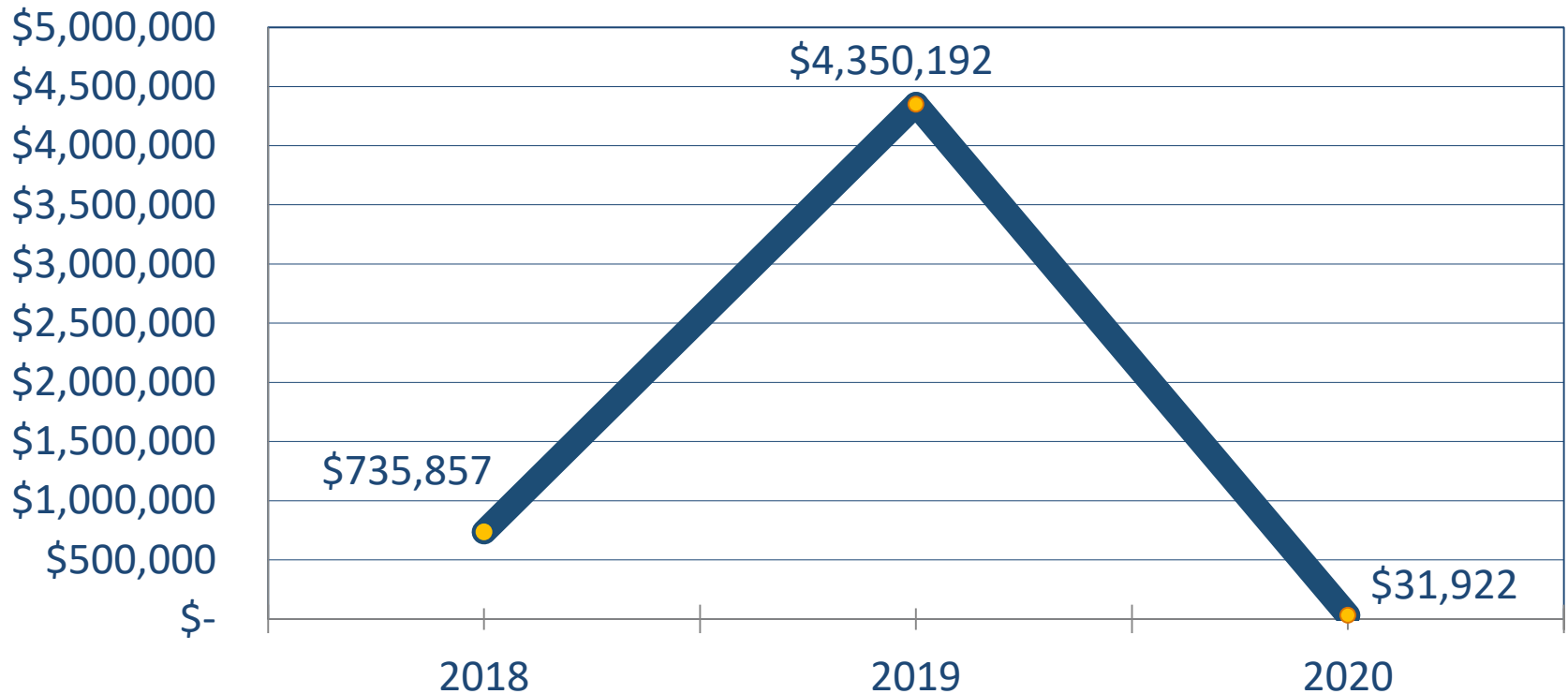
# Government-Wide Financial Statements

## Net Position



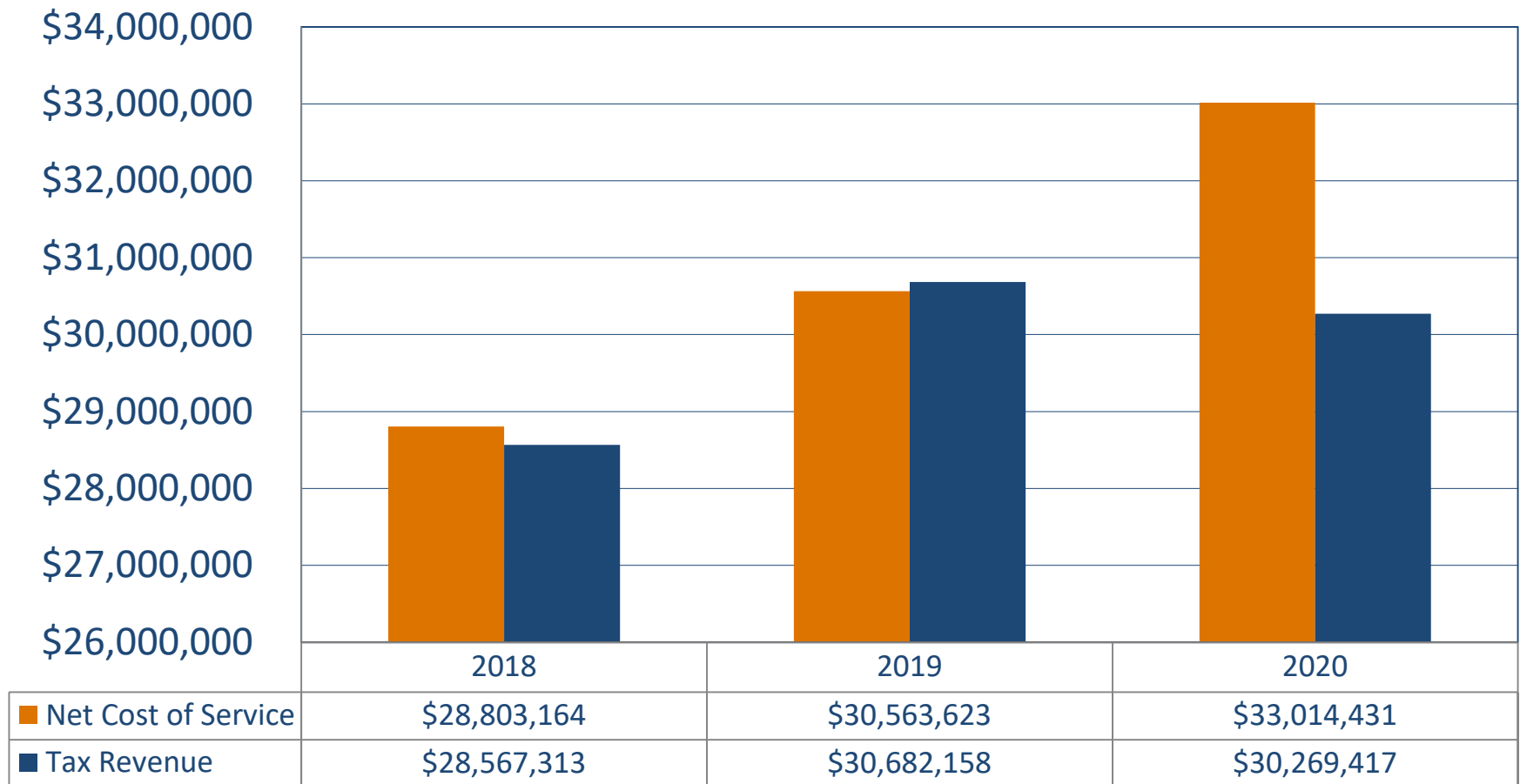
# Government-Wide Financial Statements

## Changes in Net Position



# Government-Wide Financial Statements

## Net Cost of Service to Tax Revenue



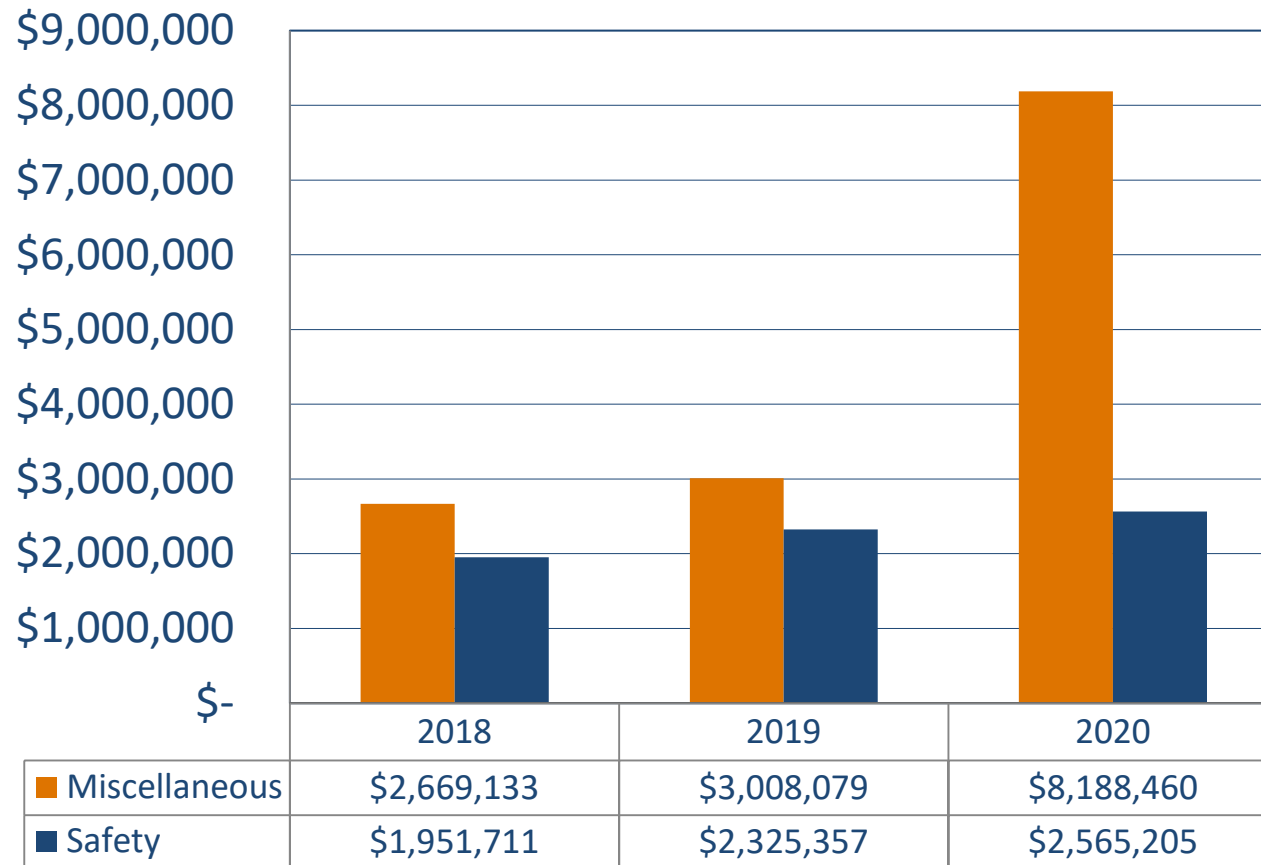
# General Fund

## Expenditure Coverage

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Unrestricted Fund Balance	<u>\$ 30,428,684</u>	<u>\$ 32,955,211</u>	<u>\$ 28,665,519</u>
Total Expenditures	<u>\$ 37,014,345</u>	<u>\$ 37,993,949</u>	<u>\$ 44,270,043</u>
Unrestricted Fund Balance as a % of Total Expenditures	<u>82.21%</u>	<u>86.74%</u>	<u>64.75%</u>
Number of months	10	10	8
GFOA recommendation	2 - 4		
Measure of Town's ability to operate with no revenues using available fund balance.			

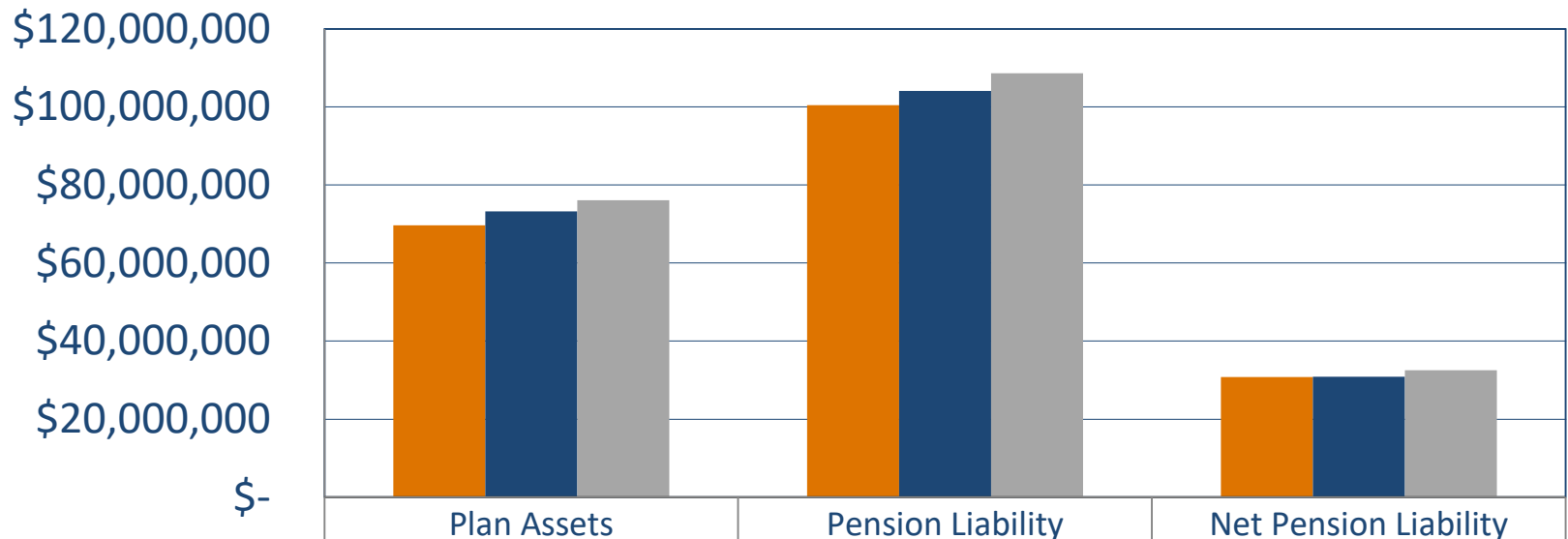
# Other Financial Information

## Town's Annual Pension Contributions



# Pension Plan

## Town's CalPERS Miscellaneous Pension Plan Funded Status



	Plan Assets	Pension Liability	Net Pension Liability
<div></div> <div>6/30/2018</div> <div>(2017 Measurement Date)</div>	\$69,680,823	\$100,469,377	\$30,788,554
<div></div> <div>6/30/2019</div> <div>(2018 Measurement Date)</div>	\$73,232,175	\$104,134,737	\$30,902,562
<div></div> <div>6/30/2020</div> <div>(2019 Measurement Date)</div>	\$76,114,760	\$108,650,008	\$32,535,248

# Pension Plan

## Town's CalPERS Safety Pension Plan Funded Status

\$100,000,000

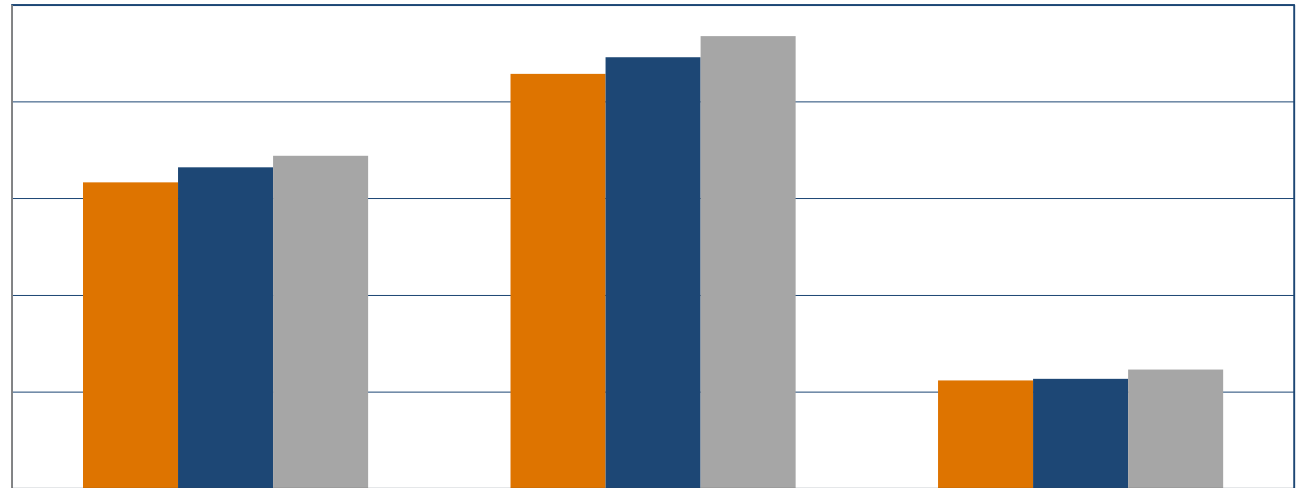
\$80,000,000

\$60,000,000

\$40,000,000

\$20,000,000

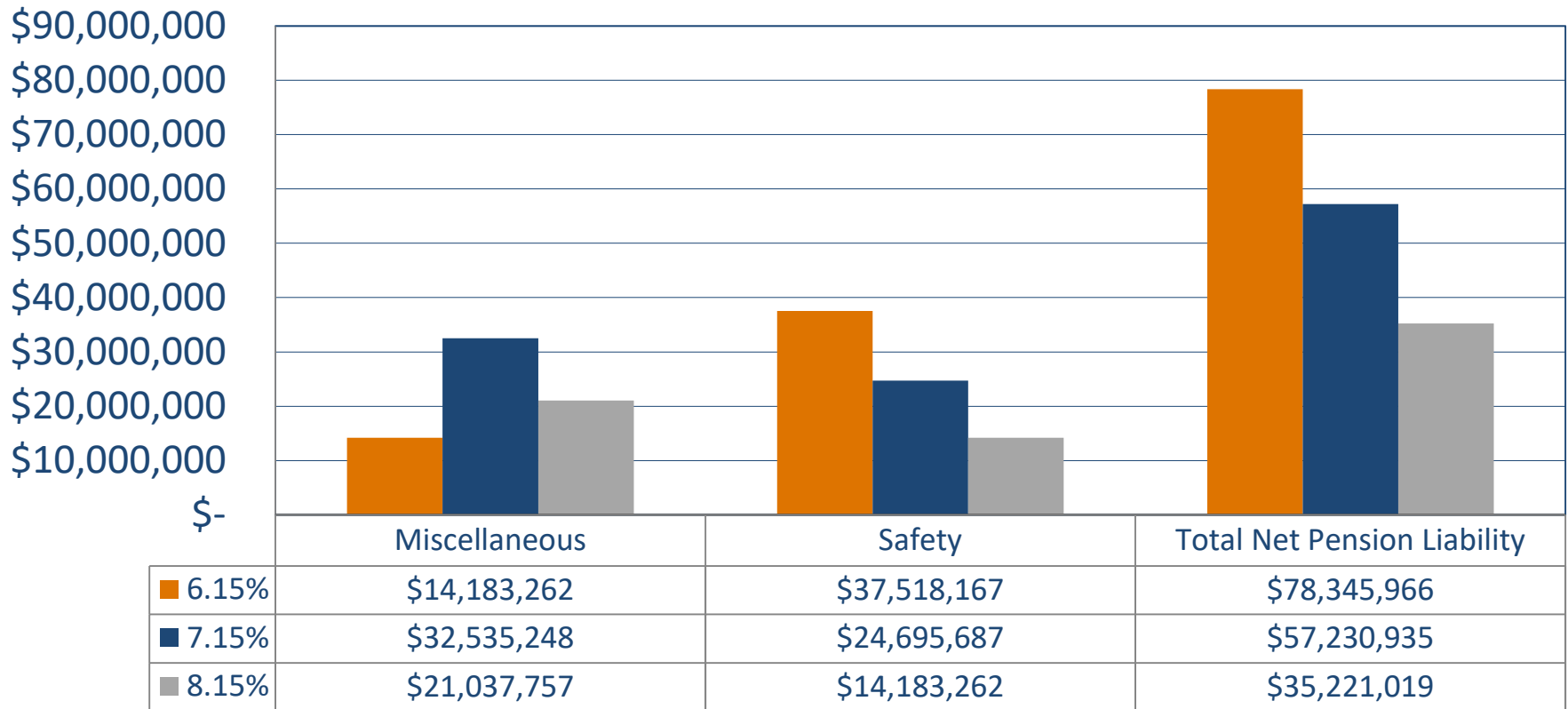
\$-



	Plan Assets	Pension Liability	Net Pension Liability
<div></div> <div>6/30/2018</div> <div>(2017 Measurement Date)</div>	\$63,355,816	\$85,771,770	\$22,415,954
<div></div> <div>6/30/2019</div> <div>(2018 Measurement Date)</div>	\$66,479,753	\$89,205,020	\$22,725,267
<div></div> <div>6/30/2020</div> <div>(2019 Measurement Date)</div>	\$68,869,426	\$93,565,113	\$24,695,687

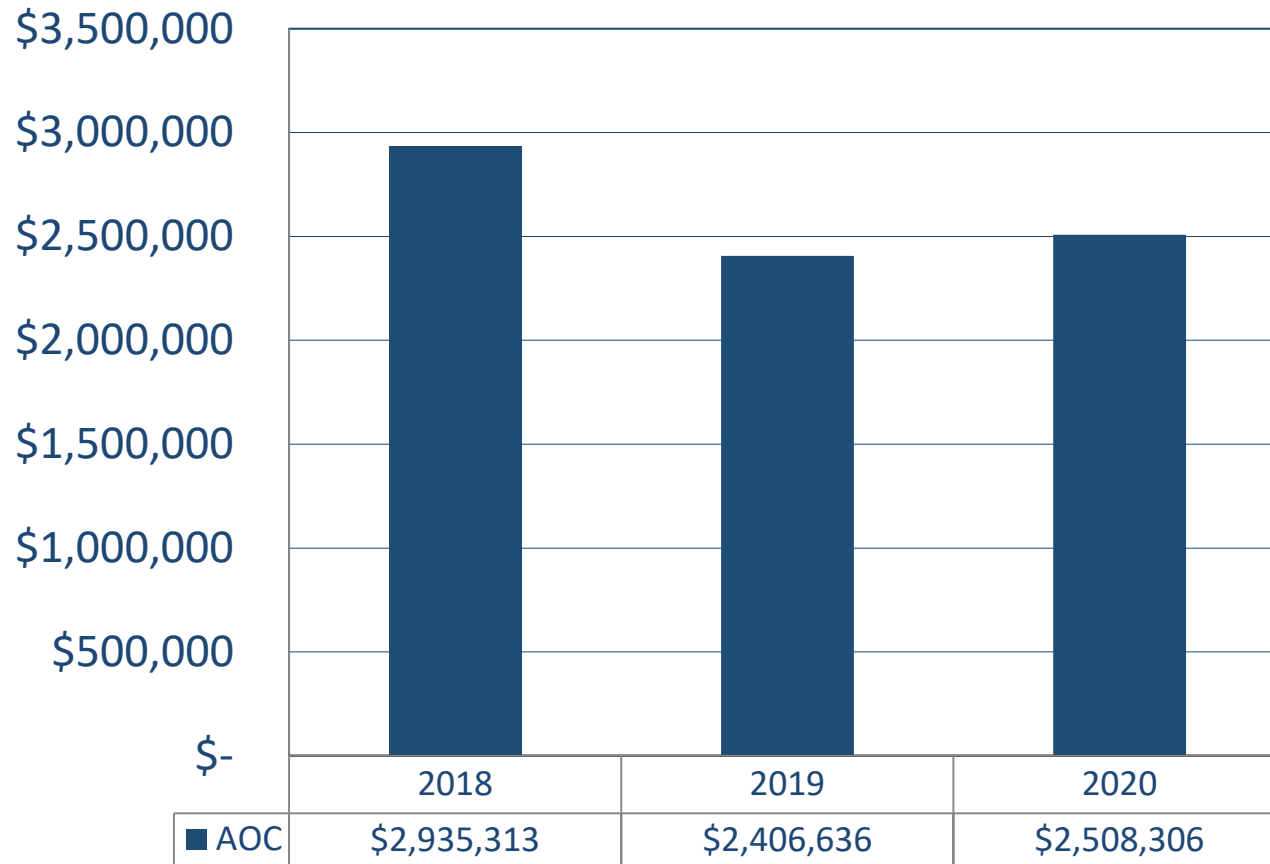
# Pension Plan

## Town's CalPERS Total Pensions Plan Sensitivity to Discount Rate (2019 Measurement Date)



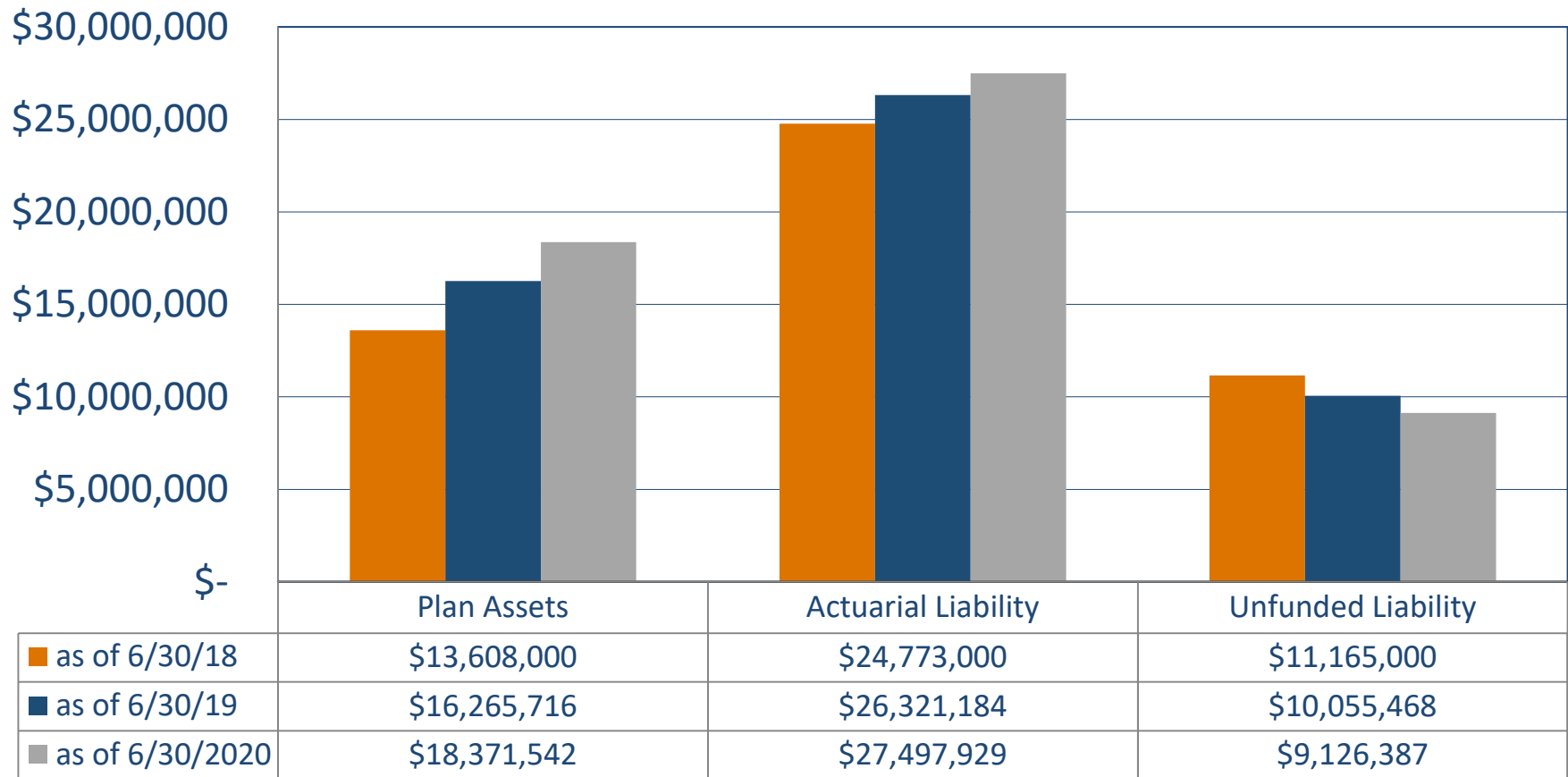
# Other Postemployment Benefits

## Town's Annual OPEB Contributions



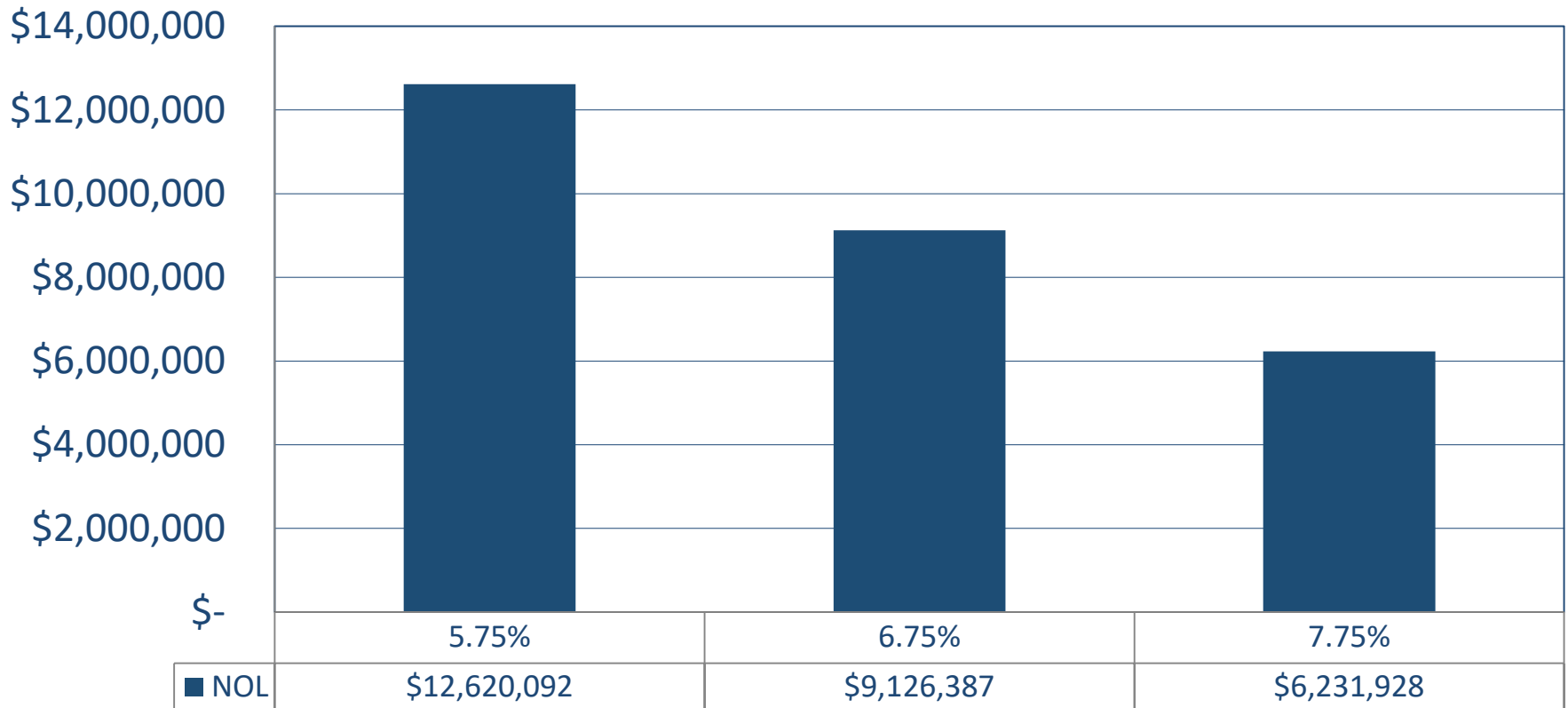
# Other Postemployment Benefits

## Town's OPEB Funded Status



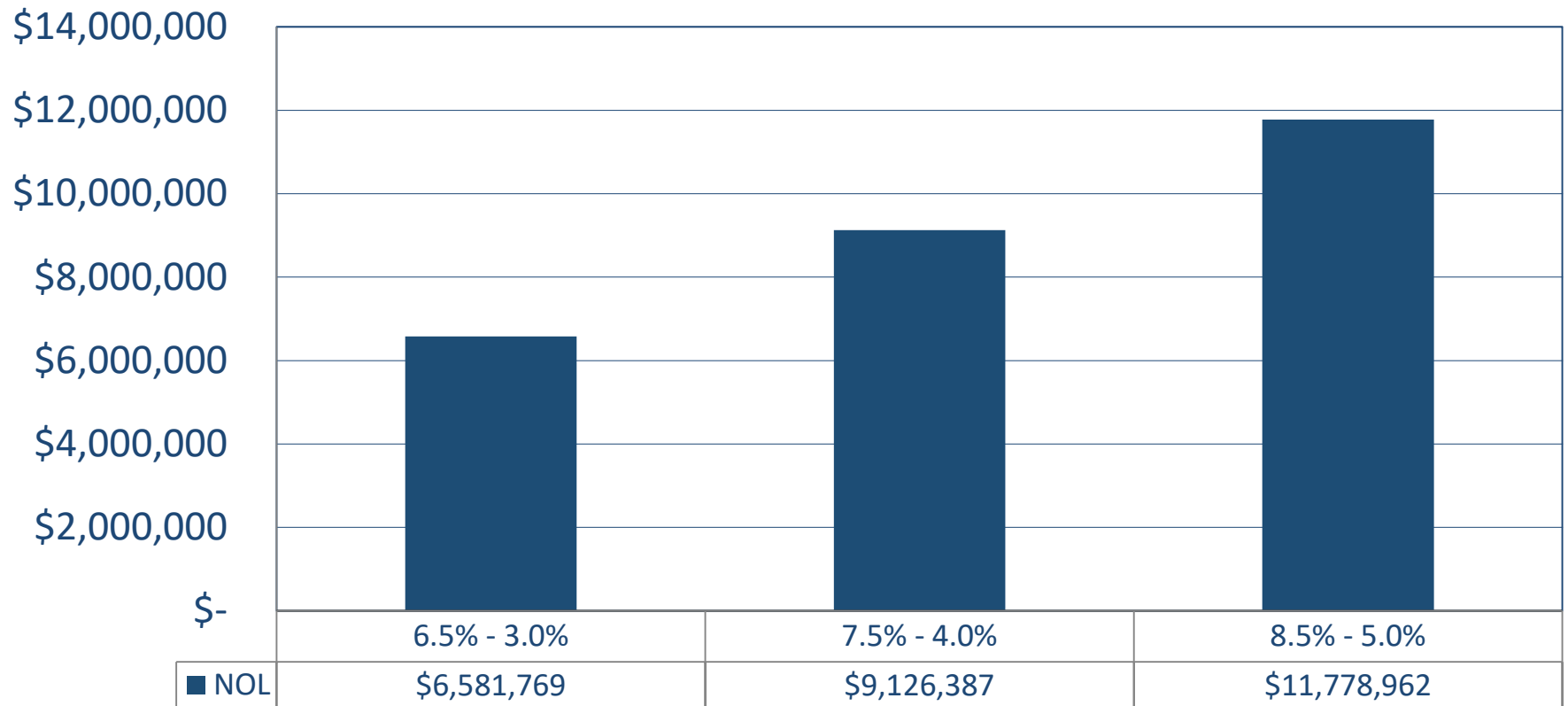
# Other Postemployment Benefits

## Town's OPEB Plan Sensitivity to Discount Rate (2019 Measurement Date)



# Other Postemployment Benefits

## Town's OPEB Plan Sensitivity to Healthcare Trend Rate (2019 Measurement Date)





# Required Communications

## • Our Responsibility Under U.S GAAS

- Opinion on whether financial statements are fairly stated in accordance with U.S GAAP
- Evaluate internal control over financial reporting including tone at the top
- Evaluate compliance with laws, contract and grants
- Ensure financial statements are clear and transparent
- Communicate with the governing body

## • Management Responsibility

- Management is responsible for the financial statements
- Establish and maintain internal control over financial reporting
- Making all financial records available to us
- Adjust the financial statements to correct material misstatements
- Establish internal control to prevent and detect fraud
- Inform us of all known and suspected fraud
- Comply with laws and regulations
- Take corrective action on audit findings

# Required Communications

- Independence



- It is our responsibility to maintain independence
- We will maintain our independence by strict adherence to the AICPA and the Board of Accountancy rules and regulations
- No other services performed that could affect our independence

- Timing of the Audit



- Audit was performed in the time frame communicated to the Town in our engagement letters

# Required Communications

- Management Judgment and Accounting Estimates



Significant management estimates impacting the financial statements include the following:

- Useful lives of Capital Assets
- Pension Plans
- Accrued Compensation
- OPEB Obligation

- Sensitive Disclosures



The most sensitive disclosures affecting the Town's financial statements are as follow:

- Summary of Significant Accounting Policies
- Cash and Investments
- Capital Assets
- Net Position/Fund Balance
- Defined Benefit Pension Plan
- Other Post Employment Benefits

# Required Communications

- Difficulties Encountered in Performing the Audit




No difficulties were encountered during our audit

- Significant Audit Adjustments and Unadjusted Differences Considered by Management to be Immaterial





There were adjustments and reclassifying entries during the course of the audit. Management has posted all proposed audit adjustments .



# Required Communications

- Potential Effect on the Financial Statements of Any Significant Risks and Exposures  No significant risks or exposures were identified. Legal matters and potential liabilities are disclosed in the financial statements
- Disagreement with Management  We are pleased to report that there were no disagreements with management

# Required Communications

- Deficiencies in Internal Control over Financial Reporting  No material weaknesses identified during our audits
- Representations Requested of Management  We will be requesting certain representations from management that will be included in the management representation letter.

# Required Communications

- Management Consultation with Other Accountants  We are not aware of any significant accounting or auditing matters for which management consulted with other accountants
- Other Material Written Communications  Other than the engagement letters and management representation letters, there have been no other significant communications

# Required Communications

- Material Uncertainties Related to Events and Conditions



There were no material uncertainties relating to events and conditions

- Fraud and Illegal Acts



We have not become aware of any instances of fraud or illegal acts, which were not disclosed by the Town

# New Accounting Standards

2021

- GASB Statement No. 90 – Majority Equity Interests
- GASB Statement No. 93 – Interbank offered rates (except LIBOR removal and lease modifications)

2022

- GASB Statement No. 87 – Leases
- GASB Statement No. 89 – Construction-period interest
- GASB Statement No. 92– Omnibus (multiple effective date)
- GASB Statement No. 93 – LIBOR removal and lease modifications
- GASB Statement No. 97 - Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

2023

- GASB Statement No. 91 – Conduit debt
- GASB Statement No. 94 – Public-private partnerships
- GASB Statement No. 96 - Subscription-Based Information Technology Arrangements

# **Thank You For Allowing Us to Provide Audit Services to the Town of Los Gatos**





**TOWN OF LOS GATOS  
COUNCIL FINANCE COMMITTEE  
REPORT**

MEETING DATE: 12/7/2020

ITEM NO: 5

---

DATE: November 30, 2020  
TO: Council Finance Committee  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Discuss and Provide Comments to the Town Council Regarding the Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.

**RECOMMENDATION:**

Discuss and provide comments to the Town Council regarding the Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.

**BACKGROUND:**

The Town contracts with an independent certified public accountant to examine the books, records, inventories, and reports of all officers and employees who receive, handle, or disburse public funds each fiscal year. The FY 2019/20 audit was performed by Badawi & Associates, an experienced firm specializing in audit services for California public agencies. The firm also prepared the Draft CAFR for the Town of Los Gatos (see Attachment 1).

The information contained in the CAFR provides detailed financial information which the Los Gatos community and others can use to better understand the fiscal standing of the Town. In addition, the financial information contained in the document is one element that the credit rating agencies review annually to affix a credit rating for the Town's outstanding debt obligations. In 2020, Moody's rating service affirmed the Town's general credit rating of Aaa, the highest rating possible.

**DISCUSSION:**

At the meeting, Town's Independent Auditor will present to the Town Council Finance Committee the draft audited Comprehensive Annual Financial Report (CAFR) dated June 30,

**PREPARED BY:** Stephen Conway  
Finance Director

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Reviewed by: Town Manager and Assistant Town Manager

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DISCUSSION (continued):

2020. Staff and the Town's independent auditor will be available for the Committee's discussion.

Highlights of the draft audited financial results include:

Independent Auditor's Report (pages 13 through 15)

The auditor has given the Town's financial statements a "clean" audit opinion for the year ended June 30, 2020 (see the first paragraph on Page 14) giving reasonable assurance that the financial statements are "free of material misstatement."

Management's Discussion and Analysis (MD&A) (pages 18 through 36)

Page 18 of the CAFR begins the MD&A section of the report wherein summaries are presented for the Town on an entity-wide basis and fund type basis. Information is provided in this section with a year-to-year view, explaining how fund balances have changed between fiscal years ending June 30, 2019 and June 30, 2020. Information is also presented on the adopted General Fund budget to actuals and any significant budget adjustments made during FY 2019/20 (page 31 through 33).

Statement of Net Position (page 40)

The Statement of Net Position serves as a useful indicator of a government's financial position. The Town had net assets of \$114.85 million at fiscal year end as compared to \$114.82 million the prior year, an overall small increase of \$30K over the prior fiscal year.

The largest portion of the net assets, \$111.7 million, represents the Town's investment in its capital assets and infrastructure. Restricted assets of \$7.1 million are resources that are subject to external restrictions on how they may be used. As of June 30, 2020, unrestricted net position reports a deficit of approximately \$3.97 million. The unrestricted net position reported the prior year was a deficit of approximately \$4.64 million. The deficit in unrestricted net position is primarily due to the Town's outstanding long term pension and Other Post Employment Benefit (OPEB) liabilities.

Basic Financial Statements (pages 39 through 96, including footnotes)

This section contains basic financial statements, including the "entity-wide" Statement of Net Position and Statement of Activities, financial statements for the fund types including Governmental Funds (such as the General Fund), Proprietary Funds, and the Private Purpose Trust Funds (Redevelopment Successor Agency).

The footnotes section provides details on significant items such as the Town's cash and investments (Note 2 beginning on page 69), its long term obligations (Certificates of

DISCUSSION (continued):

Participation) related to bonded debt (Note 6 page 74), the net pension liability for both the Town's miscellaneous and safety pension plans (Note 9 page 78), and a discussion of the Town's other post-employment benefit plan (Note 10 page 88).

Required Supplementary Information (pages 98 through 102)

The Schedules of Pension Plan Contributions are provided in this section.

Supplementary Information (pages 104 through 119)

This section provides budget to actual information for "non-major" funds which represent less than 10% of the Town's total assets/liabilities/revenues or expenditures.

Statistical Section (pages 123 through 153)

This section presents demographic statistics and ten-year historical financial data for the Town, including information on assessed valuations, fund balances, debt, property tax rates, personnel (full-time equivalent) history, principle employers, and other financial and demographic disclosures.

CONCLUSION:

Mr. Ahmed Badawi, C.P.A., managing partner of Badawi & Associates, will be participating in the Committee meeting. If you have questions prior to the meeting, please contact Director Conway and staff will share responses to the questions to the full Committee. Upon review and discussion of the draft CAFR by the Council Finance Committee, the final CAFR is scheduled for Town Council consideration on Tuesday, December 15, 2020. The Committee is welcome to provide comments to the Council.

FISCAL IMPACT:

There is no fiscal impact to provide recommendation to the Town Council for this report.

Attachment:

1. Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.



**TOWN OF LOS GATOS  
COUNCIL FINANCE COMMITTEE  
REPORT**

MEETING DATE: 12/7/2020

ITEM NO: 5

DESK ITEM

DATE: December 7, 2020  
TO: Council Finance Committee  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Discuss and Provide Comments to the Town Council Regarding the Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.

**REMARKS:**

Staff received comments from Committee members and the public. Attachment 2 contains Committee Member's comments. Attachment 3 contains public comments received after publication of the Staff report and before 11:01 a.m. Monday December 7, 2020. In addition, one Committee member found typographical errors which will be corrected:

- Page 18, Management discussion bullet 7 should be the continuation of the sentence in bullet 6.
- Page 34, last line should be FY20/21 not FY19/20.

Staff and the Auditor will be available to respond questions during the meeting.

Staff responses to the Committee Members' questions are below.

**Questions on the MD&A**

**Question:** Page 19 talks about \$2.2M in increases in intergovernmental grant revenues. What is the source of the grant that contributed to the increase and how are the funds used?

**Answer:** The majority of the approximate \$2.0M increase in Intergovernmental revenues was attributed to the approximate \$1.0M increase in revenues received from the VTA Measure B funding. There was an additional receipt of approximately \$500K higher revenues received from MTC (\$182K) and from the VTA/TFCA (\$353K) capital grants. All of these monies were dedicated as funding sources for local street and road improvement projects.

**PREPARED BY:** Stephen Conway  
Finance Director

Reviewed by: Town Manager and Assistant Town Manager

REMARKS (continued):

**Question:** Page 24 note 1 talks about a reclassification of 2019, although the reclassification doesn't appear to be made in the 2019 numbers. What is the dollar amount? And how and when was the misclassification identified? Also, since you disclose the need for the reclassification, do you want to change the 2019 numbers?

**Answer:** In staff's review of the changes in expenses by fiscal year and functional category in the prior year's Statement of Activities, it was discovered an error had been made in the reversal of the FY 2019 OPEB contributions which was allocated across all departments instead of being limited to the general government category. The credit should have only been charged to general governmental expenses in the prior year. This correction has no effect on net position but changes the expense totals by function. Total expenses did not change but the categories were affected on the Statement of Activities for the prior fiscal year ending June 30. 2019 as follows:

**Question:** Page 26 discussion of the Governmental Activities Expenses explains the increase in General Government expense is due to large swings in the amount allocated with the current year allocation adjustment increasing costs while the prior year allocation adjustment decreased costs. What is the reason for the large swing?

**Answer:** Please see the following table for details of error correction.

## DETAILS OF FYE 2019 STATEMENT OF ACTIVITIES CORRECTION

Functions/Programs	As Previously Reported	Correct 2019	Reverse Prior Year 2019	REVISED 2019
Expenses: Expenses: Expenses:	2019	OPEB Contrib. Credit	OPEB Contrib Credit	Expense
Police Department	\$ 16,635,726		\$ 1,089,749	\$ 17,725,475
Parks and Public Works	\$ 10,627,716		\$ 482,861	\$ 11,110,577
General Government	\$ 8,163,991	\$ (2,406,637)	\$ 383,505	\$ 6,140,859
Community Development	\$ 5,064,637		\$ 297,983	\$ 5,362,620
Library Services	\$ 3,059,294		\$ 152,539	\$ 3,211,833
Sanitation	\$ 684,673			\$ 684,673
	\$ 44,236,037	\$ (2,406,637)	\$ 2,406,637	\$ 44,236,037

**Question:** Page 26 discussion of Governmental Activities Expenses explains that Sworn employees received a 4% raise while all Non-sworn and management employees received 3%. What was the reason Sworn officers received a larger increase than the non-sworn employees? I'm particularly sensitive to this given the much larger per person pension costs for sworn officers.

REMARKS (continued):

**Answer:** In recognition for POA's willingness to contribute to the Town's unfunded pension liability, they received a slightly higher raise than non-sworn employees. Sworn employees also did not receive the 1.5% one-time bonus that the other bargaining units received in 2018.

**Question:** Page 27 indicates there is \$700K in the Restricted Fund Balance that represents amounts placed in an IRS Section 115 trust. Restricted cash in the Government Fund on the Governmental Funds balance sheet reflects a similar amount. When do you expect to pay the funds to the Section 115 IRS Trust?

**Answer:** The funds have been placed in a CEPPT (IRS 115 qualified Trust). These funds are anticipated to be used in FY 20/21 to pay off a selected amortization base (CalPERS liability) as identified and recommended to the Town Council by staff after consultation with the Town's Finance Commission and the Town's actuary, Bartel and Associates.

**Question:** Page 28 indicates the Governmental Funds Balance Sheet has \$4.5M identified in the Committed Fund Balance for additional discretionary payments toward pension and OPEB unfunded liabilities. How do you expect to use the \$4.5M and when will the funds in the Committed Reserve be utilized/paid to CALPERS?

**Answer:** \$3.6M of the General Fund Pension/OPEB reserve was used in July 2020 for additional discretionary payment made to CalPERS, the balance will be available to fund future ADP's to pay down the Town's unfunded pension liability.

**Question:** Page 29 has a table of Total Governmental Funds Revenues, Expenditures and Changes in Fund Balances year over year. How does the \$4.8M in Intergovernmental Revenues tie to the aggregate of the \$8,854K plus \$850K for Grants and Contributions in the Town-wide Statement of Activities on page 41, and to the \$2.2M increase over prior year receipts for "intergovernmental (grants) revenues" on page 19?

**Answer:** Intergovernmental revenues is just one subset of Grants and Contributions which included contributions from Non Gov sources. The total Operating Grants and Contributions (\$3,854,188) and Capital Grants and Contributions (\$850,111) reported on page 41 of the draft CAFR appear to add to \$4,704,301. (Intergovernmental listed under program revenue include; public safety sales tax & supp law enforcement grant, PPW includes Measure B & gas tax.)

**Question:** Page 32 discusses General Fund Variances from budget for revenues and expenditures. It indicates that 5 revenue categories declined a total of \$3.2M due to COVID over 4 months. If you annualize the 4 months to a year, it is \$9.7M. Total revenue for the year from these 5 categories per the Statement on page 48 is \$18,179K. This implies that for the 4 month period, revenues from these 5 categories declined 53%. Is this a realistic analysis, and if so, how much does the current 2020-2021 budget assume revenue from these categories decline over prior year non COVID impacted revenue?

REMARKS (continued):

**Answer:** The variance from budget is not equivalent to a revenue decline per se. Revenues could actually improve from the prior fiscal year but still have a negative variance from budget if the budget had forecasted larger growth than was met in the actuals collected. The variance from budget is for the entire fiscal year, though a major factor, not all of the variance from budget was due to COVID 19. Staff will be providing an update to major revenue trends in FY 20/21 on December 15, 2020.

**Question:** Page 34 under Economic Factor and Next Year's Budgets talks about the Town having identified contingencies should there be a revenue shortfall. Without going into specifics, what are the nature and type of actions the Town would consider?

**Answer:** Possible contingencies include the use of one-time revenues, operational savings initiatives, and the possible use of reserves upon recommendation by staff and Town Council approval.

**Questions on the Basic Financial Statements**

Statement of Position—Town-wide

**Question:** Why the \$11.7M decrease to \$22.3M in Nondepreciable assets year over year? Note 5 indicates there were \$13.97M of Transfers and Retirements. Was this change primarily transfers of completed projects for street infrastructure that are now depreciable?

**Answer:** These changes in asset classification reflect amounts held in construction in progress (non-depreciable) that upon completion in FY 19/20 were reclassified and become "depreciable" assets once completed and placed into service.

Statement of Activities—Town-wide

**Question:** Compensated absences liability is growing. Can the Town do anything to manage it down, potentially to conserve cash, even if it's necessary to wait to address in the next labor negotiations?

**Answer:** Compensated absence accruals are the result of labor negotiations with all the Town bargaining units. There are leave balance caps on some of the leave types.

Governmental Funds Balance Sheet

**Question:** It looks like you broke Capital projects into 2 categories this year. The total of the 2 reserves increased \$4.7M. What is the purpose of splitting the account into 2 categories? Also, from Note 8, it looks like the Capital Projects fund increased from \$4.3M to \$12.2M year over year? Why the large increase that was effectively a transfer from the Capital/Special Projects fund?

REMARKS (continued):

**Answer:** The use of the title was to keep it distinct from the General Fund's Capital and Special Projects Reserve for tracking purposes. If the same title was used for the GFAR fund balance it would be combined into a much larger amount than the amount that correlates specifically to the General Fund Reserve for Capital and Special Projects. All amounts in GFAR not restricted or assigned for parking or Comcast PEG are considered assigned for capital projects.

**Question:** What is the Market Fluctuations Reserve? How does it differ from other reserves, if it is?

**Answer:** Market Fluctuations is an assigned reserve to identify fund balance for unrealized investment gains recorded as interest revenue for the year under GASB 31 that are not available as a cash asset unless sold. The Town typically holds all of its investments until maturity.

**Question:** Note 8: I would suggest that the purpose of the Capital Projects Reserve Fund and the Market Fluctuations Reserve Fund also be disclosed in Note 8.

**Answer:** Noted. We had no balance the prior year in Market Fluctuations, staff will add a short description to the CAFR footnote.

Reconciliation of Governmental Funds Balance Sheet to Government-Wide Net Position—  
Governmental Activities

**Question:** What is reason for 8.5% decrease in Allocation of Internal Service Funds Net Position to \$7,731 amount from the prior year of \$8,454?

**Answer:** The primary reason can be found on page 115 of the June 30, 2020 CAFR Combining Statement of Revenues and Changes in Net Position. The Town's Facilities Maintenance fund transferred out \$788K to the Town's GFAR fund in FY 19/20 to fund five separate projects as planned in Town's FY 19/20 Capital Improvement plan including \$183K of ADA Restrooms in the Adult Recreation Building, \$300K for ADA restrooms and HR offices, \$30K for Civic Center Plaza Railings, \$75K for waterproofing, and \$200K for fire suppression for the Town's IT Server Room. An additional 580K was also transferred out of the Equipment Replacement Fund to provide funding source for the Computer Aided Dispatch \$525K and \$55K to the Town's General Fund for Body Worn Cameras and Energy Weapons. These reductions in net position were offset by a \$1.1M transfer from the Town's General Fund to the Town's Workers Compensation Internal Service fund to provide additional resources to address future claims. The effect of these transfers (\$306K) and use of Equipment Replacement net position to purchase scheduled fleet and equipment replacements (\$540K) were the primary drivers of the overall \$723K reduction in net position between fiscal years.

REMARKS (continued):

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance—page 46

**Question:** Note 4 explains the nature of the Transfers in and out, but it doesn't give the dollar magnitude of any of the categories. For transfers that are reported as \$1M or more in the footnote, what are the dollar amounts for capital projects & outlays, lease or debt payments, operating expense, and low and moderate-income housing projects in the General Fund, Appropriated Reserve Fund, and Internal Service Funds transfers?

**Answer:** The table in note 4 is a standard note presentation of fund transfers in and out between Town funds that is found in most governmental CAFRS. The most significant transfers were transfers out of the Town's General Fund \$6,982,591 to the Town's GFAR fund to provide funding sources for the Town's capital improvement plan. The General Fund also transferred \$1,061,256 to the Worker's Compensation Internal Service Fund as described in the answer regarding the change in total net position in the Internal Service funds. There were no transfers for lease or debt service payments or low and moderate income housing projects, this is legacy language that could be omitted in the final draft. The transfers out of Internal Service funds were also discussed previously in the discussion of the change in Internal Service Fund net position.

General Fund Statement of Revenues, Expenditures and Changes in Fund Balance—Budget to Actual

**Question:** When comparing Actual results to the Final Budget, the Town has a negative variance for every operating revenue account which is a swing from the prior year when the Town had a positive variance in all categories except 2 of the smaller accounts. The revenue variance in 2019 was a positive \$2.4M and the variance in 2020 was a negative \$1.6M, a swing of \$4.0 million. The explanation on page 32 of the MD&A on the impact from COVID explains \$3.2M of the swing. But even in the absence of COVID there is still a \$600K decline in the favorable revenue variance. In addition, the favorable Expenditures variance declined significantly in 2020 from \$7.3M to \$3.7M year over year. The swing appears to be more than a statistical budgetary aberration. Was there a structural reason for the decline in favorable variances? I did not in the discussion on pages 32 and 33, there continued to be favorable expense variance incurred for unfilled staff positions.

**Answer:** The bulk of the variance from budget is attributed as you have mentioned to the economic impacts of the COVID -19 pandemic. There are other factors which may have played a role such as the cyclical nature of private development and its effects on building permit revenues and charges for services. Other revenues impacted were lower parking fines due to Council approved changes to downtown parking enforcement to aid the downtown's economic recovery and rent forgiveness for use of Town facilities. These actions, among other factors, could be considered additional collateral effects to revenues sustained as a result of the COVID-19 pandemic. (sale of land was not completed until FY 2021)

REMARKS (continued):

Proprietary Funds—Internal Service Funds Statement of Revenue, Expenses and Changes in Net Position—page 51

**Question:** Why did the Charges for services decrease for 13% year over year to \$3,029K. Were services less or costs of services reduced?

**Answer:** IT Internal Service Fund charges were reduced because staff charges were moved to the General Fund and funded there with General Fund operating revenues. The reduction in staffing costs allowed the Charges for Services charged to Town departments for IT services to be lowered to recover non-personnel costs which are still paid out of the IT Internal Service Fund. (Two smaller internal service funds closed with activity now accounted for in the general Fund)

**Question/Observation:** It would be very useful for the Town Council to have a standalone paragraph on page 3 discussing the COVID impact on revenue in Q4. You discuss how much sales tax went down, but knowing the actual decline in Q4 revenue for all fees and taxes in Q4 would allow a better forecast of decreased revenue in 2021.

**Answer:** The CAFR document includes much discussion of COVID-19 anticipated impacts to the FY 20/21 budget in the MD&A's Economic Factors and Next Year's Budgets and Rates section beginning on page 34 through page 36 of the draft CAFR.

**Question:** On page 4, it would be very good to note as on page 24 a \$4,000,000 decline in net position in 2020 compared to 2019.

**Answer:** There was actually a small increase to total net position of \$32,000 between FY 2020 and 2019.

**Question:** On page 4 in the pension paragraph detailing amounts, add that the liabilities are based on a 7.15% investment return and a change of 1% would result in an increased liability of \$X as shown on page 84 and also that the 2020 CalPERS return was 4.7%. Want to give more perspective that the liability is understated.

**Answer:** The measurement period for the net pension liability is actually presented in the June 30, 2020 CAFR is actually as of June 30, 2019. CalPERS reported a return on asset for the fiscal year ended June 30, 2019 of 6.7%. Net pension liability is presented fairly according to generally accepted accounting principles. The following paragraph on page 4 provides detailed cautionary language that the selection and potential changes in underlying pension assumptions could result in obligations being higher or lower and directs the reader to the discount rate sensitivity in Note 9.

**Question:** On page 4, in the third paragraph, delete "from zero in 2019." Duplicative.

**Answer:** Noted.

REMARKS (continued):

**Question:** On page 18 in the second bullet point paragraph, may want to add the page 29-line of 2020 excess revenues over expenditures of negative \$4,350,379 compared to a positive \$221,363 in 2019. Shows a \$4 million decline year on year.

**Answer:** The increase in governmental expenditures is explained more thoroughly on page 30 of the MD&A. The increase largely resulted from the General Governmental expenditures recording a \$4.8M expenditure related to the October 2019 additional discretionary payment made to CalPERS.

**Question:** On page 25, new operational and capital grants of \$1.3 million were noted. Are these recurring or one-time?

**Answer:** The increase was largely attributable to increases receipt of VTA Measure B grant funding. Part of the VTA grants are formula based, the others are based on a competitive basis with other governments.

**Question:** On page 26, the paragraph on salary increases should note the effective date and the \$ impact in 2020.

**Answer:** Noted.

**Question:** On page 35, in the pension paragraph add that the 2020 CalPERS return was 4.7%.

**Answer:** Noted. The pension discussion on page 35 reports the June 30, 2019 measurement date. CalPERS return for that fiscal year was 6.7%. To help illustrate the variability of future investment returns staff added the table on page 82 which reflects CalPERS short-term, long-term, and blended expected rate of return for the PERF fund.

**Question:** On page 48, why was interest under forecast by \$1.6 million?

**Answer:** Page 48 reports a positive variance of \$1.6M (interest revenues exceeding budget) mostly due to a dramatic decline of prevailing interest leading to an approximate \$1.2M GASB 31 "mark to market" increase to interest earned at June 30, 2020. At time of the FY 19/20 budget preparation, interest rates were slowly stable, tending to slowly fall or remain flat, hence no expectation of large portfolio market gains based on prevailing rates. The Town holds its investments to maturity so it would not be wise to budget the speculative interest gain as an operational revenue as the Town would have to sell its positions in the bonds in order to actually receive this market value gain in cash.

**Question:** On page 48, what was the anticipated sale gain of \$1.2 million that did not occur?

**Answer:** The anticipated sale was the Town's Winchester lot (fire station parcel) sold to the County's Central Fire District. Escrow on the sale was finalized and payment received in July 2020.

SUBJECT: Draft Comprehensive Annual Financial Report for the Fiscal Year Ended  
June 30, 2020

DATE: December 7, 2020

REMARKS (continued):

**Question:** On page 81, in the discount rate paragraph line 6 delete "adequate and the use of" and insert "used rather than the municipal bond rate" and delete "calculation is not necessary."

**Answer:** Noted however the language is the standard GASB 67 disclosure for this item. The result of the mandated cash flow calculation tests determines which discount rate to be utilized

**Question:** On page 95 under COVID, need to have more specific dollar estimates of declines in revenue in 2021, including actual declines in Q4 2020.

**Answer:** FY 2020/21 revenue estimates will be discussed at Town Council on December 15, 2020. Because of the nature of sales taxes collected in the Town, it is not possible to discern specific dollar amounts related exclusively to COVID-19 versus other factors.

Attachment (previously distributed):

1. Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.

Attachment (distributed with this Desk Item):

2. Committee Member Comments
3. Public Comment Received after distributing the Staff Report and before 11:01 a.m. Monday December 7, 2020.

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## **Comments from Terry Duryea, Finance Committee Member:**

Hi Laurel, Arn and Steve

Hope each of you are weathering the unrelentless, but rainless, Covid storm as well as possible.

Here are my comments, which are mostly questions, on the draft CAFR. The questions are to help better understand the 2020 financial story and reasons for changes from 2019. I also have one key question on the impact of Covid on 2020/2021 based on the 4 month impact on 2020 that I'd like you to address. I've tried to include questions on the basic financial statements only if I couldn't find the answers in the MD&A.

### **Questions on the MD&A**

- Page 19 talks about \$2.2M in increases in intergovernmental grant revenues. What are the source of the grant the contributed to the increase and how are the funds used?
- Page 24 note 1 talks about a reclassification of 2019, although the reclassification doesn't appear to be made in the 2019 numbers. What is the dollar amount? And how and when was the misclassification identified? Also, since you disclose the need for the reclassification, do you want to change the 2019 numbers?
- Page 26 discussion of the Governmental Activities Expenses explains the increase in General Government expense is due to large swings in the amount allocated with the current year allocation adjustment increasing costs while the prior year allocation adjustment decreased costs. What is the reason for the large swing?
- Page 26 discussion of Governmental Activities Expenses explains that Sworn employees received a 4% raise while all Non-sworn and management employees received 3%. What was the reason Sworn officers received a larger increase than the non-sworn employees. I'm particularly sensitive to this given the much larger per person pension costs for sworn officers.
- Page 27 indicates there is \$700K in the Restricted Fund Balance that represents amounts placed in an IRS Section 115 trust. Restricted cash in the Government Fund on the Governmental Funds balance sheet reflects a similar amount. When do you expect to pay the funds to the Section 115 IRS Trust?
- Page 28 indicates the Governmental Funds Balance Sheet has \$4.5M identified in the Committed Fund Balance for additional discretionary payments toward pension and OPEB unfunded liabilities. How do you expect to use the \$4.5M and when will the funds in the Committed Reserve be utilized/paid to CALPERs?
- Page 29 has a table of Total Governmental Funds Revenues, Expenditures and Changes in Fund Balances year over year. How does the \$4.8M in Intergovernmental Revenues tie to the aggregate of the \$8,854K plus \$850K for Grants and Contributions in the Townwide Statement of Activities on page 41, and to the \$2.2M increase over prior year receipts for "intergovernmental (grants) revenues" on page 19?
- Page 32 discusses General Fund Variances from budget for revenues and expenditures. It indicates that 5 revenue categories declined a total of \$3.2M due to Covid over 4 months. If you annualize the 4 months to a year, it is \$9.7M. Total revenue for the year from these 5 categories per the Statement on page 48 is \$18,179K. This implies that for the 4 month period, revenues from these 5 categories declined 53%. Is this a realistic analysis, and if so, how much does the current 2020-2021 budget assume revenue from these categories decline over prior year non Covid impacted revenue?

- Page 34 under Economic Factor and Next Year's Budgets talks about the Town having identified contingencies should there be a revenue shortfall. Without going into specifics, what are the nature and type of actions the Town would consider?

### **Questions on the Basic Financial Statements**

#### **Statement of Position—Town wide**

- Why the \$11.7M decrease to \$22.3M in Nondepreciable assets year over year? Note 5 indicates there were \$13.97M of Transfers and Retirements. Was this change primarily transfers of completed projects for street infrastructure that are now depreciable?

#### **Statement of Activities—Town wide**

- Compensated absences liability is growing. Can the Town do anything to manage it down, potentially to conserve cash, even if it's necessary to wait to address in the next labor negotiations?

#### **Governmental Funds Balance Sheet**

- It looks like you broke Capital projects into 2 categories this year. The total of the 2 reserves increased \$4.7M. What is the purpose of splitting the account into 2 categories? Also, from Note 8, it looks like the Capital Projects fund increased from \$4.3M to \$12.2M year over year? Why the large increase that was effectively a transfer from the Capital/Special Projects fund?
- What is the Market Fluctuations Reserve? How does it differ from other reserves, if it is?
- Note 8: I would suggest that the purpose of the Capital Projects Reserve Fund and the Market Fluctuations Reserve Fund also be disclosed in Note 8.

#### **Reconciliation of Governmental Funds Balance Sheet to Government-Wide Net Position—Governmental Activities**

- What is reason for 8.5% decrease in Allocation of Internal Service Funds Net Position to \$7,731 amount from the prior year of \$8,454?

#### **Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance—page 46**

- Note 4 explains the nature of the Transfers in and out, but it doesn't give the dollar magnitude of any of the categories. For transfers that are reported as \$1M or more in the footnote, what are the dollar amounts for capital projects & outlays, lease or debt payments, operating expense, and low and moderate-income housing projects in the General Fund, Appropriated Reserve Fund, and Internal Service Funds transfers?

#### **General Fund Statement of Revenues, Expenditures and Changes in Fund Balance—Budget to Actual**

- When comparing Actual results to the Final Budget, the Town has a negative variance for every operating revenue account which is a swing from the prior year when the Town had a positive variance in all categories except 2 of the smaller accounts. The revenue variance in 2019 was a positive \$2.4M and the variance in 2020 was a negative \$1.6M, a swing of \$4.0 million. The explanation on page 32 of the MD&A on the impact from Covid explains \$3.2M of the swing. But even in the absence of Covid there is still a \$600K decline in the favorable revenue variance. In addition, the favorable Expenditures variance declined significantly in 2020 from \$7.3M to \$3.7M year over year. The swing appears to be more than a statistical budgetary aberration. Was there a structural reason for the decline in favorable variances? I did not in the discussion

on pages 32 and 33, there continued to be favorable expense variance incurred for unfilled staff positions.

Proprietary Funds—Internal Service Funds Statement of Revenue, Expenses and Changes in Net Position—page 51

- Why did the Charges for services decrease for 13% year over year to \$3,029K. Were services less or costs of services reduced?

**From:** [Ronald Dickel](#)  
**To:** [Stephen Conway](#); [Gitta Ungvari](#)  
**Cc:** [Arn Andrews](#); [Laurel Prevetti](#)  
**Subject:** Finance Meeting Monday  
**Date:** Sunday, December 6, 2020 3:29:54 PM

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Steve and Gitta

First, thanks Gitta for printing out the CAFR and agenda items. Much appreciated.

I look forward to the discussion Monday, but want to list out the following various comments and questions for discussion. I would appreciate this being distributed appropriately with the Brown Act to members of the finance committee.

### Investment Report

Regarding the Investment Report, you have been extending the portfolio's maturities to a weighted average of 556 days, yielding a return of 1.86%. How do you view the risk of increasing maturities? If it was riskless, you would have always had increased maturities before presumably.

Also, assuming that the current treasury and other bonds yields hold steady, how much will the yield of 1.86% decline by the end of FY 2021?

Finally, \$24,500,000 has been withdrawn YTD compared to \$11,800,000 deposited. How does this compare to prior years and do you anticipate more net withdrawals for the year?

### CAFR

It would be very useful for the Town Council to have a standalone paragraph on page 3 discussing the COVID impact on revenue in Q4. You discuss how much sales tax went down, but knowing the actual decline in Q4 revenue for all fees and taxes in Q4 would allow a better forecast of decreased revenue in 2021.

On page 4, it would be very good to note as on page 24 a \$4,000,000 decline in net position in 2020 compared to 2019.

On page 4 in the pension paragraph detailing amounts, add that the liabilities are based on a 7.15% investment return and a change of 1% would result in an increased liability of \$X as shown on page 84 and also that the 2020 Calpers return was 4.7%. Want to give more perspective that the liability is understated.

On page 4, in the third paragraph, delete "from zero in 2019." Duplicative.

On page 18 in the second bullet point paragraph, may want to add the page 29 line of 2020 excess revenues over expenditures of negative \$4,350,379 compared to a positive \$221,363 in 2019. Shows a \$4 mln decline year on year.

On page 25, new operational and capital grants of \$1.3 mln were noted. Are these recurring or one-time?

On page 26, the paragraph on salary increases should note the effective date and the \$ impact in 2020.

On page 35, in the pension paragraph add that the 2020 Calpers return was 4.7%.

On page 48, why was interest under forecast by \$1.6 mln?

On page 48, what was the anticipated sale gain of \$1.2 mln that did not occur?

On page 81, in the discount rate paragraph line 6 delete "adequate and the use of" and insert "used rather than the municipal bond rate" and delete "calculation is not necessary."

On page 95 under Covid, need to have more specific dollar estimates of declines in revenue in 2021, including actual declines in Q4 2020.

Thanks for all the hard work on the CAFR in these trying covid times. See you tomorrow.

Ron

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**Subject:** Comments of CAFR

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From: Phil Koen <[pkoen@monteropartners.com](mailto:pkoen@monteropartners.com)>

Sent: Monday, December 7, 2020 10:22 AM

To: Laurel Prevetti <[LPrevetti@losgatosca.gov](mailto:LPrevetti@losgatosca.gov)>

Cc: Marico Sayoc <[MSayoc@losgatosca.gov](mailto:MSayoc@losgatosca.gov)>; Rob Rennie <[RRennie@losgatosca.gov](mailto:RRennie@losgatosca.gov)>; Stephen Conway <[sconway@losgatosca.gov](mailto:sconway@losgatosca.gov)>; Terry Duryea <[REDACTED]>; Ron Dickel <[REDACTED]>; Rick Tinsley <[REDACTED]>; [REDACTED]

**Subject:** Comments of CAFR

Hello Laurel,

Due to a conflict I will not attend the Finance Committee meeting tonight, so I am sending you my written comments in advance of the meeting for your review and consideration. I have also copied the Finance Committee members on this email.

Since perhaps not all members of the Committee are equally versed in the reporting requirements outline by GASB 34 for the MD&A section of the CAFR, I have attached a brief background piece that discusses those reporting requirements and the linkage to the transmittal letter. Hopefully, everyone will find this educational and helpful.

In an effort to be constructive I have taken the time to redraft the Financial Highlights section of the MD&A with the goal of providing a balanced discussion of both the positive and negative changes from prior year and to provide more disclosure regarding a) the negative unrestricted net position, b) the Town's net pension liability and the cost of the pension plans, and c) the trend in government-wide revenue and expenses. Please note that I have broken the Highlights into a section that discusses Government-Wide results vs. Fund Level results. The current draft does not make that distinction clear.

I am aware that members of the Finance Committee have already shared their comments with you, many of which I agree with. Not wanting to duplicate those comments, I will focus on my top four concerns.

#### **Unrestricted Net Position**

On page 18 of the CAFR an explanation of the \$675k decrease in the negative unrestricted net position is provided. I do not agree with the explanation and would ask that the auditors to confirm the explanation. At a high level, the improvement was due to a slightly larger year over year increase in spendable assets and deferred outflows versus the increase in total liabilities and deferred inflows. I am not of the opinion that use of restricted cash to invest in infrastructure is the cause for the slight improvement in unrestricted net position. Additionally, I think it is important to fully disclose that a negative unrestricted net position indicates that the Town does not have sufficient assets to meet its long-term obligations such as the pension and OPEB plans as of the end of the fiscal year. As pointed out in the CAFR, this is not an uncommon occurrence when governments overly rely on a pay-as-you-go model vs funding the accrued liability. Having a negative unrestricted net position is not a positive financial metric and should not be minimized.

#### **Total Net Pension and Deferred Outflows**

In the transmittal letter the Town mentions that the net pension liability is \$57.2 million and the OPEB net liability is \$9.1 million. I would suggest that all comments regarding the pension and OPEB liabilities be moved from the transmittal letter to the Highlights section of the MD&A and further comments provided. For example, there is no discussion in the Highlights section that the ADP of \$4.8 million discussed in the transmittal letter is included in the Deferred Outflows

and accounts for the entire increase in Deferred Outflows from prior year. Additionally, there is no disclosure that total pension and OPEB expense in the government-wide expenses totaled \$12.6m and increased 14.6% from prior year. The rate of increase in pension and OPEB expenses relative to the rate of increase in Government-wide total revenues (which grew only 1.1%) has a material impact on the Town's long-term financial health. There needs to be more discussion regarding the recent trends and expected future trends.

#### **Economic Factors, trends affecting the forecasted fund balance and Footnotes 15 and 16**

The CAFR discusses the impact of COVID 19 on the Town's financial position in footnote 15. Specifically, it discusses that sale tax and TOT receipts **decreased** in FY 20 from FY 19 **actual levels**. However, the CAFR is confusing in its discussion of the budget for FY 21 and potentially misleads the reader into thinking that the FY 21 budget is conservative in its revenue forecast. Specifically, on page 35 the CAFR discusses that both sales tax and TOT receipts were budgeted to reflect decreases from "**prior year's adopted**" budget, not prior year's actual results. While on the surface that sounds conservative, however, the FY 21 approved budget for both revenue streams represent an **INCREASE** from FY 20 actual levels. In the case of sales tax, the increase is approximately \$400k, and for TOT receipts the increase is also approximately \$400k. Given the prolonged impact of COVID 19 on the local economy, it is highly unlikely that these budgets are to be achieved and it is more likely than not there will be material shortfall from the adopted budget for both tax receipts.

Footnote 15 goes on to mention that the budget identified "contingences should revenues come in below projected amounts" and that the "Town is carefully monitoring actual revenues and expenditures". While that might indeed be the case, the footnote should disclose what those "contingences" are and should also provide the reader with some insight into the likelihood of such contingences being acted upon. I am not aware of any actual revenues or expenditures for Q1 FY 21 being published, so there is no context for the reader to judge the conditions that are expected to have a significant impact on the current year results from operations and financial position.

My concern is further heightened when footnote 16 is taken into consideration. Footnote 16 warns the reader that there could be an additional \$1.2 million negative impact on the FY 21 operating results arising from the claw back of RDA distributions and ERAF distributions. When we combine this with the highly likely shortfall in sales and TOT receipts, the Town could be facing at least \$2.0 million in known potential FY 21 revenue shortfalls. Please note that this does not include other COVID sensitive revenue streams such as permits and fees, and business licenses and it also assumes that sale tax and TOT receipts are equal to prior years. How the Town plans to address a potential material shortfall in revenue should be discussed in the CAFR.

#### **General Fund Unassigned Fund Balance**

Again, in FY 20, the Staff has classified the entire general fund balance of \$29.3 million into restricted, committed and assigned fund balances, choosing not to keep any of the general fund balance as unassigned. I believe this misleads the reader into thinking that the assigned fund balances are truly assigned. History has shown that whenever a budget expenditure adjustment is proposed which needs resources to fund, the Staff has pulled such funding from the Capital/Special Projects assigned fund balance. The Capital/Special Projects fund balance has been used to fund everything from incremental headcount, on-going tree trimming services and engineering consultants in addition to funding the Capital Improvement Fund.

GASB 54 addresses the fund balance distinctions. When funds are "assigned", the government is setting these funds aside for the specific purpose identified. This indicates to the reader that the resources are at a minimum intended to be used for that purpose. In the case of the Capital/Special Projects footnote 8 in the CAFR states, "the 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."

Given the history of using this fund balance to routinely provide resources for budget expenditure adjustments, I recommend that some amount of the General Fund balance, perhaps \$2 million, remain "unassigned". This will indicate to the reader that these funds are available to the Council to be used as directed and improves the integrity of the

Capital/Special Projects assigned balance. If you look at many cities in Santa Clara county, most have some amount of the General Fund balance as “unassigned”.

There is one other point that should be made while we are discussing fund balances. The resolution passed in June 2020 which approved the fund balance under GASB 54 specifically established a Surplus Property Revenue General Fund Reserve to receive the monies from the sale of surplus property and assigned approximately \$1.2 million to the Surplus Property Reserve as of the closing of FY 20. That reserve does not appear in the General Fund balance sheet presented in the CAFR. Instead there is a new assigned fund balance called “Market fluctuations”. There is no explanation in the CAFR about this change nor the intent of the “market fluctuations” assigned fund balance. Furthermore since the Surplus Property Revenue General Fund Reserve was established by a Council Resolution which would indicate that the reserve is a “committed reserve” like the budget stabilization and catastrophic reserves, I am not sure that the Staff has the power to change this fund designation to a “assigned” fund balance. I am under the impression that only a Council resolution can reassign monies from a committed to an assigned fund balance. This point needs to be closely examined.

Thank you for considering the above. I apologize for the length of this email, but getting the CAFR correct is very important.

Phil Koen

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**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 9

ADDENDUM

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DATE: December 11, 2020  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Comprehensive Annual Financial Report (CAFR):  
a. Receive the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2020, and  
b. Adopt a Resolution Confirming June 30, 2020 Fund Balances in Accordance Fiscal Year 2019/20 Final Audit and Town Council General Fund Reserve Policy

**REMARKS:**

Attachment 5 contains public comments received after distributing the staff report and before 11:00 a.m. Friday, December 11, 2020. Attachment 6 contains a replacement page 129 to correct a formula footing error.

**Attachments (previously distributed with the Staff Report):**

1. Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.
2. Fund Balance Resolution Establishing June 30, 2020 Fund Balances
3. Independent Auditor Presentation to the Council Finance Committee
4. Finance Committee December 7, 2020 Staff Report with Desk Item

**Attachment (distributed with this Addendum):**

5. Public Comments Received after Distributing the Staff Report and before 11:01 a.m. Friday, December 11, 2020.
6. Replacement page 129 for the Draft CAFR

**PREPARED BY:** Stephen Conway  
Finance Director

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

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**Subject:** Draft CAFR  
**Attachments:** schedule 2.pdf

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**From:** Phil Koen [REDACTED]  
**Sent:** Friday, December 11, 2020 8:27 AM  
**To:** Laurel Prevetti; Stephen Conway  
**Subject:** Draft CAFR

Laurel,

I believe there is an error on this schedule. Could you please confirm that the schedule is correct.

I am beginning to review the draft CAFR and as if I find any other issues I will send them your way.

Phil Koen

2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
\$ 6,465,852	\$ 6,993,661	\$ 6,771,628	\$ 7,948,918	\$ 8,163,991	\$ 7,405,368
12,644,221	12,825,688	14,587,597	15,545,521	16,635,726	20,446,188
8,069,352	8,320,623	9,502,707	10,047,003	10,627,716	11,803,005
4,047,738	3,227,224	5,093,459	4,667,609	5,064,637	5,001,958
-	-	-	-	-	-
2,553,414	2,522,142	2,868,748	3,087,684	3,059,294	3,347,523
491,359	528,580	466,762	536,296	684,673	3,041
-	-	-	-	-	-
-	-	-	-	-	-
\$ 34,271,936	\$ 34,417,918	\$ 39,290,901	\$ 41,833,031	\$ 44,236,037	\$ 48,007,083

\$ 1,888,213	\$ 1,517,012	\$ 1,669,020	\$ 1,701,146	\$ 1,562,683	1, 70,324
3,529,166	3,278,585	2,076,688	1,888,359	1,745,889	1,549,207
2,206,765	1,516,108	2,155,841	4,150,068	2,910,936	3,674,222
5,027,497	4,359,146	3,803,626	3,456,390	4,155,23	3,31,753
-	-	-	-	-	-
53,123	46,192	46,746	14,702	9,476	11,522
328,868	368,81	410,626	771,442	966,130	231,323
-	15,291	-	-	-	12,290
24,838	98,138	837,329	895,730	826,643	952,045
907,745	749,300	665,779	953,294	1,301,152	2,824,638
-	-	-	-	-	15,864
4,062	12,228	-	57,200	47,482	49,351
-	-	-	-	-	-
176,705	-	-	-	-	8,258
-	-	-	-	-	9,100
2,338,154	1,610,657	770,600	348,437	146,792	832,755
-	-	9,280	-	-	-
\$ 16,485,136	\$ 13,571,470	\$ 12,445,535	\$ 14,236,768	\$ 28,665,066	\$ 14,992,652

2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
\$ 12,931,603	\$ 13,763,458	\$ 14,756,214	\$ 15,958,406	\$ 17,321,347	\$ 18,330,426
8,202,678	7,501,175	8,925,276	7,466,253	8,158,152	7,531,425
2,215,430	2,258,892	2,366,908	2,474,814	2,475,916	2,495,792
2,062,893	1,997,497	2,351,223	2,667,840	2,726,743	1,911,774
-	12,308	14,056	16,483	14,689	24,526
428,772	698,324	192,260	333,120	1,809,128	2,428,470
-	-	-	-	-	-
-	-	-	-	-	-
813,324	598,170	528,946	622,105	2,407,840	323,940
-	-	-	-	-	-
\$ 26,654,700	\$ 26,829,824	\$ 29,134,883	\$ 29,539,021	\$ 34,913,815	\$ 33,046,353
\$ 8,867,900	\$ 5,983,376	\$ 2,289,517	\$ 1,942,758	\$ 19,342,844	\$ 31,922

2015/16	2016/17	2017/18	2018/19	2019/20
\$ 6,993,661	\$ 6,771,628	\$ 7,948,918	\$ 8,163,991	\$ 7,405,368
12,825,688	14,587,597	15,545,521	16,635,726	20,446,188
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3,227,224	5,093,459	4,667,609	5,064,637	5,001,958
-	-	-	-	-
2,522,142	2,868,748	3,087,684	3,059,294	3,347,523
528,580	466,762	536,296	684,673	3,041
-	-	-	-	-
-	-	-	-	-
\$ 34,417,918	\$ 39,290,901	\$ 41,833,031	\$ 44,236,037	\$ 48,007,083

\$ 1,517,012	\$ 1,669,020	\$ 1,701,146	\$ 1,562,683	\$ 1,470,324
3,278,585	2,076,688	1,888,359	1,745,889	1,549,207
1,516,108	2,155,841	4,150,068	2,910,936	3,674,222
4,359,146	3,803,626	3,456,390	4,155,231	3,351,753
-	-	-	-	-
46,192	46,746	14,702	9,476	11,522
368,813	410,626	771,442	966,130	231,323
15,291	-	-	-	12,290
98,138	837,329	895,730	826,643	952,045
749,300	665,779	953,294	1,301,152	2,824,638
-	-	-	-	15,864
12,228	-	57,200	47,482	49,351
-	-	-	-	-
-	-	-	-	8,258
-	-	-	-	9,100
1,610,657	770,600	348,437	146,792	832,755
-	9,280	-	-	-
\$ 13,571,470	\$ 12,445,535	\$ 14,236,768	\$ 13,672,414	\$ 14,992,652

2015/16	2016/17	2017/18	2018/19	2019/20
\$ 13,763,458	\$ 14,756,214	\$ 15,958,406	\$ 17,321,347	\$ 18,330,426
7,501,175	8,925,276	7,466,253	8,158,152	7,531,425
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12,308	14,056	16,483	14,689	24,526
698,324	192,260	333,120	1,809,128	2,428,470
-	-	-	-	-
-	-	-	-	-
598,170	528,946	622,105	2,407,840	323,940
-	-	-	-	-
\$ 26,829,824	\$ 29,134,883	\$ 29,539,021	\$ 34,913,815	\$ 33,046,353
\$ 5,983,376	\$ 2,289,517	\$ 1,942,758	\$ 4,350,192	\$ 31,922



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 9

DESK ITEM

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DATE: December 15, 2020  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Comprehensive Annual Financial Report (CAFR):  
a. Receive the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2020, and  
b. Adopt a Resolution Confirming June 30, 2020 Fund Balances in Accordance Fiscal Year 2019/20 Final Audit and Town Council General Fund Reserve Policy

**REMARKS:**

Attachment 7 contains public comments received after 11:00 a.m. Friday, December 11, 2020 and before 11:01 a.m. Tuesday, December 15, 2020.

Staff would like Council to be apprised that the Sales Tax Revenue Audit that will be conducted by the Town's independent auditor is a separate engagement from the CAFR and will be scheduled for presentation at the first meeting of the newly created Finance Commission. In preparation for that meeting, staff has established a new "assigned" fund balance called "Measure G 2018 District Sales Tax." This assignment acknowledges that no Measure G monies have been expended to date. The initial meeting of the Finance Commission will provide an opportunity to review the prior expenditure direction of the Sale Tax Oversight Committee as reported to the Council in the FY 2020/21 – 2024/25 Capital Improvement Program Transmittal Letter.

**Attachments (previously distributed with the Staff Report and Addendum):**

1. Draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.
2. Fund Balance Resolution Establishing June 30, 2020 Fund Balances
3. Independent Auditor Presentation to the Council Finance Committee
4. Finance Committee December 7, 2020 Staff Report with Desk Item

**PREPARED BY:** Stephen Conway  
Finance Director

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

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PAGE 2 OF 2

SUBJECT: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020

DATE: December 15, 2020

5. Public Comments Received after Distributing the Staff Report and before 11:01 a.m. Friday, December 11, 2020.
6. Replacement page 129 for the Draft CAFR

Attachment (distributed with this Desk Item):

7. Public Comments Received after 11:01 a.m. Friday, December 11, 2020 and before 11:01 Tuesday, December 15, 2020

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**Subject:** Item 9 for 12-15-20 Town Council Meeting

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**From:** [jvannada@](#) [REDACTED]  
**Sent:** Saturday, December 12, 2020 10:48 AM  
**To:** Laurel Prevetti <[LPrevetti@losgatosca.gov](mailto:LPrevetti@losgatosca.gov)>; Arn Andrews <[aandrews@losgatosca.gov](mailto:aandrews@losgatosca.gov)>  
**Subject:** Item 9 for 12-15-20 Town Council Meeting

**Town Council Meeting 12-15-20**  
**Item 9**

**Dear Town Council,**

On November 6, 2018, the voters of the Town approved Measure G which established the General Transaction and Use Tax (Ordinance 2274). Among other things Ordinance 2274 and Measure G required Citizens Oversight, mandatory financial audits, and yearly reports to the community to ensure funds are spent as promised. The following is the relevant section of the Ordinance discussing citizen oversight and annual audit.

**Section 2.60.140 Citizens' oversight and annual audit**

B. Beginning with the fiscal year that ends June 30, 2019, the Town's independent auditors shall, as part of their annual audit of the Town's financial statements, review the collection and expenditure of revenue from the tax authorized by this chapter.

The auditors' review shall be a public document. The committee shall annually review the auditors' findings and report in writing to the Town Council regarding the auditors' findings regarding the revenues and expenditures. The committee's statement shall be transmitted to the Town Council for consideration at a public meeting.

At the upcoming December 15 Council meeting agenda, agenda item 9 is requesting this Council to among other things "adopt a resolution confirming June 30, 2020 Fund Balance in accordance (sic) Fiscal Year 2019/20 Final Audit and Town Council General Reserve Policy". We want to point out that to the best of our knowledge agenda item 9 does not include a public document that has been prepared by the auditor in conformance with section 2.60.140. What we do note is that in Footnote 8 of the latest draft of the FY 2020 CAFR, the Town has established a new "assigned" fund balance

called “Measure G 2018 District Sales Tax” with the following description - “assigned fund balance will be used to track receipt and use of the 1/8 cents District tax funds collected by the Town”. It is also noted that the balance in the assigned reserve is \$1,181,162 as of June 30, 2020.

While this disclosure is helpful, it does not fully comply with Measure G since there is no discussion as to the “collection and expenditure of revenue from the tax authorized by this chapter”. What is presented is one number, the fund balance of \$1,181,162, which represents a balance that has been established by the Town Manager. There is no disclosure as to why that is the correct number or how it was determined. We wish to remind this Council of the legal obligation to disclose annually how much money the Town received and where the Town spent those sales tax receipts. When can the voters expect the auditor to issue the “findings” required by the Ordinance?

The same section of the Ordinance requires “the committee” to review the “auditor’s findings”. This has not occurred since there has not been a meeting of the Sales Tax Oversight Committee since December 2019. To complicate the matter, Measure A is now legally in effect and requires the new Finance Commission to assume the duties of the disbanded Sales Tax Oversight Committee, including reviewing the “auditor’s findings” and advising the Town Council on whether expenditures meet the Town Council’s objectives for the tax.

We understand that the new Finance Commission will be appointed during the month of January. Once that has happened, when can we expect the Finance Commission to review the “auditor’s findings” and advise the Town Council on whether expenditures meet the Town Council’s objectives for the tax?

If the Council decides to move forward with agenda item #9 to receive the FY 2020 CAFR and adopt a resolution confirming the fund balances, we strongly suggest that this accomplished with a conditional statement that the auditor produce the “findings” as required by the Sales Tax Ordinance and the new Finance Commission review that report as soon as practical in accordance with newly enacted Measure A. Given that both Measures were approved by voters, we think it is in the best interest of the Town Council to guarantee that the will of the people is fully honored.

Thank you.

Jak Van Nada  
Los Gatos Community Alliance



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 10

DATE: December 8, 2020  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Receive a Fiscal Year (FY) 2020/21 Revenue and Expense Update

**RECOMMENDATION:**

Receive a Fiscal Year (FY) 2020/21 Revenue and Expense update.

**BACKGROUND:**

On January 21, 2020, the Town Council received the initial Five-Year Forecast which became the basis of Strategic Priority planning and budgetary considerations. The development of that original forecast did not anticipate the unforeseen economic impacts associated with the local, national, and global effects of COVID-19.

On May 19, 2020, staff presented an updated Five-Year Forecast and the Proposed Operating Budget which included significant revisions to growth projections for the Town's primary revenues of property tax, sales tax, and transient occupancy tax (TOT). The revised revenue projections were made in close consultation with the Santa Clara County Assessor, Town sales tax consultant MuniServices, and a review of national and regional hospitality research. The following table contains the growth rates included in the Adopted Budget for the primary revenues of property tax, sales tax, and TOT.

FY 2020/21 Forecast	
Property Tax Growth Projection	2%
Sales Tax Growth Projection	MuniServices COVID-19 Scenario
Transient Occupancy Tax (TOT) Growth Projection	-15%

**PREPARED BY:** Arn Andrews  
Assistant Town manager

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

**BACKGROUND (continued):**

Since the adoption of the FY 2020/21 budget, staff has continued to monitor revenue trends in relation to the Adopted Operating Budget and the unprecedented impacts of COVID-19.

**DISCUSSION:**

While staff does not normally try to extrapolate forward trends utilizing first quarter revenue/expense data, a review of current revenue/expense collections, disbursements, and projections is warranted given the significant events associated with COVID-19. The intent of this agenda item is to provide a snapshot of what is currently known for the fiscal year given the public interest surrounding the impacts of the COVID-19 related economic downturn.

In late February, the Council will receive the Mid-Year Budget Report (July 1, 2020 – December 31, 2020) which will provide an accounting of revenue and expenditure activity. At that time, the Council typically considers potential revenue and/or expenditure adjustments to the Adopted FY 2020/21 Operating Budget to align financial resources with Town needs for the remainder of the fiscal year.

**Revenues**

Following are summaries of major revenues to date and projections if available for property tax, sales tax, and TOT.

**Property Tax**

Property tax is the single largest revenue source for the Town and comprised approximately 28% of total Town projected revenues for FY 2020/21. Most property tax revenue is received in the second half of the year, so first quarter collections are not insightful.

The County of Santa Clara does provide updated projections throughout the year. The following table illustrates the most recent estimates relative to the Adopted FY 2020/21 Budget and 2019 actuals. The current County estimate indicates a modest deviation from budget of approximately \$300,000.

	FY 2019 Actual	FY 2020-21 Adopted Budget	November 6, 2020 County Estimate
Property Tax Revenue & Vehicle License Fee Backfill	\$18.4 M	\$18.7 M	\$18.4 M

DISCUSSION (continued):

It should be noted that the Town was recently informed that the County of Santa Clara intends on withholding approximately \$1.6 million over the next several fiscal years to recapture excess RDA residual property tax revenues distributed to the Town. County Counsel has advised the Auditor/Controller's Office to "look back" three fiscal years to determine the total amount to be recaptured from the Town and paid back over two fiscal years. The immediate impact to the Town Budget will be an unanticipated withholding of approximately \$789K in FY 2020/21. The \$18.4 million November 6, 2020 County estimate reflects this reduction.

In addition, the Town is continuing to monitor developments regarding the distribution of excess Educational Revenue Augmentation Fund (ERAF) funds. A portion of property tax revenue goes to the ERAF to support local school districts. When the amount contributed to ERAF is more than the minimum cost of funding local schools, excess funds are returned to the county, cities, and special districts. Five counties, including Santa Clara, have been using a redistribution allocation formula that is being contested by the State. The Town's Adopted FY 2020/21 Budget had ERAF revenue estimated at \$433,000. The November 6, 2020 County property tax estimate includes \$1.8 million of ERAF funds. If the State is successful in contesting ERAF distribution the result would be a negative impact on budgeted revenues. The following table illustrates the potential impacts of ERAF distribution.

	County Estimate with ERAF	County Estimate 50% of ERAF	County Estimate No ERAF
Property Tax Revenue & VLF Backfill	\$18.4 M	\$17.5 M	\$16.6 M

While the aforementioned ERAF discussion does not pertain to COVID-19 impacts, it is a material potential revenue event the Town is monitoring.

Sales Tax

Sales tax is the second largest revenue source for the Town and comprised approximately 12% of total Town projected revenues for FY 2020-21. The following table illustrates the most recent projections from the Town's sales tax consultant MuniServices relative to the Adopted FY 2020-21 budget and 2019 actuals.

	FY 2019/20 Actual	FY 2020/21 Adopted Budget	October 6, 2020 MuniServices Estimate
Sales Tax	\$7.5 M	\$8.0 M	\$7.3 M

DISCUSSION (continued):

The current estimate indicates a deviation from budget of approximately \$700,000; however, staff anticipates receiving the September 30, 2020 first quarter updated projection in mid-December and the estimate will likely change.

In addition, to the projection provided by MuniServices, the Town receives actual sales tax distributions throughout the year from the California Department of Tax and Fee Administration. As the table below illustrates, for the quarter ended September 30, 2020, the Town received \$2.15 million in sales tax distributions or 27% of annual budgeted revenues. It is important to note that while State distribution data is informative, due to the uneven nature of distribution, it often makes quarter to quarter comparisons difficult. Distribution data should be viewed in concert with MuniServices year-end estimates.

	FY 2018/19 Actual	FY 2019/20 Actual	FY 2020/21 Actual
Sales Tax			
1Q	\$1,940,462	\$2,151,795	\$2,150,494
2Q	1,872,921	2,372,516	
3Q	1,803,171	1,151,656	
4Q	2,541,598	1,855,458	
<b>Total</b>	<b>\$8,158,152</b>	<b>\$7,531,425</b>	<b>\$2,150,494</b>

Transient Occupancy Tax

TOT is a significant revenue source for the Town and comprised approximately 3.4% of total Town projected revenues of \$2.3 million for FY 2020-21. The following table illustrates TOT collections through September 30, 2020 relative to the Adopted FY 2020-21 budget, FY 2018/19 actuals, and FY 2019/20 actuals.

	FY 2018/19 Actual	FY 2019/20 Actual	FY 2020/21 Actual
TOT			
1Q	\$735,349	\$739,494	\$316,515
2Q	632,240	599,113	
3Q	608,902	434,493	
4Q	715,552	96,585	
<b>Total</b>	<b>\$2,692,043</b>	<b>\$1,869,685</b>	<b>\$316,515</b>

DISCUSSION (continued):

As the table illustrates, to date TOT has experienced the most significant percentage decline relative to budget at 57% quarter over quarter for the first quarter. In addition, on November 28, 2020, Santa Clara County issued new mandatory directives which included that hotels and other lodging facilities will be open only for essential travel and for use to facilitate isolation or quarantine. Staff anticipates that the current Health Order will further degrade TOT revenues in the second quarter relative to the prior year.

**Expenditures**

As illustrated in the table below, Total Department Expenditures in the first quarter of FY 2020/21 as a percentage of the Adopted Budget (25%) were comparable to the prior year first quarter of 26%.

	FY 2019/20 Actual	FY 2019/20 Q1	Q1% of 2019/20 Actuals	Q1% of 2020/21 Actuals	FY 2020/21 Q1	FY 2020/21 Adopted
<b>Expenditures</b>						
Mayor & Council	\$206,163	\$62,150	30.1%	21.4%	\$52,041	\$243,486
Attorney	559,010	164,678	29.5%	26.3%	169,822	645,303
Admin Services	4,380,504	1,297,422	29.6%	28.6%	1,421,711	4,974,616
Non-Departmental	7,878,468	627,652	8.0%	11.0%	379,044	3,452,007
Community Dev	4,473,790	1,240,383	27.7%	22.2%	1,223,829	5,517,030
Police	15,793,815	5,022,928	31.8%	27.8%	4,898,017	17,587,825
Parks & PWs	8,139,106	2,052,936	25.2%	26.6%	2,166,965	8,152,045
Library	2,700,802	844,265	31.3%	22.8%	671,597	2,946,509
Capital Outlay	138,384	-			-	-
<b>Total Department Expenditures</b>	<b>\$44,270,042</b>	<b>\$11,312,414</b>	<b>26%</b>	<b>25%</b>	<b>\$10,983,026</b>	<b>\$43,518,821</b>

CONCLUSION AND NEXT STEPS:

With the exception of TOT, the primary revenue sources of property tax and sales tax are currently trending in line with the Adopted Budget. In addition, currently departmental expenditures are consistent with prior disbursements relative to the Adopted Budget. Given current TOT collections and expectations for continued leisure and business travel constraints, staff anticipates recommending that the Council adjust the FY 2020/21 TOT revenue downward at the February Mid-Year review.

In addition to the Mid-Year review, the Council will be receiving an updated Five-Year Forecast in early 2021 as part of the FY 2021/22 Budget preparation. The Forecast is typically analyzed

CONCLUSION AND NEXT STEPS:

with optimistic and pessimistic scenarios to provide the Council and the public with information regarding how sensitive the forecast can be to changing assumptions and circumstances. As part of this discussion, the Council may also provide specific budget direction for certain assumptions, such as staff vacancy rates, budgeting at actual versus top salaries, etc.

COORDINATION:

This staff report was coordinated with the Town Manager, Town Attorney, and Director of Finance.

FISCAL IMPACT:

No fiscal impact at this time. Staff will continue to monitor revenues and expenses and bring forward any budget adjustment recommendations at Mid-Year.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 12/15/2020

ITEM NO: 10

DESK ITEM

---

DATE: December 14, 2020  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Receive a Fiscal Year (FY) 2020/21 Revenue and Expense Update

**REMARKS:**

Attachment 1 contains public comments received after the distribution of the staff report and before 11:01 a.m. Tuesday, December 15, 2020.

The public comments contain a couple of errors which should be corrected for the record. This Desk Item does not comment on the efficacy of other aspects of the constituent analysis.

- The referenced MuniServices estimate of \$7.3 million consists of estimates for the 1% local sales and use tax (\$6.4M) and the 1/8 district tax (\$900K). The constituent did not include the district tax receipts in their analysis.
- The \$789K RDA residual property tax reduction should be omitted from the constituent analysis because, as stated in the staff report, the \$18.4M County estimate already reflects this reduction.

In addition to these specific corrections, staff would like to highlight the Comprehensive Annual Financial Report (CAFR) note 15 from Agenda Item #9. Among other things, this note identified that the Adopted FY 2020/21 Budget includes a contingency of \$1.2M from a property sale which the Council could allocate in the event of a revenue shortfall.

In addition, the \$18.4M County estimate does not include all items that are subject to property tax. There are additional property tax elements for which estimates are not provided (e.g., property transfer tax, prior year secured, retirement residence, and penalties and late fees) which total an estimated additional \$500K.

**PREPARED BY:** Arn Andrews  
Assistant Town manager

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

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PAGE 2 OF 2

SUBJECT: FY 2020/21 Revenue and Expense Update

DATE: December 14, 2020

Attachment (distributed with this Addendum):

1. Public Comments Received after the Distribution of the Staff Report and before 11:01 a.m. Tuesday, December 15, 2020.

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**Subject:** Distributions from CDTFA  
**Attachments:** CDTFA - #1.pdf

---

**From:** Phil Koen [REDACTED]  
**Sent:** Sunday, December 13, 2020 9:26 AM  
**To:** Laurel Prevetti; Stephen Conway  
**Subject:** Distributions from CDTFA

Laurel,

I went to the website for the State of California Department of Tax and Fee Administration and downloaded the information below. That department has an online portal where you can obtain a report which shows monthly payments to cities and counties from the 1% local sales and use tax. You can go to [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov) and see the portal. If you haven't, I recommend that you do. They have posted information through November 2020.

What I found was from July to November 2020 the Department had distributed \$2,772,560 to the Town of Los Gatos. For the same period prior year the Department distributed \$3,422,952. That represents a 19% decline in distributions YTD from FY 20.

The report also showed that for FY 20 the department distributed \$7,103,708 which appears to be 95% of \$7,531,425 total sales tax receipts reported for FY 20. Based on this information, the MuniServices estimate of \$7.3 million for FY21 sales tax receipts appears optimistic since this represents only a 3% decrease from FY 20 level when YTD receipts from CDTFA are 19% below prior year. What is your view of this difference?

I have no idea how accurate MuniServices forecasts have been in the past. However, based on the data I am sharing with you, I would advise the Council to take a more conservative view of Sales Tax receipts for FY21 than the \$7.3m projection provided by MuniServices. If the year over year decline is only 10%, that would represent a \$1.2m revenue shortfall from the adopted FY 21 budget of \$8m, and not the \$700,000 noted in the Staff memo.

I hope this is helpful. I realize that sales tax receipts are difficult to forecast, but being overly optimistic could result in significant financial harm to the Town. I recommend that appropriate posture the Council and Staff should take is to plan for the downside case, make the appropriate spending adjustments quickly and then build from there.

Thank you,

Phil Koen

ATTACHMENT 1

2010	2011	43003	City	TOWN OF LOS GATOS	\$7,360,720.86	\$410,800.00	\$547,800.00	\$
2011	2012	43003	City	TOWN OF LOS GATOS	\$7,275,212.45	\$494,400.00	\$659,200.00	\$
2012	2013	43003	City	TOWN OF LOS GATOS	\$5,858,884.16	\$537,800.00	\$717,000.00	\$
2013	2014	43003	City	TOWN OF LOS GATOS	\$5,917,194.52	\$420,000.00	\$560,000.00	\$
2014	2015	43003	City	TOWN OF LOS GATOS	\$6,150,485.99	\$411,500.00	\$545,700.00	\$
2015	2016	43003	City	TOWN OF LOS GATOS	\$6,570,521.43	\$431,900.00	\$576,000.00	\$
2016	2017	43003	City	TOWN OF LOS GATOS	\$7,766,553.87	\$558,100.00	\$744,100.00	\$
2017	2018	43003	City	TOWN OF LOS GATOS	\$7,510,783.37	\$528,500.00	\$704,500.00	\$
2018	2019	43003	City	TOWN OF LOS GATOS	\$7,505,407.20	\$643,877.80	\$566,599.20	\$
2019	2020	43003	City	TOWN OF LOS GATOS	\$7,103,708.94	\$684,476.68	\$869,404.82	\$
2020	2021	43003	City	TOWN OF LOS GATOS	\$2,772,560.78	\$692,324.56	\$244,857.10	\$
2010	2011	43004	City	MORGAN HILL	\$4,255,311.53	\$229,400.00	\$305,900.00	\$
2011	2012	43004	City	MORGAN HILL	\$4,942,711.74	\$289,900.00	\$386,500.00	\$
2012	2013	43004	City	MORGAN HILL	\$5,909,461.98	\$330,200.00	\$440,300.00	\$
2013	2014	43004	City	MORGAN HILL	\$6,176,853.94	\$404,500.00	\$539,400.00	\$
2014	2015	43004	City	MORGAN HILL	\$6,355,517.00	\$443,900.00	\$589,400.00	\$
2015	2016	43004	City	MORGAN HILL	\$7,147,597.80	\$461,400.00	\$615,100.00	\$
2016	2017	43004	City	MORGAN HILL	\$9,458,088.34	\$613,000.00	\$817,200.00	\$
2017	2018	43004	City	MORGAN HILL	\$10,179,691.75	\$639,300.00	\$852,500.00	\$
2018	2019	43004	City	MORGAN HILL	\$10,539,189.29	\$922,495.79	\$752,689.71	\$
2019	2020	43004	City	MORGAN HILL	\$9,452,476.37	\$966,412.95	\$687,698.77	\$
2020	2021	43004	City	MORGAN HILL	\$4,490,277.31	\$1,135,947.18	\$828,379.29	\$

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**Subject:** Agenda Item #10 - A different perspective

**From:** [jvannada@](mailto:jvannada@) [REDACTED]

**Sent:** Saturday, December 12, 2020 10:55 AM

**To:** Laurel Prevetti <[LPrevetti@losgatosca.gov](mailto:LPrevetti@losgatosca.gov)>; Arn Andrews <[aandrews@losgatosca.gov](mailto:aandrews@losgatosca.gov)>

**Subject:** Fwd: Agenda Item #10 - A different perspective

Dear Laurel and Arn

**This is for the Town Council meeting of 12-15-20  
Item 10**

**Dear Council members,**

We would like to offer a different perspective than the conclusion presented in the Staff Report on Agenda Item #10 for your consideration and review.

Based on the information presented in the Staff report, the best estimate of the FY 21 revenue shortfall between the adopted budget and projected revenues can be summarized as follows (all numbers in 000's of dollars):

Property Tax	(300)
RDA claw back	(789)
ERAF claw back	(433)
Sales Tax	(700)
TOT	(1,000)
 Total	 (3,222)

The above analysis does not include other non-tax revenues which were disclosed in the FY 20 CAFR as being impacted by Covid-19, which were permits and fees and business licenses. In FY 20 these two revenue sources combined for a negative variance from the original FY 20 adopted budget of \$(619,000) and totaled \$4.0 million. The FY 21 adopted budget calls for \$4.4 million in revenue, which is an increase of \$400,000 (10%) from the prior year's actual results. Given the extended impact of COVID 19 in FY 21, it is difficult to imagine that the Town will see an increase in these fees in FY 21 and therefore is exposed. Our best estimate is that there is a potential for \$400,000 variance from the FY 21

adopted budget since it is reasonable to assume FY 21 will track FY 20 actuals. If we include this in the above total, the Town is potentially looking at a FY 21 revenue shortfall of \$3,622,000.

In addition, the Staff report discloses that Q1 departmental and non-departmental expenses annualized totaled \$43,932,000. If this holds, that spending level exceeds the adopted budget of \$43,518,821 by \$413,000. This potential over spending variance when combined with the potential revenue shortfall indicates that the Town is facing a budget hole of \$4,035,000 (\$3,622,000 plus the \$413,000).

The Council should be reminded that while the Town adopted a “balance budget” which projected a \$11,905 “surplus” on paper, this was achieved by using \$769,308 from the General Fund Capital/Special Projects reserve to fund tree services, code compliance officer, engineering consultants, etc. Assuming the Staff is contemplating tapping the General Fund Capital/Special Projects Reserve to fund the \$4,035,000 projected budget hole, that means the Town would use \$4,804,308 of that reserve in FY 21. Per the FY 20 CAFR, the balance in that reserve as of June 30, 2020 is \$8,787,958. Stated another way, if this scenario occurs, the Capital/Special Project Reserve would experience a 54% reduction – which is a material decrease. We want to draw the Council’s attention to this potential.

We believe that the Town is facing some very difficult choices resulting from the continued impact of the pandemic and the conscious decision not to take any action regarding adjusting the FY 21 expenditure budget. When the Staff sends the Council the mid-year review in mid-February there will be only 4.5 months left in the current fiscal year. This gives the Council little time to make a material change in spending plans.

We would encourage the Council to fully involve the new Finance Commission to work with the Staff to generate fiscally responsible recommendations for the Council to consider. Allowing \$4.8m of the Capital/Special Project Reserve to be consumed because we took no action would be hard to understand.

Thank you.

Jak Van Nada

***Los Gatos Community Alliance.***